



A SUBMISSION BY GLENCORE GRAIN & VITERRA
in response to the
SENATE STANDING COMMITTEES ON RURAL AND REGIONAL AFFAIRS
AND TRANSPORT
INQUIRY INTO GRAIN EXPORT NETWORKS

July 31, 2014

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Purpose

The following submission sets out Glencore Grain and Viterra's views on the current state of Grain Export Networks in Australia with a particular focus on South Australia.

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About Us

Glencore is a significant investor in the Australian grains industry, through our subsidiaries Glencore Grain and Viterra. We are an important contributor to the rural economy as well as one of South Australia's largest employers, with a workforce of approximately 2,700 people including seasonal workers.

Glencore Grain is a major buyer and exporter of agricultural commodities in Australia, as well as a minority shareholder in the Newcastle Agri Terminal.

Glencore Grain is one of the largest buyers of wheat, barley, oilseeds, pulses and cotton direct from Australian growers, with offices located across five key growing states; Western Australia, South Australia, Victoria, New South Wales and Queensland.

Glencore Grain exports more than six million tonnes of grain from across Australia each year.

Viterra's storage and handling operation consists of a network of upcountry receival sites and strategically located port terminals. With a total storage capacity of more than 10 million tonnes it is designed to handle peak capacity requirements for production and shipping.

Viterra's six operational grain port terminals are located along the South Australian coast at Inner Harbour, Outer Harbor, Wallaroo, Port Giles, Port Lincoln and Thevenard.

Viterra's packing and processing facilities are the largest in Australia and service the grain industry with a large range of containerised export options. Facilities include five packing and processing plants across southern and eastern Australia; at Port Adelaide and Two Wells in South Australia; Dooen and Laverton in Victoria and Narrabri in New South Wales.

Viterra works on behalf of both growers and exporters to ensure that services delivered meet the requirements of those two key stakeholders in a cost effective and efficient manner.

Glencore also manages and owns broad acre cropping land in south-eastern Australia.

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Executive Summary

Australia is a key grain export origin and continues to receive strong demand from end-use customers who recognise Australia's ability to deliver a reliable, safe, consistent quality product.

Multiple buyers, including the major global grain companies, have a presence in Australia and compete to purchase grain from the grower to meet domestic and export demand.

Australia's existing storage and port infrastructure is transparent and accountable, allowing exporters to meet the demands of their end use customers in a timely, efficient and cost effective manner. This gives confidence to both the exporters and the end-use customers, and therefore enhances farm gate returns to growers.

Decreasing the level of regulation on port terminal operators and enabling the market to operate more commercially allows the diverse and changing needs of customers to be met and will further increase the efficiency and competitiveness of the Australian industry globally.

There are low barriers to entering the Australian grain supply chain as evidenced by the number of new entrants in recent years. However, duplication of supply chain infrastructure which already has surplus capacity will impact on the efficiency gains arising from volume through the existing supply chain. Strategies to increase grain production and volumes utilising existing infrastructure provide multiple benefits to all sectors of the industry and the Australian economy generally.

In South Australia, there are no constraints on new entrants being able to provide grain transport, storage and handling services.

The South Australian grain export pathway is an open access system. The storage facilities and ports have the capability to receive, handle and export significantly greater volumes than is currently being produced. Glencore and Viterro have made, and continue to make, significant investments in the South Australian supply chain for the benefit of growers and commercial customers. This includes upgrades and maintenance of receival, storage and out-turn infrastructure, committing to long term logistics agreements, offering real time transactional services and ensuring high standards of quality control and food safety.

The South Australian supply chain operated by Viterro is an example of an efficient grain supply chain. South Australia's 2013/14 grain harvest had an export value of \$2.8 billion. In managing the State's exports, Viterro enables growers and businesses along the supply chain to realise this value, much of which flows back into regional economies.

