



**A SUPPLEMENTARY SUBMISSION BY VITERRA LTD
TO THE
SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES
COMMITTEE
INQUIRY INTO
OPERATIONAL ISSUES ARISING IN THE EXPORT GRAIN STORAGE,
TRANSPORT, HANDLING AND SHIPPING NETWORK**

Date: Monday, 20 February 2012



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Purpose

Viterra Ltd ("**Viterra**") is pleased to provide a second supplementary submission in relation to the matters set out in the Terms of Reference for the Senate Inquiry by the Rural and Regional Affairs and Transport References Committee into operational issues arising in the export grain storage, transport, handling and shipping network in Australia.

Viterra welcomes the opportunity to again contribute to the work of the Senate Inquiry.

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Structure of submission

Viterra's second supplementary submission addresses a limited selection of the Terms of Reference of the Senate Inquiry, following the completion of the 2011/12 harvest and revised port access arrangements now in operation since 1 October 2011.

As such, this document should be read in conjunction with previous written submissions made to the Inquiry on 8 June 2011 and 6 July 2011 respectively.



1.0 Equitable and efficient access to the shipping stem

a. Proposed auction system for capacity allocation

As required by the Access Undertaking accepted by the Australian Competition and Consumer Commission ("ACCC") on 28 September 2011, Viterra will introduce an auction system for primary allocation of shipping capacity from mid-2012. Furthermore, since 1 October, Viterra has already implemented new measures for information disclosure and flexibility for exporters in transferring, moving and surrendering shipping slots.

The new auction system will drive behaviour towards value-based capacity allocation of shipping slots, geared towards demand rather than first-in-first-served, and will apply for each of the six grain port terminals Viterra operates in South Australia.

Viterra has engaged extensively with industry to guide the development of the proposed auction system; however the key objective has been to meet the regulatory requirements set out in the 2011 Access Undertaking. The ACCC requirements are that:

- the auction is the primary means of allocating capacity for grains
- capacity is defined on a consistent basis in tonnes
- exporters have an equal opportunity to participate in the auctions
- auctions are conducted in a transparent and non-discriminatory manner
- slots are allocated to exporters that value them the most
- the auction includes disincentive to over-booking which apply equally, and
- bookings are tradeable between exporters.

In order to introduce the auction system in accordance with the Undertaking process, Viterra proposes to vary the Port Loading Protocols ("Protocols") and the Port Terminal Services Agreement for Standard Port Terminal Services ("Standard Terms"). Viterra also proposes to amend its 2011/2012 Season Storage & Handling Agreements ("S&H Agreements") for customers who access the Viterra storage and handling network.

The proposed changes reflect, and take into account, the feedback that Viterra has received in its informal and formal consultation meetings with a range of industry participants in relation to the design and implementation of the auction system.



In addition to introducing an auction system, Viterra wishes to amend the Protocols to implement a small number of operational improvements which it considers will facilitate greater certainty, efficiency and flexibility for both Viterra and grain exporters.

Viterra's consultation process

Viterra engaged extensively with exporters, industry organisations, government bodies and grower groups over the past few months in designing the proposed auction system to meet industry requirements.

Viterra officially commenced formal consultation regarding the proposed variations on Monday, 16 January 2012, including the publication of the following documents:

- Consultation Notice (which explained each of the proposed changes and the Auction system)
- proposed Port Loading Protocols (including the Auction Rules)
- proposed Standard Terms (showing all proposed changes in mark-up)
- proposed Storage & Handling Agreement (showing all proposed changes in mark-up)
- proposed Auction Participation Deed
- Tradeslot Registered Bidder Agreement (which reflects the Auction Service Provider's requirements), and
- Viterra Auction System 'Frequently Asked Questions'.

Viterra held consultation meetings to discuss the proposed variations with industry and to seek feedback from interested parties. Viterra also accepted written submissions until Wednesday, 8 February 2012.

