

FREE EYRE

THE CASE FOR AN ALTERNATIVE GRAIN EXPORTING INFRASTRUCTURE IN SOUTH AUSTRALIA AND ON THE EYRE PENINSULA.

South Australia remains the only state in Australia where all grain-exporting infrastructure is owned and controlled by a foreign owned monopoly. As a direct consequence, the State's grain producers are charged the nation's highest (and escalating) combined storage, handling and exporting fees, thus eroding their international competitiveness.

The Eyre Peninsula's grain growers are further disadvantaged due to their geographical isolation from domestic markets. Thus, the need for competition in South Australian and Eyre Peninsula grain storage, handling and exporting is overwhelming.

BACKGROUND FACTS

- SA grower-owned SACBH was purchased by Canada-based Viterra in 2009 and Viterra was bought by Glencore in 2013.
- Glencore through Viterra consequently owns and controls all grain exporting terminals in SA and over 80% of the up-country grain storage facilities.¹
- Viterra controls the export of grain, the application of charges, terms and conditions from SA – to the detriment of grain growers' competitiveness and with the effect of suppressing competition amongst exporters and grain marketers.
- SA exports 80% of its grain production and is best compared to Western Australia, where in both cases, there are very limited domestic markets.
- South Australian grain storage, handling and exporting charges have increased by 34% in the last 5 years, since Viterra purchased SACBH.²
- Depending upon the month of shipment, from farm gate to ship, SA grain growers are charged between \$11 per tonne and \$17 per tonne more than grain growing colleagues in WA.³
- On an average SA crop of 7 million tonnes, the excessive charges amount to between \$77m - \$120m being worn by SA growers vs WA growers. This amounts to between 5% and 8% of the average total crop value.
- The introduction of Viterra port capacity auctions has seen exporters bidding up to \$50 per tonne to secure port access at certain times of the year.⁴ To quote the 17 September 2014

¹ Source: AEGIC Key Supply Chain Businesses [Page 11](#)

² Source: South Australia Grain Growers Association

³ Source: AEGIC Regional Comparison of Supply Chain Costs [Page 7](#)

⁴ See [Viterra Auction Information Pack](#).

FREE EYRE

Submission by ADM Trading Australia Pty Ltd: *“The Vitterra Auction system in particular encourages gaming and does not have an appropriate mechanism to limit premiums and close off Auctions when the total demand is within equilibrium of the total capacity offered.*

- SA grain growers currently enjoy a modest sea-freight advantage into South-East Asia compared with USA, Canada or Ukraine to critical Asian markets for its high quality grain (circa US \$10 per tonne.) The freight advantage is minor for North Asia.
- Emerging competitors including Ukraine, Russia and Kazakhstan in the Black Sea region enjoy a substantially lower freight costs to critical markets for Australian grain in the middle-east.
- SA’s favourable sea freight costs are being threatened by increasing volumes coming out of low-cost producing nations such as in the Black Sea region.
- The ever increasing grain storage, handling and exporting costs levelled by the incumbent monopolistic operator are a major cause of the erosion of SA grain grower’s competitiveness.
- With 70% of Australian wheat exports currently destined for the Asian market, remaining cost competitive will be critical to maintaining market share.

If no action is taken to address the inefficiencies / lack of competition in the local grain supply chain, SA’s competitiveness will continue to be eroded.

Improving the EP’s competitiveness and economic growth through new and improved infrastructure

An alternatively owned and controlled grain storage, handling and exporting facility for the Eyre Peninsula is desperately needed to bring about competitive reduction in charges borne by growers and exporters.

It is anticipated that, once established, such competing infrastructure would have an immediate effect on the existing charges applied to all farmers and exporters, irrespective of where grain was exported from the EP. A conservative saving of \$10 per tonne (through reduced freight and terminal logistics costs) could be expected be applied to all grain handled on the Eyre Peninsula. With an average EP crop of 2.5 m/tons, this equates to a saving of \$25 million per annum for the EP’s grain growers.

Infrastructure solutions to be considered for the Eyre Peninsula

1. Lucky Bay – Wallaroo

T: +61 8 8232 9266 F: +61 8 8232 2065 FREE CALL: 1300 FREE EYRE (1300 373 339)

E: info@freeeyre.com.au W: www.freeeyre.com.au ABN: 18 124 308 041

FREE EYRE LIMITED: Level 1, 33 Hutt Street, Adelaide S.A. 5000



FREE EYRE

Sea Transport's Lucky Bay Wallaroo bulk-commodity barging / transshipping proposal is of great significance and offers real opportunity to bring about export competition for the SA grain industry, and with approvals and funding is expected to be operational for the 2015 grain crop.

