

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
CANBERRA ACT 2600

By email to Agricultural.Competitiveness@pmc.gov.au.

Thursday, 17 April 2014

Dear Sir

Australian Grain Growers Co-Operative is a 100% Australian grower owned and controlled grain marketing business operating across South Australia, Victoria and southern New South Wales. As such it is directly impacted by export supply chain inefficiencies which reduce our member grain grower farm gate returns.

The Australian Grains Industry has gone through substantial change over the last 10 years driven by export marketing deregulation. This has resulted in new entrants into grain marketing, and grain growers having a choice of whom to sell their grain, but has also seen growing market power and dominance of marketers owning critical export supply chain infrastructure. In time this will lead to less choice for growers selling grain and lower farm gate returns.

We welcome the opportunity to provide comment on the Agricultural Competitiveness Issues Paper and input to the Federal Governments White Paper on Competitiveness of the Agricultural Sector.

Please find attached our submission regarding issues facing development of efficient and effective export supply chains for the grains industry.

We would also welcome the opportunity to meet with the Taskforce to discuss our comments and other issues raised by the Taskforce.

Yours sincerely,

Stuart Murdoch
Chairman

About Australian Grain Growers Co-Operative (AGG)

AGG is a 100% Australian grower owned and controlled grain marketing business which provides a range of grain marketing products for wheat, malt and feed barley, durum and canola.

Having established in 2007 it has grown to over 590 grower members and purchases grain from over 2,000 grain growers across South Australia, Victoria and New South Wales.

AGG's products offer varied risk management, market exposure, payment options and value – but most importantly they are developed to suit the current marketing requirements for Australian growers.

AGG is as competitive as any other grain marketing business in returning net profit back to shareholders, the difference is, our shareholders can only be Australian growers.

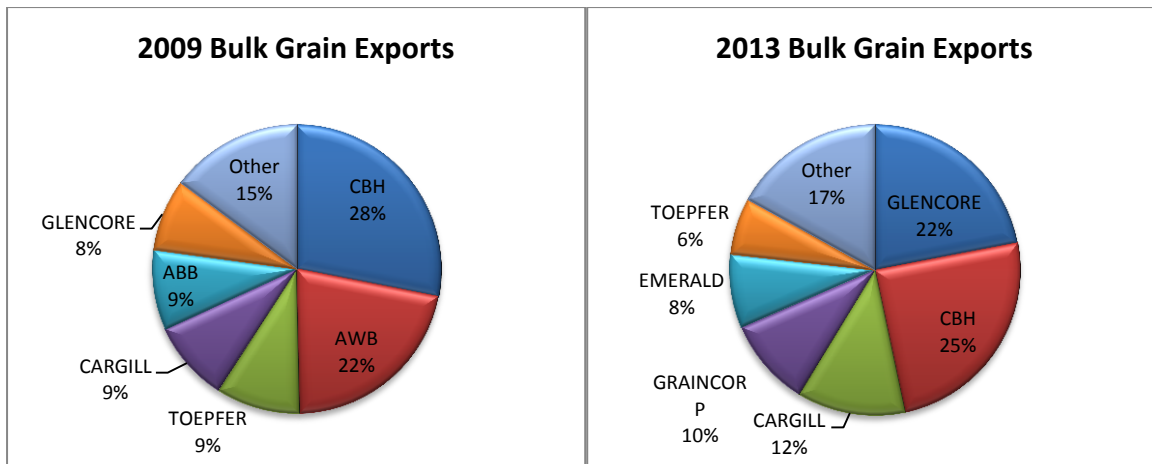
Inefficiencies and hindrances in the supply chain are the biggest hurdles to our members growing and prospering.

Deregulation and Export Supply Chain Impacts

Full deregulation of bulk Australian wheat exports resulted in an expansion in the number of accredited exporters but the grains industry warned of the potential development of "regional" monopolies around the incumbent bulk handling companies. CBH in WA, Viterra (Glencore) in SA and GrainCorp in eastern Australia own and control the export supply chains from country silo to FOB giving them enormous market power which they may wield to their own benefit and to the disadvantage of their competitors.

In our view this has occurred.

From 2009 to 2013 there has been a consolidation in bulk grain exports. The top 5 exporters own and operate significant supply chain infrastructure - CBH in WA, Viterra (Glencore) in SA, Cargill in eastern Australia, GrainCorp in eastern Australia and Emerald in eastern Australia and their market shares are growing to the detriment of other exporters.



In 2013 these companies exported over 19.5 million tonnes of the total bulk tonnage of 25 million tonnes.