Feedback from industry

Some common themes have been raised by exporters during Viterra's formal consultation process. However, based on the written submissions received from industry, a number of different (and sometimes conflicting) changes were proposed. Some feedback was also contrary to that provided earlier during the informal consultation process, mainly arising from the experience of exporters in the recent CBH auctions held during this period. Viterra notes that CBH are actively addressing these concerns by holding client consultation meetings and convening an industry workshop on Monday, 20 February 2012, to identify opportunities to improve the auction system in Western Australia.



It is important however to highlight that the auction system proposed by Viterra differs from that implemented by CBH last season in a number of key respects. In particular:

- Viterra provides a significant level of transparency and earlier disclosure of information on its shipping stem. This information provides substantial assistance to exporters seeking to understand future capacity availability or to trade or move slots;
- Viterra provides very significant flexibility to exporters once they have made a booking. There are no limits to the number of times exporters can trade or move bookings. Exporters can also surrender (and obtain a partial refund for) bookings and split their bookings. Again this supports the efficient allocation of capacity;
- based on industry feedback, Viterra has designed the timing of auctions to balance exporters' requirements for certainty, forward planning and visibility of crop quality and volumes;
- Viterra has provided very substantial transparency and explanation in relation to its proposed processes. Exporters have more information than ever before in relation to the booking processes and operational requirements; and
- the first-in-first-served system (which applies on and from a published time after the relevant auction or auctions have taken place) is an online and clearly auditable booking system with each client limited to five log-ins and each booking restricted to one port terminal and one slot. This places increased structural disciplines on bookings for capacity not acquired at auction and prevents one booking application from securing significant volumes of the available capacity.

These are all important factors which support the efficiency of the auction system proposed by Viterra and are likely to ameliorate and address the issues experienced by some exporters in previous auctions. It is important to note the outcomes of any auction will also be affected by the different strategies adopted by participants in that auction within whatever rules apply.

Other changes proposed by industry were found by Viterra to have a likely consequence for the way that the auction operates and it was not always clear that the consequence would be desirable, or more efficient. Therefore, not all feedback was reflected in the final design submitted to the ACCC.

Viterra proposes to introduce a further change to its Port Loading Protocols, committing to undertake a review of the auction system and to seek feedback from industry participants after the 2012 auctions. This will ensure that industry participants have an opportunity to provide feedback after experiencing Viterra's first auctions (on an informed basis) and help Viterra to identify operational improvements. The outcomes from the CBH consultation may also be relevant to this review process.



Viterra is encouraged by the positive engagement that it has had with the grain export sector over the past few months and looks forward to continuing this open dialogue as the auction system evolves over coming seasons.

All consultation documents, including third-party submissions and records of consultation meetings held by Viterra in designing the proposed auction system, can be found on the Company's website.

ACCC approval process

In accordance with the Access Undertaking, Viterra formally provided a 'Notice of Variation' to the Port Loading Protocols and the Standard Terms to introduce an auction system for the allocation of port loading capacity for Grain commodities, on Friday, 17 February 2012.

The proposed variations are consistent with the versions of those documents published by Viterra with its Consultation Notice on 16 January 2012. However, in response to specific feedback provided by exporters during the consultation process, Viterra proposes to make a number of additional variations to the Protocols that were not set out in the Consultation Notice.

In designing the auction system, Viterra has been cognisant of the need to meet the ACCC's requirements while, at the same time, delivering a system that will work commercially. The ACCC will now conduct independent market enquiries in considering Viterra's proposed auction system, with a draft decision expected by mid-April.

Viterra has now published online the proposed variations to the Port Loading Protocols and the Standard Terms as submitted to the ACCC for approval.

b. Performance of the South Australian grain export industry in 2011

Viterra provides port terminal access to third party exporters under terms that meet the requirements of Australia's competition law and current wheat marketing arrangements, and in a manner that ensures fair and open access to all exporters.

