

24 April 2015

**We are of the view that in order for markets to operate most efficiently with minimal price distortions across port zones the industry needs a consistent and national “whole of supply chain” approach to the port access model.**

#### **Why is consistency important?**

- When the rules of port access are not consistent between ports the potential exists for each port access code to influence the competitive forces at play in the respective market. Exporters are influenced not just by supply, demand, quality, transport; but also by the cost and risk of loading a ship.
- The consistency needs to apply not just to the model but to the exemptions granted within it.

An example of the potential impact of inconsistency:

In 2014/15 both SA and WA operated an auction model. However they were not identical. These differences have at times influenced how the SA and WA markets behave. Whilst WA is expected to trade at a premium to SA reflecting cheaper supply chain costs to offshore clients, since harvest WA values have been sustained above what would be considered a “natural” spread.

**A “consistent” approach to port access rules would limit the amount of price distortion arising between markets as a result of port access arrangements.**

#### **What do we mean by “whole of supply chain”?**

- The port is just one part of a complex supply chain which moves grain from the producer to the end consumer.
- A state by state or a port by port assessment of port access arrangements is insufficient to fully understand the potential impacts of the regulatory environment.
- Grain flows not just within states and ports but between them. The interconnectedness of parts of the Australian supply chain means a change in regulation at one port could influence the flow of grain towards another port, potentially another state.

#### **What are some of the key elements required in any national approach to port access?**

Ultimately the shipping capacity system is about allocating scarce resources amongst market participants. Below are some of the criteria we feel are critical to creating an efficient market place for shipping capacity.

##### **1. Transferability**

Regardless of how a shipping slot has been allocated we feel the ability to transfer or trade a slot in a secondary market place is critical to the efficient allocation of export capacity.

##### **2. Access for new entrants**

Any allocation system needs to allow new participants to enter and exit the market freely and fairly.

##### **3. Equal access to information**

a. Information like the current shipping stem published by each bulk handler provides all market participants with equal access to information about port capacity, however not provided by some new entrants in the Australian port space. This information creates a more transparent market place and helps all participants make better decisions about participating in the market. The provision of such information must be continued under any revised protocols or else the organisations that operate the facilities will have an information advantage over other participants, ultimately creating a loss of competition. The information advantage currently being held by a number of other port service providers also needs to be corrected.

b. Additionally we consider that ownership (or more accurately “capture”) of the “soft assets” in the supply chain are equal in importance to the “hard assets” of ports, rail and storage. Far too little attention is being directed at what is a continuing inhibition to a competitive grain market as a result of the dominant information advantage (stocks, quality, location etc) held by a few network owners (who by and large do not own the stock in their systems).

With particular regard to the ACCC draft determination on Victorian wheat ports exemption assessments

- We strongly urge the ACCC to comprehensively assess the potential impact of granting an exemption to GrainCorp’s Geelong port terminal and Emerald’s Melbourne port terminal and not GrainCorp’s Portland port terminal on the competitiveness of the supply chain. What potential price distortions may this create?
- What is the risk that an inconsistent approach within the Victorian market place and the related South Australian and Southern New South Wales market place, will create price distortions as a result of a rules based port system rather than grain flowing to least cost supply chains.

Whilst reviewing port access undertakings at a state level may make it feel more “manageable” a national approach is required to ensure the port access models are as consistent as possible and no one market is advantaged at the expense of another.