

# Viterra Operations Pty Ltd

**Application under clause 5(2) of the Port Terminal Access (Bulk Wheat) Code of Conduct for exemption from Parts 3 to 6 of the Code in respect of Viterra's port terminals in South Australia**

**Response to request for information (Question 9)**

**Public Version**

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## Viterra Operations Pty Ltd - Response to ACCC RFI dated 14 November 2019

This document sets out Viterra's response to Question 9 of the ACCC's email to Viterra dated 14 November 2019.

### Question 9: Catchment zones

Could Viterra please provide information which details the extent to which different upcountry sites deliver grain to different parts of SA, or other states, across various seasons. This could include: (a) quantitative and/or spatial data on where grain from different upcountry sites is transported to; (b) documentation which shows actual/expected movement of grain throughout various seasons; (c) examples (anecdotal or otherwise) of the variability of grain movement; (d) any relevant information regarding factors such as grain prices, shipping costs, freight costs; and (e) any other information Viterra considers relevant.

#### 1. Summary

As set out in our application for exemption from Parts 3 to 6 of the *Port Terminal Access (Bulk Wheat) Code of Conduct (Code) (Application)*, traditional "catchment zones" for grain grown in South Australia are fluid and increasingly outdated constructs. Traders purchase grain from, and traders and growers move grain to, the locations where it is most profitable having regard to the price of grain that can be obtained in domestic and export markets, the cost of freight to port terminals (or to domestic customers), the cost of sea freight, and the cost of using a particular port terminal.

The breakdown of traditional catchment areas can be shown by the delivery and outturn of grain to supply chains outside of South Australia in response to changing market conditions and also by the delivery of grain to port terminals (in South Australia or Victoria) that are not the closest port terminal to the area where the grain is produced.

The entry of new port terminals, up-country storage facilities and supply chains in South Australia will further increase the choices for where grain is delivered in future years.

#### 2. Delivery and outturn of grain to regions outside traditional "catchment zones"

Grain grown in South Australia is increasingly being delivered to regions outside of what were historically considered to be traditional "catchment areas".

##### **Viterra is receiving and outturning smaller proportions of South Australian grain**

Historically, grain grown in South Australia was mainly delivered using Viterra's supply chain and to Viterra's port terminals (or to port terminals in neighbouring Victoria) for shipping. However, this has changed and will continue to change with an increasingly lower proportion of South Australian grain being delivered into Viterra's supply chain, and an even lower proportion being exported from Viterra's port terminals. This is due to the entry of alternate supply chains and the flexibility of market participants to react to changing economic conditions across Australia.

Of the grain produced in South Australia in 2018-19, [c-i-c] was delivered by growers into Viterra's supply chain. This was a [c-i-c] reduction from 2017-18. With the significant increase in competing storage and port terminal shipping capacity in South Australia, the ability to store grain on farm, and the increased ability to transport grain to other destinations, Viterra expects that there will continue to be a decline in the amount of South Australian grain delivered to

Viterra's storage sites. In addition, it is expected that volatile climatic conditions will continue into the foreseeable future, such that delivery direct to other demand points will continue.

The amount of South Australian-produced grain that is exported through Viterra's port terminals has also declined in recent years. In 2018-19, only [c-i-c] of total South Australian production was exported through Viterra's port terminals. This is expected to fall a further [c-i-c] in 2019-20.

Table 1 shows that, over the past three years, the proportion of South Australian grain exported from Viterra's port terminals has varied [c-i-c] with significant variations year on year. The downward trend since 2018-19 is expected to continue.

### [c-i-c]

#### **Grain moves in response to economic conditions**

Within South Australia, grain is often delivered or outturned out of narrowly defined traditional "catchment areas" into other regions in response to pricing and to optimise efficiencies. This is illustrated below by movements of grain within Viterra's system to different parts of the Eyre Peninsula and movements between the Yorke Peninsula and Adelaide. In addition, South Australian grain will move outside of South Australia if economic conditions make this more profitable. This includes to Victorian supply chains, and to the East Coast for domestic consumption.

Grain is moved to where it is most profitable for the grower or trader. This will not necessarily be determined by distance to receival site or port but rather the net return based on the price on offer at alternate destinations less the costs incurred to access these prices. Growers and exporters continuously monitor economic conditions to determine where it is most profitable to deliver grain.