2. Thevenard

Grain producers in the north-west of the Eyre Peninsula, the Thevenard catchment zone, are under even greater margin squeeze than other EP/SA producers. The comparatively shallow channel that links the Southern Ocean with the Port of Thevenard limits the size of grain vessels able to load at Thevenard. As a consequence farmers and exporters are burdened with a Two Port Loading fee (circa \$10/ton) and consequently limited trade liquidity (ie the willingness of the trade to compete for grain grown and stored in the region) or the significant transport cost of trucking grain to Pt Lincoln (up to \$40/ton)

Upgrading Port Thevenard precinct to the status of a Deep Sea Port would involve an upgrading of the Wharf and loading equipment, plus the need to dredge the existing channel to handle Handymax size vessels (35,000 to 40,000 Mt).

A modern transshipping solution, similar to that proposed at Lucky Bay, should also be considered for the Thevenard zone. Such a system may allow the servicing of Handymax and Panamax vessels without the need to dredge the existing channel and could be independent of the existing infrastructure ownership.

3. Port Spencer and Cape Hardy proposals

Several proposals exist for new multi-commodity (iron ore and grain) exporting facilities along the east coast of the Eyre Peninsula – Port Spencer & Cape Hardy.

Whilst applauding these proposals and the willingness of these exploration companies to engage with the grain industry, grain growers have almost no capacity to influence their development. The current depressed nature of iron ore prices is causing further pressure on these proposed projects. Nonetheless, should either project proceed, grain grower groups should strongly consider being involved in creating a grain handling and export facility at these sites.

4. The Lukin Quays Development, Pt Lincoln

The preferred site for a new fishing industry facility in Pt Lincoln, the old BHP wharf at Proper Bay, abuts land owned by the Lukin family business Port Lincoln Proper Pty Ltd. The company also has a water lease in Proper Bay. The proposed wharf redevelopment is part of a wider *Lukin Quays* plan to develop the 118-hectare site with two pockets of residential development, an industrial area and a new western link road.

T: +61 8 8232 9266 F: +61 8 8232 2065 FREE CALL: 1300 FREE EYRE (1300 373 339)

E: info@freeeyre.com.au W: www.freeeyre.com.au ABN: 18 124 308 041

FREE EYRE LIMITED: Level 1, 33 Hutt Street, Adelaide S.A. 5000



FREE EYRE

The wharf proposal is part of a larger project to develop adjacent land to provide the investment capital, which includes an industrial precinct that may be suitable for agricultural related infrastructure (grain export, fertiliser import). The plan includes a new western link road to help address traffic problems in the Port Lincoln CBD

SUMMARY

Due to the monopolistic ownership of the Eyre Peninsula's and South Australia's aging grain storage, handling and exporting infrastructure, supply chain costs continue to escalate beyond the prices with which grain produced in the region are rising – thus, grain production profitability and international competitiveness continues to reduce.

Grain producers, exporters and governments must take affirmative action to explore, co-invest and support the upgrade of existing export infrastructure and the development of at least one new grain exporting facility on the Eyre Peninsula. Only with these actions will they bring about urgently required competition and thus exert a favourable impact on spiralling grain logistics and exporting costs, transparency and flexibility of exporting grain from the Eyre Peninsula and State of South Australia in general.

If through a competing grain exporting channel on the Eyre Peninsula, charges were to be reduced by \$10/ton, the Peninsula's farmers would save around \$25 million per annum.

Representing 500 Eyre Peninsula farmers and over 75% of the grain produced on the Eyre Peninsula, FREE Eyre is mandated by its shareholders to spearhead a program to unite growers, exporters, investors, community and governments to bring about economical and socially feasible solutions to the current infrastructure and competition shortfalls that are impeding our region's future competitiveness.

The company believes that each of the above-mentioned opportunities needs to be diligently explored and prioritised and only those with commercial and financial feasibility progressed. FREE Eyre proposes to conduct a survey of Eyre Peninsula grain growers and their attitude towards investing in a grower owned Infrastructure Fund that would have the capacity to invest / co-invest in grain storage, handling and export infrastructure.

RECOMMENDATION

T: +61 8 8232 9266 F: +61 8 8232 2065 FREE CALL: 1300 FREE EYRE (1300 373 339)

E: info@freeeyre.com.au W: www.freeeyre.com.au ABN: 18 124 308 041

FREE EYRE LIMITED: Level 1, 33 Hutt Street, Adelaide S.A. 5000



FREE EYRE

That Free Eyre Limited and other like-minded stakeholders join together in planning a cost-effective alternative grain storage, handling and exporting facility in competition to the existing monopolistic exporting structure in place South Australian.

T: +61 8 8232 9266 F: +61 8 8232 2065 **FREE CALL: 1300 FREE EYRE (1300 373 339)**

E: info@freeeyre.com.au W: www.freeeyre.com.au **ABN: 18 124 308 041**

FREE EYRE LIMITED: Level 1, 33 Hutt Street, Adelaide S.A. 5000