Submission

The principles and practices underpinning an efficient grain supply chain from farm-gate to port:

The South Australian supply chain operated by Viterra is an example of an efficient grain supply chain. South Australia's 2013/14 grain harvest had an export value of \$2.8 billion. In efficiently managing the State's exports, Viterra enables growers and businesses along the supply chain to realise this value, much of which flows back into regional economies.

Viterra provides its grower and commercial customers with a range of services including receival, quality assessment, storage, warehouse services, grain assembly, freight, port storage, electronic transactional services, throughput and ship loading services. These enable the individual requirements of customers to be met.

The storage facilities and ports have the capability to handle and export significantly greater volumes than is currently being produced.

The five year average production in South Australia is 7.5 million tonnes with record production of 10.34 million tonnes. South Australia's storage and handling network has storage capacity in excess of 11 million tonnes, plus on-farm storage.

The 5 year average export task from South Australia is 5.9 million tonnes annually. Viterra's port terminals have the capacity to export significantly more volume per year.

The South Australian grain producer operates under the expectation that the bulk handlers will have the capacity to receive all commodities and grades as grain is harvested. Viterra manages this expectation by providing peak receival capacity well in excess of average crop expectations. In excess of 5000 grower entities deliver grain into Viterra's storage and handling network.

Supply chain efficiency

Major bulk handling supply chains support multiple users of a single system, providing the most efficient and economic use of the infrastructure. This contributes to improving farm gate returns.

The high number of exporters and buyers and the significant amount of grain exported from South Australia, particularly during the peak demand periods, is evidence of the supply chain's ability to meet the needs of multiple export customers and end users. The past year has seen greater interest from commercial customers in executing grain exports through South Australia.

Viterra is responding to, and meeting, increasing capacity demands for both receival and export in shorter timeframes as the harvest period and peak shipping period condense and overlap.

Viterra has the ability to manage its operations to match demand variations on receival, storage and export (during the year, and year on year).

Reliable logistics with efficient provision of road and rail infrastructure are crucial for grain to move through domestic and global food supply chains.

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Viterra enters into long term agreements to secure access to transport assets for both road and rail to provide an efficient transport method for grower and commercial customers and the necessary capacity to perform the shipping task. This access is contestable and expensive. Commitment to these services is made well in advance of known production; therefore Viterra assumes this risk on behalf of industry.

On behalf of any owner of grain, Viterra offers to consolidate, accumulate and manage the logistics task from its upcountry sites to port. For example, a marketer can buy grain at 30 sites across the network but they are not then required to arrange the logistics task from those 30 sites into the port where they have the shipping capacity. Viterra consolidates their ownership and moves the volume and quality of grain required on their behalf, aggregating the supply chain task and making the process as efficient as possible.

Export customers can choose whether to use this service or not. However, the vast majority of customers value the benefits to the efficiency of their business by providing a cost effective logistics solution and gives them added confidence to execute shipments from South Australia.

Implementation of new grain handling technologies, such as drive over hoppers for bunker loading and fast rail outloaders for loading trains have increased efficiency and elevation capacity at sites while reducing the need to rely solely on the construction of new storage capacity. Viterra has also been quick to adopt leading electronic sampling and quality control devices to ensure that growers and exporters receive the benefits of the best technology available.

Increasing returns to farm gate

Viterra's multi-user storage and handling network gives growers access to the best price on the day from major global grain buyers. Growers can choose when and to whom they market their grain. This year, there have been 43 buyers (domestic and export) within the Viterra system, with 19 companies buying export shipping capacity. In addition, the IT systems and processes that support the operations streamline stock management and control and give growers the ability to transact with these buyers in real time.

In the 2013/14 season Viterra provided 64 segregations for grain across the State. These segregations are determined each season in response to quality variations, grower consultation and end use customer demand. Whilst the provision of segregation services adds cost to the storage and handling provider, it avoids grain being downgraded to the lowest common denominator and allows growers to capture additional value for their grain.

