



14 June 2013

Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Mr Palethorpe

RE: Inquiry into the ownership arrangements of grain handling

Please find a submission from Grain Producers SA Ltd (GPSA) to the Inquiry into the ownership arrangements of grain handling. Representatives from GPSA are willing to meet again with the Senate Committee to clarify points made and discuss their concerns further.

Overview

Grain Producers SA Ltd (GPSA) is the peak body representing South Australian grain producers.

GPSA's objectives are to improve the profitability and sustainability of South Australian grain producers through:

- Representing the views of South Australian grain producers to government, industry and the community on grains issues;
- Working with an effective state farming organisation and other commodity groups to represent South Australian grain producers on cross commodity issues;
- Working with government and industry to develop policies around creating and maintaining an efficient, accessible and cost effective supply chain;
- Working with government, industry and institutions to improve the technical and business skills of South Australian grain producers
- Working with Research, Development and Extension organisations to identify and disseminate research priorities in grain production, handling and management
- Supporting an effective national representative organisation to work with government around national initiatives to support the grains industry
- Providing a program to include and develop young farmers to be prepared to take on leadership roles within the SA grains industry.

The majority of South Australian grain handling assets have been held in foreign ownership since Viterra acquired ABB Grain in 2009. In 2012, Glencore International purchased Viterra and is now the current owners of the majority of grain storage assets and the monopoly ownership of the bulk ship loading facilities in South Australia.

Glencore has retained the name Viterra Operations for the storage and handling assets and trades grain under the name of Glencore.

Total grain production in South Australia for 2011/12 season was 7.936 million tonnes, with a market value of over \$2.5 billion, being predominately wheat (4.445 million tonnes) and barley (2.032 million tonnes). Most of this grain is exported in bulk, as there is a limited domestic market for grain (annual domestic wheat consumption in South Australia is approximately 500,000 tonnes). Grain packing in containers for export is limited by container availability in South Australia and is only available to grain growers in the catchment zone of Port Adelaide.

In 2011/12, the market share of wheat exports from South Australia comprised around 30% for Viterra and 19% for Glencore. If this market share remains unchanged, then the combined entity of Glencore (through its acquisition of Viterra) will purchase 50% of the wheat from South Australia grain growers.

The market share of barley exports from South Australia is not publicly known. However a considered opinion would allocate a greater than 60% share to the combined entity. This is based on the fact that Glencore owns the malting facilities in South Australia, and also anecdotal evidence.

Grain for export is loaded onto bulk vessels through the monopoly bulk handling entity owned by Glencore. Competitor exporters must use the monopoly bulk handling entity to load their vessels, and the near monopoly up country storage and handling facilities to accumulate grain.

Market Dominance

Viterra Operations (Glencore) by its own admission owns and operates approximately 95% of South Australia's storage and all of its port terminal capacity.

There are a number of inherent risks associated with having only one export loader and storage and handling entity;

- Sovereign risk, where an overseas sovereign entity purchases Viterra Operation and therefore controls the majority of the South Australian grain supply chain
- Intra company risk, where the solvency of the South Australian operations of the company are jeopardised by transfer of funds to the parent company (eg. Ansett and Air New Zealand)
- Counterparty risk, where actions taken against the bulk handler can have adverse effects on third parties with grain in that system
- Brand risk, where operations of the bulk handler in the grain market or other markets, could impact on the brand / desirability of South Australian grain
- Industry Risk, where actions by the bulk handler could impact grain owners, eg. A company shut such as Qantas in late Oct 2011
- Market distortion and manipulation risk of grain physical and futures markets through the release/ retention of grain physical stocks or stocks information
- Access risk to deliveries from third party storage providers in delivering to port facilities for loading of vessels
- Access risk to deliveries from growers in delivering to freight efficient upcountry sites of physical grain



Other Key Issues

There are a number of key issues that impact on grain prices and therefore grower viability. These include:

- Discount for risk by competitor grain buyers in a lack of transparency around stocks information
- Discount for risk in access to stock transfers to port facilities from third party storage
- Lack of transparency and competition around the setting of storage and handling fees
- Lack of transparency and competition in the provision of grain freight services
- Discounting by international purchasers of grain due to blending down to minimum standards of grain exports in bulk and in containers
- Misclassification of grain to growers resulting in a classification at a lower grade
- Discount for risk to grain at lower grade spreads by competitors unable to ascertain quality parameters and the ability to blend

Publication of information and disclosure of grain stocks held

Currently there is no ring fencing mechanisms in place to preventing Viterro Operations disclosing stock information to Glencore Trading which would then provide the whole company a commercial advantage over competing traders.