EXPORTER	2009	2010	2011	2012	2013
CBH	3,614,291	4,466,848	4,560,526	5,618,366	6,282,987
GLENCORE	1,036,142	1,165,299	3,461,791	4,970,723	5,588,600
CARGILL	1,169,269	884,359	2,268,496	5,296,370	3,073,262
GRAINCORP	749,760	1,349,958	2,754,870	3,304,919	2,494,851
EMERALD	365,653	1,243,269	1,613,607	2,263,816	2,079,157
Other	5,942,876	8,235,544	9,417,998	8,552,278	5,916,550
Grand Total	12,877,991	17,345,277	24,077,288	30,006,472	25,435,407

Glencore is a good example of the growth an exporter can achieve when it acquires critical supply chain assets. In 2009 Glencore had an export market share of some 8%, and by 2013 this had grown to over 20% predominantly through its acquisition of Viterro in 2012/13.

Similar trends can be seen with Cargill and Emerald who acquired AWB GrainFlow in 2011 and ABA in 2012 respectively.

This trend is even more pronounced in the states where these exporters own terminals:

- CBH in WA has about 50% export market share
- Glencore (Viterro) in SA has about 40% market share

- GrainCorp in NSW has about 45% market share

See Appendix 1 for detail.

Supply chain infrastructure owners who are also grain marketers are gaining market share at the expense of non-infrastructure owner exporters.

The development of new terminals is being driven by this linkage – NAT (CBH, Glencore, Olam) in Newcastle, Bunge in Bunbury, Quattro Grain (Noble, Cargill and Emerald) in Port Kembla. However, it is clear that only those exporters with a large balance sheet size are able to participate in such developments.

The overall trend is a reduction in the number of bulk grain exporters. In turn this will lead to fewer buyers for growers to choose from.

Regulation is required to address imbalances in market power between the have and have-nots of critical grain industry supply chain infrastructure.

Terminal Access

It is becoming increasingly difficult for smaller bulk exporters to maintain market share let alone grow. While competitive supply chains are developing in most states access to this critical supply chain infrastructure remains the biggest barrier to growth of smaller exporters such as AGG.

The Wheat Export Marketing Act (WEMA) provided for access regulation to bulk grain terminals to be overseen by ACCC. This is due to sunset on 30th September 2014 and replaced by a Mandatory Code of Conduct. However, the grains industry is yet to see a draft of this Code and there are concerns that with the ACCC's recent decision to exempt GrainCorp's Newcastle terminal from access regulation such a Code may never be implemented.

Terminal access is stacked against smaller marketers. Not only are terminals controlled by competitor marketers but access favours marketers "with deep pockets".

Terminal access is gained through acquiring shipping slots via an auction or first-come first-served process. As it operates in both WA and SA the auction system is open to gaming and favours larger marketers.

Gaming occurs during the auction process whereby larger marketers bid up the cost of a slot then withdrawing their high bids on the eve of closing the auction

potentially leaving a smaller marketer with an extremely costly and potentially loss-making slot. Clearly an extremely bad outcome for smaller marketers who struggle to recover such losses. Once a bid is made it should not be able to be withdrawn.

The refund of auction slot premiums, in whole or in part, encourages overzealous bidding resulting in excessive premiums which favour larger marketers. Non-refundable premiums would encourage more realistic bidding resulting in a truer market derived cost.

All access systems require the pre-payment, by in excess of six months in some cases, of up to 50% of the cost of loading a vessel as a "non-refundable deposit". This is a substantial burden on the available working capital of a smaller exporter. Even once access or a slot is acquired there is no guarantee the terminal operator will provide the service when scheduled which can result in substantial additional shipping costs outside of the control of the exporter.

Unless terminal access remains regulated and fairer there will be fewer bulk grain exporters and grain growers will have less buyers to choose between. The end result will be lower farm gate prices.

Regulation must be implemented to allow fairer and equitable terminal access.

This must consider:

- ***non-withdrawal of auction bids***
- ***no refunds or rebates on shipping slot premiums***
- ***export market share limitations***
- ***reduced payment terms for booking fees***
- ***guarantee of timely ship loading service – ie within the agreed period subject to vessel readiness***
- ***price regulation to ensure infrastructure owners, in particular terminal owners/operators, do not price gouge.***