According to the latest Australian Export Grains Innovation Centre report into the Cost of Australia's bulk grain export supply chains released in June 2014, "Export grain supply chain costs currently are a lesser proportion of the wheat FOB price than was the case in the late 1980s." This has been achieved by increasing the efficiency and cost effective operation of the supply chain and has provided greater farm profitability for growers.

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Quality management

International markets for Australian grain are increasingly fastidious about food safety, contaminants and quality. This requires highly skilled management along the grain supply chain to protect Australia's enviable reputation for producing a consistent, high quality, safe product.

On delivery, growers transfer all quality and stock risk to Viterra. In managing the quality control, food safety standards and grain security through the supply chain Viterra ensures the grain meets the highest quality and food safety requirements of all domestic and international customers.

Viterra has invested significantly in quality control and food safety, establishing best practice management processes and the highest quality training. This gives growers access to pricing from buyers that represent all major global markets.

Viterra's storage and handling facilities, including the packing and processing facilities, are accredited to meet the highest national and international standards of quality control and food safety management through best practice policies and procedures. All export facilities meet national and international food safety standards and are Department of Agriculture and ISO 22000 accredited.

All employees involved in the storage and handling of grain undergo extensive quality and food safety training. Viterra's comprehensive grain classification and residue testing procedures comply with industry established standards. Our dedicated laboratory facilities oversee all quality testing at sites, ensuring consistency and reliability in the quality of our grain. Our laboratory is accredited by the National Association of Testing Authorities (NATA).

Viterra participates in the National Residue Survey (NRS) and supports all exporters, bulk and container packers being required to participate in the NRS as a condition of export.

To safeguard the integrity of grain quality, Viterra tests the grain in its system at numerous points along the supply chain. On delivery, all grain is quality tested and segregated as per relevant standards. End-users and export customers determine the quality specifications of each shipment. Customers are requiring increasing customisation for each shipment, and importing countries have a decreasing tolerance for chemical residues and contaminants. At the point of export, representative samples of both bulk and containerised grain are tested multiple times. The Australian Government Department of Agriculture ensures the grain meets the importing country's requirements; Viterra conducts analysis to ensure each parcel of grain meets the customer's contract quality specifications; and an internationally accredited service provider independently confirms the grain meets the specifications for a number of clients.

Unnecessary duplication of supply chain assets

The scale of the major bulk handling supply chains offer important economies of scale in increasing the competitiveness of Australian grain internationally and the efficiency gains keep the costs down for growers.

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There is a finite tonnage of exportable grain grown in Australia each year. Storage and handling infrastructure owners operate high cost, low margin businesses, requiring significant capital investment. Duplication of supply chain infrastructure which already has surplus capacity will impact on the efficiency gains and cost effectiveness from the existing supply chain through volume reductions. Ultimately this duplication will lead to a reduction of services (e.g. closure of sites, reduction in segregations) to growers and exporters and/or an increase in per tonne storage and handling charges.

Conversely, any increase in the volume of grain being produced in Australia helps to offset the high fixed costs that both infrastructure owners and growers have in their business. Strategies to increase grain production provide multiple benefits to all sectors of the industry and the Australian economy generally.

Government intervention and regulation

A key policy objective of the Government is to reduce the burden of inefficient and ineffective regulation. Over-regulation increases costs and stifles investment.

The current heavy regulation on grain export terminals is an additional cost to the industry. The Port Access Undertakings were designed to assist the industry's transition to a deregulated market. This transition has occurred and the market should be allowed to operate in a more commercial environment and give the infrastructure owners the flexibility to meet the needs of the export customers.

Multiple buyers, including the major global grain companies have a presence in Australia and compete to purchase grain from the grower on a daily basis.

Decreasing the level of regulation on port terminal operators and allowing the market to operate more commercially will further increase the efficiency and subsequently, the competitiveness of the industry. In a globally competitive market, the Australian grains industry needs the ability to provide what its export customers want and therefore provide longer term certainty and ongoing competition for Australian grain.