Viterra entered the 2011/12 harvest having set new records for the amount of grain exported from its South Australian ports, with shipping remaining consistently strong throughout the year.

Almost 8 million tonnes of grain was shipped from South Australia in the 2010/11 marketing year, between 1 October 2010 and 30 September 2011.



During the 2010/11 marketing year in South Australia:

- Viterro was one of 15 grain exporters to execute shipments during the period.
- More than two thirds of bulk grain exports were shipped by companies other than Viterro.
- Viterro's Port Adelaide ports – Inner Harbour and Outer Harbor – shipped nearly 3 million tonnes combined.
- Port Lincoln on the Eyre Peninsula was the single busiest port, with 2.65 million tonnes of grain shipped. The previous highest amount of grain shipped from Port Lincoln in this same period was in 2001/02, when 2.06 million tonnes was exported.
- Shipping at Thevenard, Port Giles and Wallaroo was also strong, with 479,000 tonnes, 972,000 tonnes and 982,000 tonnes exported respectively.

The heavy shipping program helped to clear as much grain from Viterro's storage and handling network as possible in preparation for harvest. Only around 1.7 million tonnes of carry-over grain remained in the system, following the record 2010/11 harvest.

During the 2011/12 harvest itself, large volumes of grain were moved to port – to keep space available in upcountry locations to meet the most critical segregation and capacity needs of growers, as well as meeting demand to execute a record shipping program during the months of November and December 2011.

In total, Viterro's port terminals have shipped two million tonnes more grain in the past twelve months than in any other calendar year on record:

- More than 8.41 million tonnes of grain was exported from South Australia in 2011 on behalf of 15 exporters.
- The previous highest amount shipped in a calendar year was 6.24 million tonnes in 2001.

The strong export performance from South Australia looks to continue in 2012. Viterro has accepted over 7.6 million tonnes of bookings for the current 2011/12 marketing year, as shown on the Shipping Stem published by Viterro each business day.



2.0 Other related matters relevant to the Senate Inquiry

a. Viterra Post Harvest Review 2010/11 – implementation

Background

In February 2011, Viterra commenced a Post Harvest Review to examine harvest performance issues in the context of the State's grain harvest in 2010/11, exploring the impact of widespread rain in early December and record volumes of production in South Australia.

The review process was led by a Working Group, chaired by the Honourable Rob Kerin, former Primary Industries Minister and Premier of South Australia.

In accordance with an agreed Terms of Reference, the Working Group consulted widely in formulating its series of 30 recommendations.

A full copy of the Working Group report, including Viterra's response, was provided to the Senate Inquiry as a supplementary submission on 6 July 2011.

The 2010/11 Post Harvest Review provided 30 recommendations for the Company. Viterra responded to each of these recommendations, including purchasing 78 falling number machines, invested significantly in road works, weighbridge upgrades and amenities; engaged more effectively with Strategic Site Committees, introduced the industry-leading safety induction program, published the Weekly Harvest Report and invested in employee training, as outlined below.

b. Performance of the South Australian harvest 2011/12

As of 29 January 2012, Viterra had received **6.55 million tonnes** of grain into its South Australian storage and handling network for the 2011/12 harvest.

The season proved to be early, with favourable weather conditions, high quality profile in both wheat and barley crops, and smoother storage and handling operations well equipped to handle the above average crop.

Primary Industries and Regions SA (PIRSA), in its January Crop and Pasture Report, estimate the South Australian crop was the **fourth largest on record at 7.8 million tonnes** in 2011/12.

Harvest Preparation

In preparation for harvest, **Viterra invested more than \$12 million** in infrastructure, road works, new equipment and amenities as part of its commitment to implement the recommendations from the Post-Harvest Review. Approximately \$3 million was spent on road works; more than \$1.8 million



spent on new drive over hoppers/stackers; approximately \$800,000 spent on new bunkers at Witera; a new second weighbridge at Loxton; as well as the installation of more than 25 temporary amenities buildings at sites across the State.