A number of factors (in particular, prices, costs and efficiency considerations) typically determine whether a grower or trader will deliver/outturn grain to:

- **the nearest facility or port (Viterra or another provider)**, as distance is one of the cost drivers;
- **a storage facility or port terminal within South Australia that is not the closest in distance (Viterra or another provider)**. This commonly occurs and changes year on year, as shown by our analysis of outturns to Thevenard and Port Lincoln over the past three years (see below);
- **interstate supply chains**, in particular in Victoria. As set out in Appendix A of the supplementary CRA report (**CRA Supplementary Report**), some producers in South Australia (particularly, in the eastern region) can economically transport wheat to supply chains in Victoria in response to price changes. For example, the price that can be obtained for grain delivered to Viterra's Outer Harbor port terminal (**OHB**) varies significantly at different times to the price that can be obtained for grain delivered to GrainCorp's Geelong port terminal. In the past 4 years, grain prices for OHB have varied from a [c-i-c] This is an important factor for South Australian growers (particularly, in the eastern region) in deciding where to deliver as well as for traders in determining where to price grain; and/or
- **the domestic market**. In 2018-19 and 2019-20, grain moved to the east coast in large quantities due to drought conditions. This is not a unique or "shock" market event. Droughts and climate-related events are becoming increasingly regular in Australia and it is likely that the domestic market will continue to be affected by these in the coming

years. In any event, the movement of grain to the east coast as a result of better pricing terms to be received for growers and traders is in itself evidence that grain will move in response to changed economic (including pricing) conditions.

These different movements of grain in response to economic conditions (including in recent years, the ability to obtain a better price for domestic sales than for export) illustrates that, if Viterra's prices are too high or Viterra is otherwise inefficient compared to alternative delivery paths, growers and exporters will look to move grain through those alternative paths. This may be as a result of higher grain prices in other regions, lower port terminal service fees at other Australian ports, or because of more efficient offerings by other Australian port terminal or storage providers.

These movements of grain away from "traditional catchment areas" occurs across all of the South Australian production regions.

**(a) Adelaide region**

Grain is commonly delivered or outturned from the Adelaide region to sites outside of what has been considered the traditional Adelaide catchment zone. This includes delivering and outturning grain to bulk grain port terminals on the Yorke Peninsula and in Victoria, for export by container as well as, more recently, to the east coast, for domestic consumption.

The proportion of grain that was grown in the Adelaide region and exported from Inner Harbour (IHB) and OHB was [c-i-c] in 2017-18 and only [c-i-c] for 2018-19. Viterra expects that [c-i-c] of grain grown in this region will be exported from IHB and OHB in 2019-20.

**(b) Yorke Peninsula**

Grain is commonly delivered or outturned from the Yorke Peninsula to sites outside of what has been considered the traditional Yorke Peninsula catchment zone. This includes delivering grain to the Adelaide region and/or outturning grain to Port Adelaide (where Viterra faces competition from LINX and Semaphore), as well as, more recently, delivering to the east coast, for domestic consumption.

The amount of grain grown on the Yorke Peninsula that was exported from Wallaroo and Port Giles was [c-i-c] of production for this region in 2017-18 but only [c-i-c] for 2018-19. Viterra expects that [c-i-c] of grain grown in this region will be exported from Wallaroo and Port Giles in 2019-20.

**(c) Eyre Peninsula**

In 2018-19, the proportion of grain grown on the Eyre Peninsula that was exported through Thevenard and Port Lincoln was [c-i-c] less than 2017-18. It is likely that this grain was delivered to the east coast. Viterra expects that [c-i-c] of grain grown in this region will be exported from Thevenard and Port Lincoln in 2019-20.

In our meeting with the ACCC on 19 November 2019, the ACCC questioned whether the traditional "Eyre Peninsula" catchment zone may potentially be narrower, with some areas in the far west being in a special position and only able to deliver to Thevenard. However, it is clear that growers in the west of South Australia (and traders that buy their grain) are able to deliver to port terminals that are further away than Thevenard where this is more profitable. In fact, this commonly occurs.

Historical patterns of grain movement from the west of South Australia show that grain is not necessarily transported from an up-country site in the west to the closest port terminal (being Thevenard). Rather, grain is moved from up-country sites to the port terminal (or domestic customer or container supply chain) that offers the most efficient supply path for an exporter.

In the past 4 years, Glencore Agriculture has priced grain exported through Thevenard anywhere between a [c-i-c] compared with Port Lincoln. Depending on price relativities, growers that are closer to Thevenard can and do regularly deliver to Port Lincoln.

This is illustrated in Table 2, which shows storage sites that are situated nearest to Thevenard.<sup>1</sup> Grain is delivered from these sites to both Thevenard and Port Lincoln and varies year on year, indicating that there are factors, beyond distance to port, that influence an exporter's outturn decision.

