



14 September 2018

Attn: Inquiry into SA Bulk Grain Supply Chain Costs  
Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

Via electronic submission – [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Sir / Madam

**RE: Inquiry into SA Bulk Grain Supply Chain Costs.**

On behalf of the South Australian Freight Council's (SAFC) Executive Committee and Membership I thank you for the opportunity to comment on the Inquiry into SA Bulk Grain Supply Chain Costs Draft Report.

As you may be aware, SAFC is the State's peak, multi-modal freight and logistics industry group that advises all levels of government on industry related issues. SAFC represents road, rail, sea and air freight modes and operations, freight services users and assists the industry on issues relating to freight logistics across all modes.

We provide the following submission on the draft report and its findings:

**Chapter 3:**

SAFC supports findings 3.1, 3.2, 3.4, 3.5, & 3.6.

Draft finding 3.3: The grain logistics system administered by Viterra needs to be able to handle significant variations in volume – from drought years to bumper harvests such as the 2016/17 season (where 11.1 million tonnes was produced). This system must be maintained whether there is grain to go through it or not – capacity for good years must be available even if there have not been good years for some time. **Viterra bears the risk of owning and maintaining this infrastructure.**

Over the past 9 harvest seasons (2009/10 to 2017/18) South Australia has seen solid grain production numbers (see draft report figure 3.3) – no 'bad' years, and at least two excellent years (2010/11 and 2016/17). As such, the downside risks that Viterra must bear (and price into their charging system) have not eventuated. Profits would be expected to be good in this environment.

Draft finding 3.3 speaks in generality about the variability of the supply chain, without acknowledging that it is Viterra who is primarily shouldering these risks – risks that are very apparent when looking to the long term drought conditions across our eastern borders. SAFC would like 3.3 to include acknowledgement of who bears the risks outlined.

Draft finding 3.7: SAFC notes that Viterra's share of port bulk grain loading services has declined from 100% in 2014/15 to 91% in 2016/17 (p25) – a significant change in just 2 years. Further entrants are expected shortly (i.e. T Ports at Lucky Bay) which are likely to

reduce this further. Competition is expanding rapidly for this sub sector – sign of market that is operating correctly/competitively, with barriers to entry able to be overcome.

We suggest that the draft finding be amended to read:

'Viterra has a high (but declining) share of supply chain port services, with 91 percent of market share throughput in 2016/17'.

#### **Chapter 4:**

SAFC supports draft findings 4.3, 4.4, & 4.5. We make no comment in relation to 4.8 – others will be in a better position to comment on this element.

Page 30, paragraph 3: GWA does not have the potential to exercise market power – the Commission has acknowledged that road freight operates in direct competition to rail (finding 3.6), and that rail operates at a large disadvantage on short haul operations (section 4.2.1). This statement should be amended to exclude GWA.

Page 32, paragraph 3: SAFC's comment in its initial submission was based on the industry's preferred measure of the freight task, net tonne kilometres (distance multiplied by weight). With the closure of several grain rail lines (such as the Mallee line) over the period, distance has certainly declined, lowering the net tonne kilometre measure; while the volume of grain that spends some portion of its journey on rail may not have (with railheads like Taillem Bend becoming more important as grain receival centres). As such the information provided by SAFC and Viterra in this paragraph is not in conflict, but referring to separate measures.

Draft finding 4.1: SAFC would like the Commission to remove the line '*A possible exception are the fees for port receival and outturn from storage services*' from draft finding 4.1 for two reasons; (1) that this element is dealt with under draft finding 4.7, and (2) the reasons outlined under our comments on 4.7 below.

Page 37, 4.3.3 & Draft finding 4.2: it is worth noting that Viterra appears to be facing ever increasing competition (such as from the new T Ports facility at Lucky Bay), and is experiencing a declining market share in several areas (see our comments on finding 3.7 above).

Page 51, Paragraphs 5 & 6: SAFC is pleased that the Commission has recognised and taken into account in particular the significant differences in ownership structure between CBH in WA and Viterra. As noted in our initial submission, '*comparison with costs in other jurisdictions involving other supply chains and supply chain players, while initially seeming an enticing option, may not deliver accurate results and could skew further analysis that relies upon it.*'

Draft finding 4.6: SAFC notes the Commission's finding that Viterra's returns are high but not unreasonable, and points out (as above in 3.3) that there have been 9 good seasons in a row, and as such, returns would be expected to be good over this period. Viterra bears the risks of paying for grain supply chain infrastructure in bad years as well as good years, and the fact that bad years have not eventuated recently should be taken into account in determining whether returns have been reasonable.

This section also raises the issue of who should profit from Viterra's actions to increase supply chain efficiencies, and to what level.