Planning for the clearance and consolidation of stocks commenced early in 2011, following the 2010/11 record South Australian harvest. These plans were implemented in the months prior to harvest to ensure that growers had the maximum capacity and segregations available when the 2011/12 harvest commenced.

Viterra annually recruits casual workers for harvest. This year, **approximately 1200 harvest casuals were employed**. In addition, the **company added approximately 200 permanent employees to the storage and handling division** as part of a strategy designed to retain existing expertise as well as attract new talent.

The company invested in employee training and added more permanent employees to its storage and handling team in preparation for harvest. Personnel for the **new Grain Classification Training Unit** worked with regional employees to provide classification training pre-harvest and were mobilised during the harvest period, to ensure ongoing support and training for grain classifiers across the Viterra network.

Strengthening the company's relationships with Strategic Site Committees has been a key area of focus since the Viterra Post Harvest Review. The Chairs met in Adelaide before harvest to discuss their role, and Terms of Reference were developed and approved. Almost 40 pre-harvest meetings were held and since then, consultation has been ongoing throughout the harvest period. This group is scheduled to meet in March to review the 2011/12 harvest and identify key areas of focus prior to the 2012/13 harvest.

Grain classification

In consultation with the Strategic Site Committee chairs, the grain classification procedure for wet weather was developed and published on the website as part of Viterra's Storage and Handling Plan. Viterra's 78 new Falling Number machines were installed at sites across the State.

The company invested in employee training and added more permanent employees to its team. Personnel for the new Grain Classification Training Unit worked with regional employees to provide classification training before harvest. This training was ongoing throughout harvest.



Harvest receivals

Hot dry weather patterns in South Australia at the start of harvest were favourable to reaping conditions and enabled growers to make solid early progress on their harvest operations. Of significance, there were two rain events in 8/9 November – and 24/25 November – and a third from 16-18 December. These isolated thunderstorms, and rainfalls of up to 100mm in some areas, caused frustrating delays to growers, but little impact to the overall quality of grain received at Viterra sites.

An early season and favourable weather allowed the majority of deliveries to be made before mid-December as shown below in Figure 1.

- Total grower deliveries reached 6 million tonnes into the Viterra system by 16 December - 15 days earlier than in 2010/11, and the earliest this milestone has been reached since the 2000/01 harvest.
- A large portion was received in the four-week period between 15 November and 15 December, more than 4.71 million tonnes – transported in almost 185,000 individual loads of grain.
- During the 10-day period between 28 November and 7 December more than 2.19 million tonnes was received, greater than any 10-day receival period during the 2010/11 harvest.
- Monday 5 December was the single biggest receival day, with more than 255,000 tonnes delivered across the State. During the 2011/12 harvest, there were ten days when grower receivals exceeded 200,000 tonnes.

The following chart shows the pattern of receivals into Viterra's network over the past two seasons:

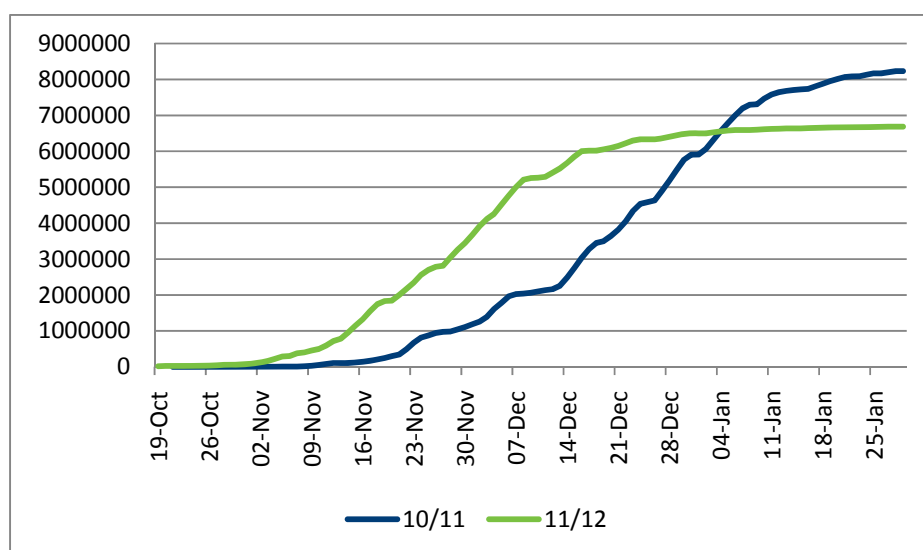


Figure 1: Harvest receivals to the Viterra network for both 2010/11 and 2011/12 (metric tonnes). Source: Viterra



Other key performance indicators for the 2011/12 harvest include:

- More than 250,000 individual truck deliveries
- 6,728 individual grower entities delivered grain to Viterra's network
- 12 Viterra sites broke records for single day grower receivals – Bowmans, Caltowie, Coomandook, Cummins, Port Lincoln, Robertstown, Saddleworth, Taree, Thevenard, Tintinara, Tooligie and Werrimull
- On Eyre Peninsula, Witerra broke its all-time receival record, taking in 91,071 tonnes – compared to 78,609 tonnes in 2009/10
- Total grower receivals into Viterra's storage and handling network, as at 29 January 2012, was 6.55 million tonnes.

Quality profile

Generally, the overall quality profile this season was high, with a large amount of wheat received classified as milling grades. According to PIRSA, South Australian grain quality was “generally above average” and a high percentage of grain was classified into the higher quality grades, despite some minor quality issues in some districts.

Segregations

During harvest, segregations and available capacity were continually monitored by Viterra in liaison with the Strategic Site Committees. Large volumes of grain were moved to port – to keep space available in upcountry locations to meet the most critical segregation and capacity needs of growers, as well as meeting demand to execute the record shipping program during November and December.

In total, **Viterra offered 69 segregations this harvest** across the State – with wheat, barley, canola, lentils, chickpeas, faba beans, field peas, lupins, rye, oats and triticale all being received.

Communications

Viterra communicated broadly and through various mediums before and during harvest. The **Harvest Information Book** was distributed to more than 30,000 National Grower Register (NGR) card holders Australia-wide and contained information relevant to each State – including storage and handling,



chain of responsibility legislation, grain marketing, pools and agri-products information as well as relevant contacts.

Viterrra published an online **2011/12 Storage and Handling Plan**, which included information similar to the Harvest Information Book, as well as detail on the **dispute resolution procedure, the commodity transfer procedure** and the **policy for using falling number machines**. The preliminary **segregation plan** was published at the same time – September 1 – and was also available on the *ezigrain* website.

In November, Viterrra introduced a Weekly Harvest Report, to provide grower receival data and commentary on the progress of harvest. The weekly report was part of a commitment to keep industry more informed.

The Weekly Harvest Report was distributed each week to more than 480 subscribers. In addition to direct circulation, the Weekly Harvest Report was published on the Viterrra website, making it readily accessible to all industry participants.

The Weekly Harvest Report was also useful in generating media coverage on harvest in South Australia. A total of 56 articles, generally positive, were written as a direct result of the publication of the Weekly Harvest Report or incorporating commentary from the report.

More than **900,000 text messages** were sent between October and January informing South Australian growers of changes to opening times, segregations and general harvest updates. This information was replicated on the *ezigrain website* to ensure communication to growers and carriers was consistent and timely.

Viterrra Safety Card

Viterrra has always maintained a strong focus on safety as part of our operations. In August 2011, Viterrra introduced a safety induction program to ensure the highest level of safety for all visitors and employees at its sites in Australia and New Zealand. The program is an industry-leading initiative and part of our broader **aim to make all Viterrra sites Zero Harm work environments**.

