

SUBMISSION

Victorian Port Terminals: Exemption from Port Terminal Access (Bulk Wheat) Regulation

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GrainCorp



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1. BACKGROUND

GrainCorp Operations Ltd (**GrainCorp**) makes this submission to the Australian Competition and Consumer Commission (**ACCC**) in support of its application for an exemption for GrainCorp's Geelong Port Terminal Facility (**Geelong Port Terminal**) and Portland Port Terminal Facility (**Portland Port Terminal**) under the new Port Terminal Access (Bulk Wheat) Regulation 2014 (**the Code**).

GrainCorp is proud of its track record as a provider of port elevation services for bulk grain exporters wishing to access its port infrastructure, before and after access regulation was introduced in 2009.

GrainCorp is vertically integrated as a port service provider and an exporter of grain in Victoria. However GrainCorp's ability to exercise market power in Victoria is limited given:

- Strong competition from competing alternative domestic and container packing markets, combined with excess country and packing capacity, for the majority of Victorian grain.
- Strong competition in the provision of port elevation services for bulk grain from Emerald's Melbourne Port Terminal (**MPT**) at Melbourne, and the planned Bunge Terminal (**Bunge Port Terminal**) at Geelong, combined with competition from Glencore Port Terminals in Adelaide.
- Excess port elevation capacity (and excess country storage capacity) where GrainCorp is commercially incentivised to maximise throughput at its Port Terminals.

GrainCorp contends that granting an exemption for its Geelong and Portland Port Terminals will:

- Place GrainCorp on a level playing field with alternative and competing markets (the majority domestic and container packing markets) that are not subject to regulation.
- Promote grain industry competition by allowing GrainCorp to provide competitive services to exporters for bulk grain exports.
- Support lower supply chain costs by allowing GrainCorp to operate its Port Terminals flexibly and invest in improving its port and supply chain infrastructure.

The need for regulation of the Victorian Port Terminals for the export of bulk grain was previously assessed by the Essential Service Commission of Victoria, which recommended its removal. Their report, *Review of Victorian grain handling and storage access regime (May 2010)*, found:

The conclusions in this Review are broadly similar to those previous conclusions, which do not present a strong case that access to prescribed services at a particular terminal would be 'essential' for market participants given the degree of substitutability between alternative options:

- *the MPT had established itself as a major participant in the industry, enabling at least the larger marketers (but perhaps not smaller marketers to the same extent) to substitute between terminals, i.e., access to a particular terminal may not be essential,*
- *although the increased degree of integration of the grain supply chain has assumed increased importance, and is coupled with wheat market deregulation which lessens the countervailing power of grain marketers, this has blurred the degree to which the grain terminals themselves are to be considered bottleneck facilities, and to what extent integrated supply chains form the relevant bottlenecks,*
- *other supply chain options such as containerisation, appear to provide viable alternative options for marketers of some minor grains.*
- *Given this degree of substitutability between terminal services or supply chains, in the Commission's preliminary assessment.....These conclusions tend to indicate that the Victorian export grain terminals are no longer "significant infrastructure facilities"*

The export of bulk grain from Victoria since this review in 2010 now faces more competition with the growth of container exports and the entry of new operators.

2. COMPETITION CONSIDERATIONS IN VICTORIA

GrainCorp faces a very competitive market in Victoria with significant excess capacity. Numerous substitutable grain supply chain alternatives are available to grower and buyers.

The legitimate business interest of GrainCorp as a port terminal service provider

GrainCorp's Port Terminals at Geelong and Portland faces:

- Variable grain production and receivals and even more variable bulk export task;
- Strong demand from domestic end-users, limiting surplus grain for export;
- Strong demand from container packers, further limiting surplus export grain for bulk export;
- Strong competition and excess capacity at each step of the grain supply chain.