The ability to negotiate commercial long term agreements with export customers will provide certainty for the utilisation of the infrastructure, which will encourage further investment and provide certainty for ongoing demand for Australian grain in the global marketplace, which ultimately benefits the grower.

Grain Marketing and Export Arrangements and their impact on farm gate returns

Australia is a key grain export origin and continues to see strong demand from end-use customers who recognise Australia's ability to deliver a reliable, safe, consistent, quality product.

The Australian grain industry value chain delivers value back to the grower and enhances farm gate returns. Multiple buyers, including the major global grain companies, have a presence in Australia and compete to purchase grain from the grower on a daily basis.

For example, this year there have been 43 buyers (domestic and export) from the Viterra system, with 19 companies buying export shipping capacity.

South Australia has achieved record shipping in recent years. From the start of October, 2013 until the end of June 2014, 5.3 million tonnes of grain from has been exported out of Viterra ports, approximately 800,000 tonnes more than the same period last year.

For the 2014/15 shipping year, there are total export bookings of 6 million tonnes of grain.

Despite these achievements, we believe that there is still more upside available within the industry. A further reduction in regulation will allow more flexibility within the supply chain to meet individual customer needs which will make overseas customers compete even more keenly for Australian grain.

Australia's existing storage and port infrastructure allows exporters to meet the demands of their end use customers in a timely, efficient and cost effective manner giving confidence to both the exporters and the end-use customers.

In a globally competitive market, the Australian grains industry needs the ability to provide what its export customers want and therefore provide longer term certainty and ongoing competition for Australian grain.

Competition constraints on grain transport, storage and handling services

The South Australian grain export pathway is an open access system. In South Australia, there are no constraints on new entrants being able to provide grain transport, storage and handling services.

Any company can enter the grain industry in South Australia, invest in assets as Glencore has, and become a storage and handling service provider.

Any company (subject to probity checks) can access the South Australian system as an exporter or customer; 19 different exporters have already purchased capacity to export from South Australia for the 2014/15 shipping year.

Any grower with a National Grower Register (NGR) number (and who complies with Viterra site safety requirements) can deliver to Viterra's storage and handling sites; in any given season approximately 5000 different grower entities choose to deliver grain into the Viterra network.

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The open access system also includes access to below rail infrastructure throughout grain growing areas of the state. Any business can access the rail infrastructure subject to negotiating a commercial agreement with the infrastructure owner on reasonable commercial terms and finance the operation of a train set in South Australia. Viterra has entered into commercial long term agreements to underwrite the movement of grain by rail in South Australia for decades to provide an efficient transport method for grower and commercial customers.

If Viterra failed to operate its storage and handling system to meet the needs of its customers then normal commercial pressures would result in new storage and handling providers entering the marketplace.

The extent to which transport, storage and handling arrangements are transparent and accountable

The Viterra system is transparent and accountable. A significant amount of information is already provided regularly to the market (see Appendix 2).

The provision of stocks information has recently been considered at length by the Wheat Industry Advisory Taskforce (and previously by the Productivity Commission) who found that the provision of information was sufficient.

Viterra publishes standard pricing information; in addition Viterra's transport rates are published and are used by Grain Trade Australia as the Location Differentials used to facilitate trade. This transparency does not currently exist in eastern states.

In the current shipping year (October 2013-September 2014) Viterra has facilitated more than 5 million tonnes of grain exports through its port terminals on behalf of 15 exporters. Nineteen exporters have already booked 6 million metric tonnes of export capacity on the South Australian shipping stem for next year (October 2014-September 2015).

The number of exporters and the amount of grain exported from South Australia is evidence of both strong competition in the market place and the efficient operation of the wheat export supply chain in a multi-user system. Since deregulation, numerous shipping records have been achieved. Viterra considers that there is sufficient transparency to allow appropriate grain export marketing decisions.