As of 1 October 2011, people visiting Viterrra sites in Australia unaccompanied by a Viterrra employee must demonstrate they have successfully completed a **Viterrra safety induction**. This initiative is designed to ensure that everyone (including growers, carriers and passengers over the age of 15) who visits our sites has undertaken a safety induction in line with the level of access they require to conduct their business.

During the 2011/12 harvest, Viterrra established the following **safety rules** governing access to Viterrra's storage and handling sites:

- All growers and carriers accessing a Viterrra site must hold a valid Viterrra Safety Card.



- Personal Protective Equipment (PPE) such as boots, high-visibility clothing, safety glasses and hard hats must be worn. Different sites have different requirements based on the associated risks.
- All drivers must follow site traffic management plans and employee direction.
- Children under the age of 15 must be under guardian supervision at all times.
- All trucks must be fitted with a ground operating tarping system or a safe working platform.
- Climbing on vehicles outside of a safe working platform is not permitted for any purpose at Viterra sites.
- All vehicles must comply with Chain of Responsibility legislation.

The safety induction ensures everyone who requires unaccompanied access to a Viterra site is aware of such site-specific safety requirements, procedures and responsibilities, therefore ensuring the highest level of safety for all visitors and employees at its sites.

The process, which takes approximately 20 minutes to complete via an online module¹, includes an assessment component and quizzes growers on key safety components including:

- Arriving at a work location - traffic management / marshalling
- Safe use of amenities
- Unsafe conditions or practices
- Fit for work - drugs and alcohol
- Smoking
- Warning signs
- Operating equipment
- Children and passengers
- Pets
- Reporting of incidents and injuries
- Personal Protective Equipment (PPE) requirements
- Chain of Responsibility requirements
- Grower and carrier responsibilities
- Environmental requirements.

¹ The Viterra safety induction program can be accessed via <https://safetycard.viterra.com.au>



A 'Safety Card' is then issued to each individual participant free-of-charge, to demonstrate they have successfully completed the Viterra safety induction. Holders must present their **Viterra Safety Card** with a driver's licence or other photographic identification when requested by a Viterra employee.

Following an extensive communication and education campaign, **more than 15,000 growers and carriers registered** for their Safety Card over the 2011/12 harvest. Overall awareness was high across Viterra's storage and handling network, with increased compliance with Viterra's safety requirements evident through presentation of the Safety Card at delivery and use of mandatory PPE.

2011/12 Post Harvest Review

Following the completion of the 2011/12 harvest, Viterra is again seeking feedback from its grower customers about how the Company can continue to improve its service delivery and harvest operations. Viterra has commissioned an **independent research** company to conduct a Post Harvest Grower Questionnaire.

On Monday, 13 February 2012, more than 3,500 registered growers received an email asking them to complete the questionnaire online; which includes questions relating to the efficiency of site operations, classification procedures, safety, service delivery, communication and segregations.

At the beginning of the questionnaire, growers are requested to enter their NGR number - this is only to ensure the validity of the data collected. **All answers will remain anonymous.**

In addition, a hardcopy has been mailed to all growers who delivered grain into the Viterra storage and handling network during the 2011/12 harvest. Growers have until Wednesday, 7 March 2012 to participate in this consultative process.

In addition to direct grower feedback, a meeting of Strategic Silo Committee chairs is scheduled in March to review Viterra's 2011/12 harvest operations and identify key areas of focus prior to the 2012/13 harvest.

Over the coming months, Viterra will also consult with farm groups, industry associations and other organisations, such as the South Australian Research and Development Institute (SARDI), in reviewing technical grain quality issues arising during the 2011/12 harvest. This technical consultation occurs each year prior to the annual industry review of grain standards facilitated by Grain Trade Australia (GTA), Pulse Australia and the Australian Oilseeds Federation (AOF).

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