Granting an exemption to GrainCorp's Geelong and Portland Port Terminals would:

- Allow GrainCorp to compete commercially for the export of bulk grain;
- Support operational flexibility to improve service and reduce supply chain costs;
- Provide equity with the competing export container packers that are not regulated; and
- Reduce the level of regulation and cost of compliance.

The interests of exporters who may require access to port terminal services

GrainCorp has exported on average 1.54 million tonnes of bulk grain from its Victorian Port Terminals as shown in the table below. Based on exports for the past 5 years (post removal of the single desk) the largest 6 exporters represent around 90% of total exports, they are:

- GrainCorp Marketing with 0.5Mt (32%)
- Cargill (22%)
- Glencore (19%)
- ADM (13%) and
- Emerald (10%).

Figures for the last 10 years are shown in Figure 1 below.

Figure 1. Commodity Metrics – GrainCorp Victorian Port Terminal Exports

Million tonnes			Drought								10 Year Adj Average	
Customer	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Average	Share
											0.49	32%
											0.34	22%
											0.30	19%
											0.13	9%
											0.10	6%
											0.19	12%
Total	0.95	1.64	0.32	0.13	0.22	0.57	2.75	3.69	2.90	2.23	1.54	100%

Most of GrainCorp's export customers have access to alternative supply chains, where the major export customers (Glencore, Cargill and Emerald), representing 70% of non-GrainCorp Marketing export volume own and operate or have access to alternative country and export capacity.

- Emerald owns the MPT bulk export facility in Melbourne with container packing capability.
- Glencore owns bulk export terminals at Port Adelaide, which provide an alternative route to market for grain originating from western Victoria.

- Glencore also has large container packing facilities in Laverton and Dooen (near the South Australian border) with total storage estimated at 500,000 tonnes (GrainCorp estimates).
- All exporters will have access to Bunge's planned new Port Terminal at Geelong.

The likelihood that exporters of bulk wheat will have fair and transparent access to port terminal services; the promotion of the economically efficient operation and use of the port terminal facility; promotion of efficient investment in port terminal facilities.

Strong competition within country and export grain infrastructure across Victoria constrains GrainCorp's ability to favour its internal Marketing business. Furthermore, exporters are readily able to access alternative and competing supply chains. The significant excess capacity in the grain supply chain commercially incentivises GrainCorp to maximise throughput.

GrainCorp is commercially incentivised to provide fair access to its Victorian Port Terminals for all exporters as it faces strong competition from alternative markets for grain and significant excess port elevation capacity:

1. Strong domestic and container demand - the bulk grain export market competes with the unregulated and cost competitive domestic and containerised grain export markets. Most of Victoria's average grain production (at least 60%) is consumed locally or exported in containers. Accordingly, GrainCorp is commercially incentivised to attract export grain into its Geelong and Portland Port Terminals.
2. Significant excess capacity - Victoria will have, with the new Bunge Port Terminal, 7Mt of annual elevation capacity to handle an average bulk grain export task of 2.1Mt (10 year average), with average utilisation of 30%. Accordingly GrainCorp is commercially incentivised to attract other exporters into our Geelong and Portland Port Terminals.

The promotion of competition in upstream and downstream markets

Competition and excess capacity along the whole supply chain, combined with low barriers of entry, will protect competition for grain and limit any exercise of power at GrainCorp's Geelong and Portland Port Terminals:

- Strong competition and excess capacity in country storage. There is an estimated 14Mt of storage capacity to service an average crop of 5.3Mt.
- Growers have a range of marketing options for their grain including to the domestic milling sector, processor and feed lot operators, container packers and bulk export markets. The domestic and container markets have the ability to pay a higher price than the bulk export market due to less supply chain infrastructure and access to back loading road rates.

All GrainCorp's major export customers are large multinational traders that are many times larger than GrainCorp with access to significant capital and overseas grain markets. They have demonstrated their financial ability, despite excess port capacity, to build and invest in new port terminals:

- CBH, Olam and Glencore investing in a new port terminal at Newcastle (NAT), and
- Noble, Emerald, Cargill and Qube building a new port terminal at Port Kembla (Quattro).