In addition, rail and port access are overseen by the Australian Competition and Consumer Commission (ACCC) and Essential Services Commission of SA (ESCOSA) and agreements with users of the system contain robust dispute resolution procedures.

Other related matters

Multiple and repetitive inquiries and reviews send a negative message to the international marketplace

The number of inquiries and reviews of the grains industry that have taken place since deregulation risk creating a negative perception that there are problems with the Australian grain industry. This perception has the potential to drive international exporters, customers and investors away from Australia to the detriment of growers and the industry.

A non-exhaustive list of public reviews (not including this current Inquiry) that have occurred in the past 5 years are set out below:

- 2012 Senate Inquiry into the Wheat Export Marketing Amendment Bill
- 2012 Senate Inquiry into Operational issues in export grain networks
- 2013 Senate Inquiry into the ownership arrangements of grain handling
- 2012 South Australian Parliamentary Select Committee Inquiry into Grain Handling Industry
- 2012 Ports Pricing and Access Review – ESCOSA
- 2010 Productivity Commission review of Wheat Export Marketing Arrangements
- 2011-2012 – Port Access Code of Conduct (voluntary)
- 2012-2014 – Port Access Code of Conduct (mandatory)
- Wheat Industry Advisory Taskforce:
 - 2013 – Inquiry into grain pools as financial products
 - 2013 – Inquiry into wheat quality management practices
 - 2013 – Inquiry into stocks information
- 2014 - Agricultural Industry Task Force – Ag Industry White Paper

A number of these reviews, specifically the Productivity Commission and Wheat Industry Advisory Taskforce, have observed that there is no market failure in the grain industry and no government intervention (such as increased regulation) is required.

The Australian Export Grains Innovation Centre (AEGIC) report on the Cost of Australia's bulk grain export supply chains ("Report")

Some industry bodies have referred to this Report produced in January 2014 to suggest that Australia's bulk grain export supply chains are over-priced. One of the key points of focus for those industry bodies is the finding that "Supply chain costs are 30% of the cost of production".

Viterra was extremely concerned at the reports finding and after carrying out its own investigation, provided a response to AEGIC correcting much of the information upon which the report's findings were based.

Some important points to note about the report are:

- The definition of "Supply Chain Costs" is much broader than any reasonable definition should allow. For example, Supply Chain Costs include industry levies for grower representative groups and research; and

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- The report relies on publicly available data that is relied on by industry as indicative only and so is not an accurate representation of pricing that industry actually uses.

Importantly, the report states that “using the cost comparisons to make judgements about the management and operation of grain supply chains in any region is unwise. For a variety of reasons each region has unique cost structures, so great care is needed in drawing inferences from any regional comparison”.

The report also recognises the “There are differences in supply chain costs between regions. In a uniform case study comparison for 2013-14, WA had the lowest cost supply chain and Qld the highest. There are some sound and legitimate reasons for these cost differences as the cost structure in each jurisdiction is influenced by many factors, some unique to that region.”

Factors that vary across regions can be as diverse as the distance grain is grown from port to the volatility of production. Making comparisons between supply chains is almost impossible.

The report also states that “Comparing these businesses and margins is difficult as they have different ownership structures. Comparing across a small number of years also does not truly reflect the impacts on each business of the variation in grain harvests, grain types (summer and winter crops and grain segregations) and grain prices that must be managed.”

One of the impacts of different corporate structures is that some structures (such as co-operatives) can operate lower cost supply chains because they contribute less tax to the Australian economy than others.

A postscript to the Report was released by AEGIC in June 2014 that made the following headline points:

- Export grain supply chain costs currently are a lesser proportion of the wheat FOB price than was the case in the late 1980s.
- The low spatial density of grain production in Australia increases Australia’s export grain supply chain costs relative to other grain exporting nations.
- Australia’s marked climate variability leads to under-utilisation of storage and freight infrastructure. The costs of under-utilisation add to the costliness of Australia’s export grain supply chains.
- Some path dependencies lessen the cost efficiency of Australia’s export grain supply chains. Some historical investments in freight and storage facilities now weaken the current cost-efficiency of Australia’s export grain supply chains.

