



11 March 2003

Mr. Lewis W Owens
Chairperson
Essential Services Commission of SA
GPO Box 2605
Adelaide, SA 5001

By Email: escosa@escosa.sa.gov.au

Dear Mr Owens

Ports Price Review: Discussion Paper No.1

AWB appreciates the opportunity to comment on the "Ports Price Review: Discussion Paper No. 1"

General Background

AWB Limited (AWB) is Australia's major national and international grain marketing organisation and Australia's fifth largest exporter with annual sales revenue exceeding \$4 billion. AWB markets Australian grain on behalf of Australia's 40,000 grain growers to more than 50 countries throughout the world. AWB exports on average between 15 -18 million tonnes of grain per annum through eighteen grain ports around Australia. While the majority of AWB grain is exported as bulk cargo, increasing amounts are exported each year in containers, especially as grain buying arrangements in AWB customer markets become deregulated.

AWB has long promoted the view that the Australian grain supply chain needs to be world competitive if Australian exporters are to survive and prosper, especially as world markets become increasingly competitive. Australia cannot afford inefficiencies, cost structures or access regimes that inflate the distribution costs associated with exporting grain. Such imposts simply make Australian grain uncompetitive on world markets and reduce the price, which Australian farmers receive for their commodity.

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The Australian Grains Marketer

In relation to the SA Maritime Industry, the key industry parties should be able to negotiate fair and reasonable pricing with attached service levels. However, in an environment where there are no commercial competitive pressures, such an outcome is not always possible. AWB has experienced the situation in the grains industry where some monopoly service providers have refused to negotiate the level of service being provided or associated pricing. Despite being a major customer of these service providers, AWB has found itself in a position of being a price taker.

AWB therefore believes access regimes should include price regulation where there is an absence of effective competition.

During the last 12 months, AWB made a joint submission to the NCC with the ABB on the SA Government Application for Certification of Maritime Services.

In our joint submission we commented on some key points as follows:

- The access regime as it related to AusBulk's shipping belt and ship loaders at proclaimed ports other than Ardrossan was ineffective and did little to countervail AusBulk's bargaining power as a monopoly facility provider. Prices charged by AusBulk for access to its grain export facilities are not subject to negotiation with AWB and ABB.
- Certification of the access regime as proposed would make it less likely that an access seeker could subsequently successfully obtain declaration of the services provided by AusBulk grain export facilities not covered by the present access regime.
- The precise grain handling facilities subject to regulation by the current regime is ambiguous.

While it is our understanding that the above issues are not covered by Maritime Services (Access) Act 2000 specifically referred to in the discussion paper, it is important for ESCOSA to understand the problems that AWB incurs in meeting its obligations to maximise grower returns. The larger proportion of charges levied against AWB in exporting grain relate to the cost of loading and utilisation of Bulk Loading Plant at grain ports to transfer grain over the ships' rail.

Specific Comments

In relation to specific questions raised, AWB offers the following comments:

What services do you understand each of the three current charges to cover?

1. Navigation services charge – levied against the ship utilising the service. The service being supply of navigational aids, channels, harbour control;
2. Cargo Services Charge – levied against the cargo interest (either shipper or receiver). Service/infrastructure supplied: wharves, cargo loading/unloading areas
3. Harbour Services and Mooring Charge – levied against the ship utilising the service. Service/infrastructure supplied: berths, mooring structures, fenders, mooring and provisioning connections.

What port services do you think fall under the definition of Essential Maritime Services – other than those excluded as above?

Essential Maritime Services should include facilities that are not easily duplicated owing to physical and economical constraints. Ports are facilities that take advantage of coastal features offering protection to ships from natural elements, depths of water suitable for access to those ships and access to transport infrastructure for accumulation and distribution of cargoes beyond the port.

Owing to limited coastal locations offering all of these features, ports should be classified as significant infrastructure to the community of South Australia.

Services to fall under the definition:

Channels – access to natural and dredged channel and associated safety infrastructure.

Berths – infrastructure to allow a vessel to lay alongside securely and safely.

Wharves – access to the vessel for the purpose of handling cargoes.

Which services, currently included in the three types of port charges, do you consider should not fall within the definition of Essential Maritime Services?

Nil

Should mooring be removed? Can mooring be removed?

Mooring facilities should be included within the definition, however the service of actually receiving and placing mooring lines and letting go should be open to competitive pricing provided the owner of the mooring facilities allows access by third parties.

Should storage be removed?

Our understanding of storage in the context of Essential Maritime Service is the provision of storage within the cargo loading/unloading areas. As grain is stored outside these areas, i.e. within land area adjacent to the wharves, we are not in a position to comment on other users' needs.

How significant are these services in terms of their value and strategic impact upon you as a customer?

These services are very significant in both value and strategic impact on the grain export market. AWB Limited has an obligation under legislation to ensure maximum returns to growers for wheat delivered into the various wheat Pools. AWB moves grain to port via the least cost path, i.e. the route grain harvested will follow will be determined by costs of freight from the farm gate, receipt into storage, storage, freight to port, handling charges, loading charges, and port costs including port costs levied against the ship.

The ports costs levied against the ship will have an impact on sea freight rates. An increase in charges on any of these links will affect the return to the grower.

Section 4. Deciding whether price regulation should continue

Also refer to our general comments earlier

Grain growers have several ports within South Australia to export wheat. However, the facilities used for bulk export are operated by one entity. As a whole the grain grower in South Australia does not have an alternative route to export their grain unless they are positioned close to the Victorian border or if they are willing to incur additional freight to position their grain to be exported through another state's port.

Differential Pricing

AWB encourages all service providers to reflect the efficiency of one operation to another. To date, this has occurred in the eastern states to a limited degree in the storage and handling market due to the presence of competition, where efficient supply chain assets reflect lower costs to growers.

It has also occurred in the case of maritime services where there are competing adjacent port operators. South Australia, with its numerous ports, is notable in that there is no differential pricing, hence limited competition between adjacent SA ports.

Is competitive entry possible?

Competitive entry into the Bulk grain export market has been explored by AWB Limited. The business cases explored to date have shown significant savings could be made in the supply chain through development of alternative export facilities. Alternative sites for an export facility are limited due to access to deep water, land and protection from prevailing weather. Proposals explored by AWB Limited have to date not received the support of the South Australian Government. In view of this restriction to the introduction of direct competition in the grain export supply chain, price controls and access regimes should be put in place to ensure growers get the true value for the services supplied by the incumbent bulk handler.

While we are not in a position to provide any of the information requested under section 5, we are prepared to further explore any of the issues we have raised if you wish.

Yours sincerely



John Crosbie
General Manager
Supply Chain Operations