Appendix 1

Exporter Market Share													
WA													
Year	Cargill	Glencore	CBH	GrainCorp	Emerald	Toepfer	Bunge	AWB	ABB	Viterra	Olam	LDC	Mitsui
2009	9.2%	6.3%	52.4%	0.6%	6.5%	11.1%	0.0%	18.3%	1.4%	0.0%	0.0%	0.9%	0.0%
2010	7.5%	10.9%	46.6%	0.0%	10.9%	7.0%	1.0%	21.5%	2.1%	2.3%	0.0%	0.4%	0.0%
2011	3.1%	16.3%	50.6%	0.0%	13.3%	1.3%	0.0%	6.4%	0.0%	5.6%	0.3%	0.6%	0.0%
2012	12.7%	21.4%	43.2%	0.0%	6.8%	1.5%	0.0%	0.0%	0.0%	2.7%	0.9%	0.6%	1.6%
2013*	11.2%	8.6%	46.0%	0.0%	8.9%	6.0%	1.0%	0.0%	0.0%	0.0%	0.0%	5.4%	2.8%
SA													
Year	Cargill	Glencore	CBH	GrainCorp	Emerald	Toepfer	Bunge	AWB	ABB	Viterra	Olam	LDC	Mitsui
2009	0.0%	22.7%	0.0%	0.0%	0.0%	7.5%	5.5%	20.1%	44.2%	0.0%	0.0%	0.0%	0.0%
2010	3.3%	6.9%	11.3%	0.4%	8.2%	10.1%	3.9%	22.9%	11.9%	15.1%	0.0%	1.4%	0.0%
2011	5.1%	12.6%	9.8%	0.0%	5.4%	11.1%	1.3%	7.9%	0.0%	33.2%	0.0%	7.4%	0.0%
2012	19.3%	14.3%	5.3%	1.9%	6.6%	14.3%	4.0%	0.2%	0.0%	28.7%	0.3%	3.0%	0.0%
2013*	10.2%	39.9%	16.2%	2.3%	8.5%	9.4%	7.3%	0.0%	0.0%	3.9%	0.6%	0.0%	0.0%
VIC													
Year	Cargill	Glencore	CBH	GrainCorp	Emerald	Toepfer	Bunge	AWB	ABB	Viterra	Olam	LDC	Mitsui
2009	24.4%	0.0%	0.0%	0.0%	0.0%	0.0%	15.6%	24.4%	35.6%	0.0%	0.0%	0.0%	0.0%
2010	8.4%	0.0%	0.0%	53.5%	0.0%	8.1%	3.9%	19.3%	3.4%	0.0%	3.4%	0.0%	0.0%
2011	13.0%	18.3%	4.1%	22.5%	6.7%	6.4%	4.1%	13.8%	0.0%	4.5%	3.7%	0.0%	0.0%
2012	25.2%	15.0%	0.8%	20.6%	18.0%	4.5%	7.7%	0.0%	0.0%	0.6%	2.8%	0.0%	0.0%
2013*	14.3%	22.5%	0.8%	12.3%	16.0%	13.3%	3.4%	0.0%	0.0%	0.8%	10.0%	0.0%	0.0%
NSW													
Year	Cargill	Glencore	CBH	GrainCorp	Emerald	Toepfer	Bunge	AWB	ABB	Viterra	Olam	LDC	Mitsui
2009	13.5%	8.1%	9.1%	43.0%	0.0%	0.0%	0.0%	26.3%	0.0%	0.0%	0.0%	0.0%	0.0%
2010	5.2%	0.0%	0.0%	50.1%	0.0%	8.3%	0.0%	26.1%	0.0%	0.0%	6.4%	0.0%	0.0%
2011	25.3%	12.6%	2.4%	41.9%	0.0%	2.1%	0.0%	10.1%	0.0%	0.8%	1.9%	0.8%	0.0%
2012	26.3%	16.1%	0.0%	43.0%	0.0%	0.7%	0.0%	0.0%	0.0%	1.6%	2.9%	4.3%	0.0%
2013*	23.2%	20.9%	0.0%	44.5%	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	0.0%
QLD													
Year	Cargill	Glencore	CBH	GrainCorp	Emerald	Toepfer	Bunge	AWB	ABB	Viterra	Olam	LDC	Mitsui
2009	18.3%	0.0%	7.5%	5.6%	0.0%	15.3%	0.0%	39.3%	0.0%	0.0%	0.0%	0.0%	0.0%
2010	0.0%	0.0%	7.7%	26.6%	1.5%	3.2%	0.0%	29.6%	2.4%	2.1%	15.9%	0.0%	0.0%
2011	9.7%	9.9%	4.4%	15.0%	3.7%	1.2%	0.0%	13.5%	0.0%	11.1%	8.8%	0.0%	0.0%
2012	11.7%	3.7%	0.0%	12.5%	8.2%	4.8%	0.0%	0.0%	0.0%	10.1%	12.8%	0.0%	0.0%
2013*	11.6%	14.8%	0.0%	29.3%	10.1%	0.0%	0.0%	0.0%	0.0%	2.2%	9.1%	0.0%	0.0%