Additionally, Viterro Operations are aware of the amount and type of grain owned by competitor traders in the Viterro Operations system. Viterro Operations is also aware of the shipping arrangements of competitor exporters.

Recommendations Stocks

Information on commodity, grade, quality and tonnage of grain (per cell / bunker) delivered to any Viterro Operations or Grain Trade Australia (GTA) member bulk handler and are Viterro Operations Third Party Approved to be provided in real time free of charge to the market.

Total receivals, carryover, export and domestic out turn for all grains, be provided to the market on a real time basis by the same entities outlined above.

That growers have the right to "opt in" to warehouse disclosure of commodity, tonnage, quality and site to be available daily to be viewed by traders.

Grain held in bulk storage is considered "co-mingled". The information on commodity, quality, tonnage and cell is regarding the co-mingled grain held on behalf of growers and traders, not individual loads delivered by growers or tonnages owned by individual entities.

Recommendations Service Level Agreement / Mandatory Code of Access

An independent risk assessment of the grain storage and handling system in South Australia should be conducted as soon as possible to determine possible risks to the grain supply chain.

A framework needs to be developed to ensure the market dominance of the bulk handler does not become detrimental to the grain growers of South Australia. It should include a guarantee from the parent company of the bulk handler and the deposit of funds in an escrow account to ensure operations of the bulk handling system can continue, should an adverse incident affect the operations of Viterro Operations in South Australia.

Other Related Matters- Grain Pools

Many South Australian grain producers who have used grain pools have been financially disadvantaged due to the poor performance of some pool products in particular the Emerald Traditional Pool. A Comparison of two pools for the 2011/12 season sees:

	AWB SA Pool	Emerald Traditional Pool	Emerald Dynamic Pool
Final Pool Return APW1 wheat	\$ 267.20	\$ 236.00	\$ 264.00
FOBing Costs	\$ 46.00	\$ 57.00	\$ 57.00
Early Commitment AWB	\$ 15.00		
Early commitment Emerald		\$20 included	\$20 included
AWB Golden Rewards (average)	\$ 6.50		
Emerald Quality Rewards		included	included
	\$ 242.70	\$ 179.00	\$ 207.00
Finance costs (Emerald Assumed)	\$ 11.99	\$ 12.00	\$ 12.00
Estimated Silo Return Pt. Adelaide	\$ 230.71	\$ 167.00	\$ 195.00
ESR for growers with no EOP	\$ 215.71	\$ 147.00	\$ 175.00

Emerald has indicated that their Dynamic Pool is the headline pool. I have spoken to the state office of Emerald and to quote “the vast majority of growers have wheat in the Traditional Pool”.

Growers were not expecting to receive \$147 ESR Port Adelaide when the average APW1 price (Flat / no rewards) was \$214.36 (Profarmer) for the harvest period. During the period 2011 to 2013, APW1 wheat on NSW futures rarely traded below \$200 let alone to give an average price of \$147.

Recommendations Pools

GPSA is of the opinion that the Revised Code of Practice requirement for Pool Providers being proposed by Grain Trade Australia does not provide adequate protection of pool participants from poor performance of pool products.

GPSA supports the need for more rigour around the operations of grain pools. GPSA recommended that Wheat Exports Australia be given the power to have oversight of pools. Given that WEA has been disbanded, GPSA recommends that the exemption of pools under ASIC Class Order 02/211 which exempts the pools from being registered as Managed Investment Schemes as well as the requirement to hold an Australian Financial Services Licence (AFSL) be repealed.

Yours sincerely

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