Appendix 1 – Additional regulatory oversight

Australian Competition and Consumer Commission (ACCC) – Viterra currently has a Port Terminal Access Undertaking with the ACCC for the provision of port terminal services, pending the introduction of the Mandatory Code of Conduct.

Essential Services Commission of SA (ESCOSA) – oversees the grain bulk loading plants at South Australian ports as well as the below rail infrastructure access (port and rail access).

(ESCOSA and ACCC regulation overlaps and a “carve-out” exists in the Undertaking to give ESCOSA priority over the bulk loading plants at grain ports in SA.)

Work Health & Safety regulation & Safework SA – there are over 700 WH&S regulations that impact on Glencore Grain and Viterra.

Primary Industries (State Govt) – We require commercial operator’s licence for individuals to handle and apply both contact fumigants and gases for commercial use on grain, audit uses of chemicals on grain following reports from detections either domestic or export.

Department of Agriculture (Australian Govt) – Premise licences for both export and import plants, full audits on sites and Authorised Officers for bulk and container inspection and grain inspection for export products.

National Residue Survey – samples required on weekly basis from each plant for chemical residue testing, which also requires Viterra to provide traceability to source suppliers of grain.

Environmental Protection Authority (EPA) – Seven of Viterra’s sites are licenced by EPA.

Department of Health – issues a fumigation licence to Viterra under the Controlled Substances Act.

Department of Planning, Transport and Infrastructure (DPTI) – oversees mass management, last mile access, speed zones

National Heavy Vehicle Regulator – oversees the National Heavy Vehicle Accreditation Scheme (NHVAS) and National Vehicle Chain of Responsibility legislation.

National Measurement Institute – oversees the use and certification of grain measuring instruments, full audits and certification on both inverters and weighbridges, certification of bagging units used for trade purposes.

National Association of Testing Authorities – Viterra’s laboratory testing processes meet or exceed approved standards.

Certifying Authority Licence – the production and assigning of values for Australian Certifying Reference Material.

Grain Trade Australia, Australian Oilseeds Federation and Pulse Australia – Viterra complies with industry quality standards, methods and procedures for classification.

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Australian Maritime Security Authority – control over access to berths

Australian Customs and Flinders Ports

ISO 22000:2005 – independent third party external and internal audits including site inspections and harvest and mid-year audits

Food Safety Australia and New Zealand (FSANZ) – Viterra operates in accordance with FSANZ to ensure that the products Viterra handle are safe for end users, and are withdrawn correctly should there be a food safety issue.

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Appendix 2 – Information currently provided by Viterra

Information provided	Frequency
Shipping Stem	Each business day
Available Shipping Capacity / Practical Port Terminal Capacity	Each business day
Capacity available for immediate shipping	When applicable
Shipping statistics – by port zone/commodity/month	Monthly
Aggregated weekly stock on hand by port terminal – by wheat, barley, canola, other and top 3 wheat grades	Weekly
Daily average road receipts to port terminals	Weekly
Quality statistics for wheat, barley & canola – harvest receipt weighted average quality data, for each standard wheat grade at each site that has received more than 500 tonnes	Daily throughout harvest
Weekly Warehouse Disclosure Report – warehouseurs “opt in” to have their warehoused stock information disclosed to registered storage & handling marketers	Weekly
Weekly Harvest Report & Monthly Receipt Report – Grower receipts into the Viterra storage and handling network	Weekly during harvest Monthly outside of harvest
Clients have full access and visibility of their stocks ownership	Live
Warehouseurs have full access and visibility of their stocks ownership	Live
Grain storage and handling service fees	Annually