[c-i-c]

### 3. Feedback from exporters

[c-i-c]

#### 4. ACCC must take grain movements into account when considering the extent to which catchment areas exist (and, if so, their boundaries), and must also consider the competition that exists within any catchment "boundaries"

Notwithstanding the information set out above, if the ACCC continues to adopt the view that catchment zones exist to some extent, then it must recognise that the boundaries of these "zones" are no longer fixed and are influenced by market conditions within South Australia, and more broadly within Australia and overseas. It will therefore be important for the ACCC to take into account the fact that grain is commonly moved between the Yorke Peninsula and Adelaide regions and between different parts of the Eyre Peninsula.

In addition, it will be important for the ACCC to consider the fact that competition exists across and within these regions, including the following competition:

##### (a) Adelaide region

Viterra competes with Semaphore and LINX at Port Adelaide and ADM at Port Pirie for the receipt of grain grown in the Adelaide region and on the Yorke Peninsula. Cargill will shortly commence new operations at Berth 20 at Port Adelaide. Together, on a conservative estimate of the total capacity for these port terminals (2.12 mtpa)<sup>2</sup> would be sufficient to export approximately 55% of grain produced in the Adelaide region in 2017-18, and almost all of production in this region in 2018-19.

Viterra expects that only [c-i-c] of Adelaide production will be exported through IHB and OHB in 2019-20 (which is similar to 2018-19).

##### (b) Yorke Peninsula

Viterra competes with ADM at Port Pirie and other Adelaide ports. ADM has started storing and exporting grain at Port Pirie on the Yorke Peninsula with its first receipt of

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<sup>1</sup> See also Attachment 1, which sets out the locations of Viterra's storage sites.

<sup>2</sup> See CRA Supplementary Report.

grain in October 2019 and its first export in November 2019.<sup>3</sup> In addition, as set out above, grain from the Yorke Peninsula is commonly exported from Port Adelaide, which has two, and shortly three, competing port terminal operations.

In addition, T-Ports is constructing a competing port terminal at Wallaroo, which is expected to have 500,000 tonnes of throughput and 282,000 tonnes of storage. T-Ports has stated that construction of the port is likely to begin in 2020, with the site to be operational in 2021.<sup>4</sup> As competition intensifies on the Yorke Peninsula, we expect that the proportion of grain grown on the Yorke Peninsula that is exported through Viterra's port terminals will continue to decline.

Viterra expects that around [c-i-c] of Yorke peninsula production will be exported through Wallaroo and Port Giles in 2019-20.

### (c) Eyre Peninsula

Viterra now competes with T-Ports on the Eyre Peninsula. Grain produced on the Eyre Peninsula can readily be delivered to Lucky Bay (noting that grains stored closer to Thevenard is already commonly delivered to Port Lincoln). As set out in our Application and in the CRA report accompanying our supplementary submission, T-Ports has sufficient shipping capacity to accommodate all competitor exports from the Eyre Peninsula in each of 2016-17 and 2017-18.

Lucky Bay also has a significant amount of storage at port (360,000 tonnes) and up-country at Lock (140,000 tonnes). In regard to this storage, T-Ports has stated that "*[t]he Lock site has been strategically located to ensure easy access for growers regardless of which direction they approach from. There have been extensive roadworks as part of a major upgrade to the intersection of the site entry with the Tod Highway, ensuring safe and easy access*".<sup>5</sup> T-Ports therefore provides a competitive storage and port terminal service option for grain grown on the Eyre Peninsula including the North West of the peninsula (noting that grain in storage sites closer to Thevenard can easily be and is already exported through Port Lincoln).

Viterra expects that around [c-i-c] of Eyre Peninsula production will be exported through Thevenard and Port Lincoln in 2019-20.

In addition, new port terminals, including at Cape Hardy (which has received Federal government support of \$25 million) and Port Spencer, are being proposed for this region as set out in our Application, which will add further competitive pressure on Viterra.

As explained in the CRA Supplementary Report, together the current competitor port terminals (including Lucky Bay) have sufficient shipping capacity to accommodate all competitor exports through South Australian in 2016-17 and 2017-18.

Each of these port terminals is a viable option not only for grain that is stored on farm or in competitor facilities, but also for grain that is stored in Viterra's up-country sites. Outturn of

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<sup>3</sup> <http://www.admgrain.com.au/news/details/new-grain-option-at-port-pirie>; <http://www.admgrain.com.au/marketing-options/port-pirie-site>

<sup>4</sup> <https://tports.com/wallaroo/>

<sup>5</sup> <https://tports.com/lucky-bay/>

grain from Viterra's facilities to competitor port terminals (or the domestic market) has occurred regularly in South Australia.