

8 March 2012

Mr David Salisbury
Acting General Manager
Transport & General Prices Oversight
ACCC
By e-mail: transport@acc.gov.au

Dear Mr Salisbury

Re: Vitterra's proposed auction system

We refer to the ACCC consultation paper and thank you for the opportunity to comment on Vitterra's proposed auction system.

Generally we are satisfied that Vitterra has considered most of the key issues and has endeavoured to establish a workable and fair system. We note that Vitterra's level of transparency of the shipping stem is superior to that of CBH.

We are disappointed, however, to find that, despite Vitterra's apparent commitment to the auction system as the "primary" method of allocating scarce port capacity, it has not taken any steps to address the flaws in the auction system which manifested themselves in the CBH auctions this season.

To remind you, the CBH auctions experienced dramatic withdrawals of demand after the premiums had been bid up. This created a large quantity of what CBH call "overshoot" ie unallocated capacity which was then allocated under the FIFS system, thereby circumventing the auction system as the "primary" method of capacity allocation and creating uneven supply chain costs on exporters as a by-product.

Emerald suggests that this apparent 'gaming' can be eliminated by the following improvements:

1. Premium re-adjustment
The premium should be allowed to fall as well as increase during the auction. For example the Tradeslot software could relatively easily be adjusted to incorporate this business rule:
If the demand of a concluded auction withdrawn in the concluding round of an auction exceeds 500K tonnes the premium will be re-adjusted to the premium that would have applied when supply met adjusted demand assuming the amount of withdrawn demand had not been bid at all.
2. Re-auctioning
If the amount of the overshoot exceeds more than (say) 200K tonnes of capacity it should be re-auctioned rather than allocated through the FIFS system. The industry is prepared to have weekly auctions if this means that the allocation system is fairer.
3. Transparency and credibility
If points #1 and #2 are not adopted then at the very least where the overshoot is greater than, say, \$200K tonnes:
 - There should be clear priority rules to deal with a situation where demand will exceed supply in the FIFS system. For example does a booking lodged before opening take priority or is it invalidated?

- The results of the FIFS system should be published shortly after allocation. While, ultimately, the results can be ascertained by a comparison of the pre-allocation and post-allocation shipping stem this is time consuming and inefficient for the industry.
- An independent party should certify that the priority rules have been observed for each overshoot allocation event.

We appreciate that the timeframes for Viterra to implement its auction system are tight and that Viterra will understandably be likely to resist significant changes to the model of the CBH auction system. However this approach will simply lead to the perpetuation of a flawed system.

Yours sincerely

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