In normal business practice, if a company increases its profits by reducing internal costs, the benefits go to shareholders, not the supply chain or the end consumer (unless the company

is looking to increase market share and also has the ability to increase production). If a mine cuts costs per tonne of ore, it does not lower the cost for purchasers of that ore, as that price is set by the international market. Rather, increased profits go to the mine's shareholders. If farmers lower their costs per tonne to grow grain by investing in new technology, they do not share this profit with traders or the end customer. If a rail company introduces new locomotives that are more fuel efficient, or are more powerful enabling one loco to be removed, they reap the benefits via either increased market share (and hence more profit) or more profit on each pull.

All company directors have a duty to act in the best interests of shareholders – sharing the profit from innovation or cost cutting is not generally in best interests of shareholders unless there are other factors in play – like the desire to increase market share.

Keeping in mind Viterra's dominant supply chain position, unless there is demonstrable evidence that Viterra is creating matching inefficiencies for supply chain partners by creating the supply chain efficiencies that it is benefiting from, i.e creating an efficiency dividend for itself by creating inefficiencies for others, it appears that in the normal course of action one would expect Viterra to benefit from its own innovation.

This is essentially the difference between CBH and Viterra – the Commission should not expect Viterra to act like a grower cooperative. This has (in essence) been recognised by the Commission in paragraph 2, page 80, which reads:

*'While in the days of the single desk and the cooperative bulk handling model growers may have shared in the value created through the whole supply chain, it is not clear how this can be the case now. Growers have the option to form their own cooperatives if they consider the value creation sufficient to warrant the additional costs involved, which include locating overseas customers and supplying grain of the require[d] specification and delivered at the time specified.'*

As such, SAFC is uncomfortable with the Commission's commentary about sharing efficiencies within draft finding 4.6 – in the normal course of business these would be expected to be retained by Viterra.

Draft finding 4.7: Findings usually refer to evidence, inconclusive evidence or no evidence – not 'possible evidence'; imprecise language that offers the possibility for interpretation beyond what the Commission may intend. Inconclusive evidence (which is what we believe the Commission is referring to) does not usually form the basis for findings.

As such, SAFC requests that the first paragraph of draft finding 4.7 is removed, and the word 'remaining' is removed from the second paragraph.

## Chapter 5

SAFC supports draft findings 5.1, 5.2, 5.3. We make no comment in relation to 5.4 – others will be in a better position to comment on this element.

Section 5.5 (including footnote 251) & draft finding 5.5: In comments on the 2015 Rail and 2017 Ports reviews, SAFC has provided support for **further investigation** of merging these two access regimes. However, at no stage have we suggested the concept should go beyond rail and port infrastructure, such as to *'the receipt, storage and handling of our state's grain commodities'* (GPSA submission to the Economic & Finance Committee's Primary producers inquiry, as reproduced on page 80).

SAFC's submission on the draft Ports Review (dated 29 May 2017) said:

*'We do however note that the Ports Pricing and Access Regime has now been operating for an extended period of time, with no indication that any regulated party has ever attempted to exercise market power to gain an unfair or unreasonable advantage.*

*Should the same conditions be evident in 5 years' time, ESCOSA should be aware that SAFC intends to take a far closer look at whether the regime should continue. At some point, continued positive actions by the principal regulated entities (Flinders Ports and Viterro) should be rewarded with a reduction in regulatory oversight and the costs this imposes on their businesses – with the option to reinstitute regulatory oversight should corporate behaviour alter.*

*We further support the recommendations to examine possible enhancements to the regime(s); while noting that as there has been no evidence of the untoward exercise of market power by regulated entities, these possible enhancements should not impose any stricter control on currently regulated entities than currently exists.'*

In essence, SAFC has argued for **further investigation** (only) of merging the Ports and Rail access regimes, but never that this regulation should be expanded to silos and grain storage. We have also clearly indicated that any merged access regime should be no more onerous than the current regime, given that in the long history of these regimes no issues have been raised under either. Lastly, we have flagged that our opinion as to whether these regimes are required at all is under review, given the lack of use of either over a significant timescale.

As such, SAFC does not support:

1. This enquiry progressing to stage 2 as no relevant inefficiencies have been identified;  
or
2. The inclusion of silos and other storage into a combined access regime.

On behalf of SAFC I thank you for the opportunity to comment on this draft report. Should you wish to discuss any element of this submission further, please feel free to contact me on (08) 8447 0664 or via email [knapp.evan@safreightcouncil.com.au](mailto:knapp.evan@safreightcouncil.com.au).

Yours Sincerely,



**Evan Knapp**

Executive Officer, SA Freight Council.