The barriers to entry for new port terminal elevation capacity are low. In Victoria potentially an additional 1Mt of new port elevation capacity could be developed by large multinational grain traders:

- Emerald expanding the capacity of their MPT Port Terminal in Melbourne;
- Bunge having the ability to expand their new Geelong Port Terminal; and
- There is also speculation that Cargill and Emerald are in detailed discussion with Quattro and the Port of Portland to build a new port terminal at Portland.

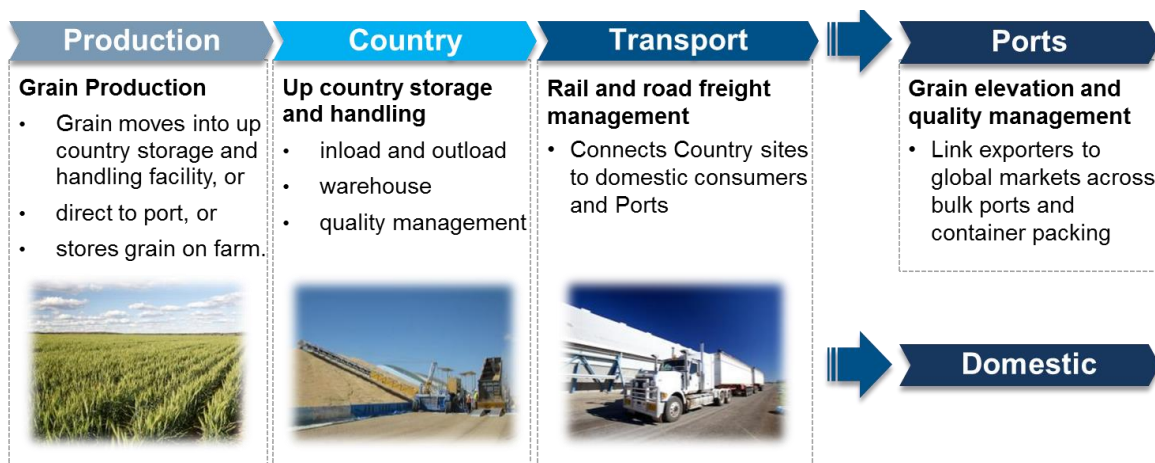
Whether there is already an exempt service provided within the grain catchment area

Bunge's new port terminal will not be subjected to the Code until the end of 2015, and in the meantime is exempt and able to negotiate with customers without the access requirements and transparency prescribed by the Code. As such, GrainCorp's Geelong facility and Portland facility operating within the Code are currently competitively constrained.

3. VICTORIAN GRAIN MARKET OVERVIEW

3.1 VICTORIA OPERATES AS ONE PORT ZONE

The Victorian grain supply chain comprises the following aspects:

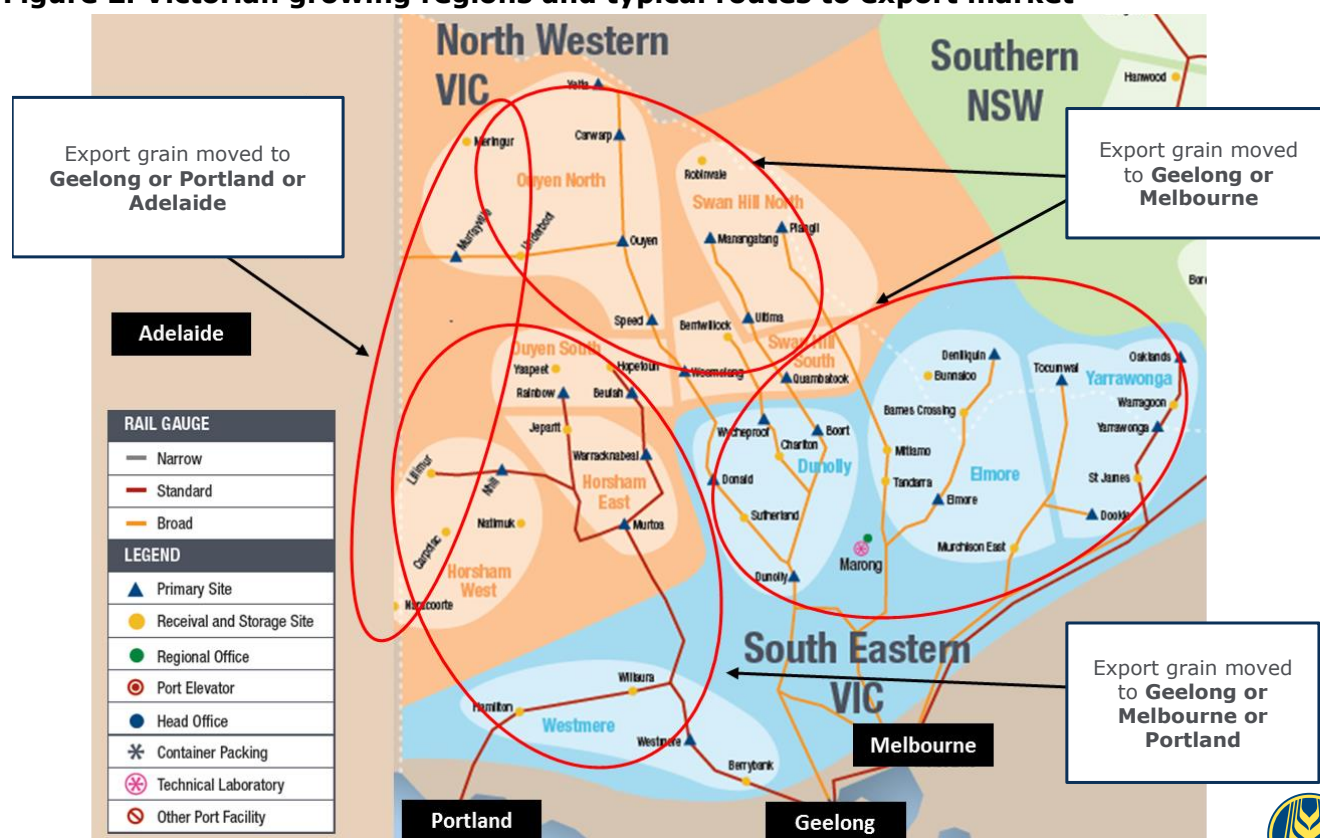


Grain produced in Victoria, given the size of the State and dominance of road transport, enjoys a range of substitutable demand alternatives. For most grain growing areas:

- The road distance (and therefore cost) to sell grain through the Melbourne Container Terminals and into the Melbourne Domestic Market is comparable to the distance to moving grain to Bulk Export Port Terminals in Melbourne, Geelong and Portland.
- The road and rail distance (and therefore cost) to sell export grain through Melbourne and Geelong Port Terminals or Melbourne / Geelong and Portland Port Terminal or Portland and Adelaide Port Terminals is comparable.

As shown on the map in Figure 2, most grain growing areas have access to competing port terminals.

Figure 2. Victorian growing regions and typical routes to export market



It should be noted that GrainCorp's Portland Terminal is disadvantaged against other port terminals:

- Portland has poor rail access compared to the other ports, as the rail line is:
 - Weight restricted;
 - Routed a longer distance than road, as all trains must travel via Ararat, which is towards Melbourne; and
 - Standard gauge rail only, which excludes the port from drawing grain by rail from north western Victoria.
- The Victorian standard gauge network from western Victoria has access to the higher standard ARTC interstate track that can efficiently move grain into either Geelong / Melbourne or Adelaide Port Terminals.
- Growers in north west Victoria can access silos on South Australian rail (Pinnaroo) that has direct rail access to Port Adelaide.

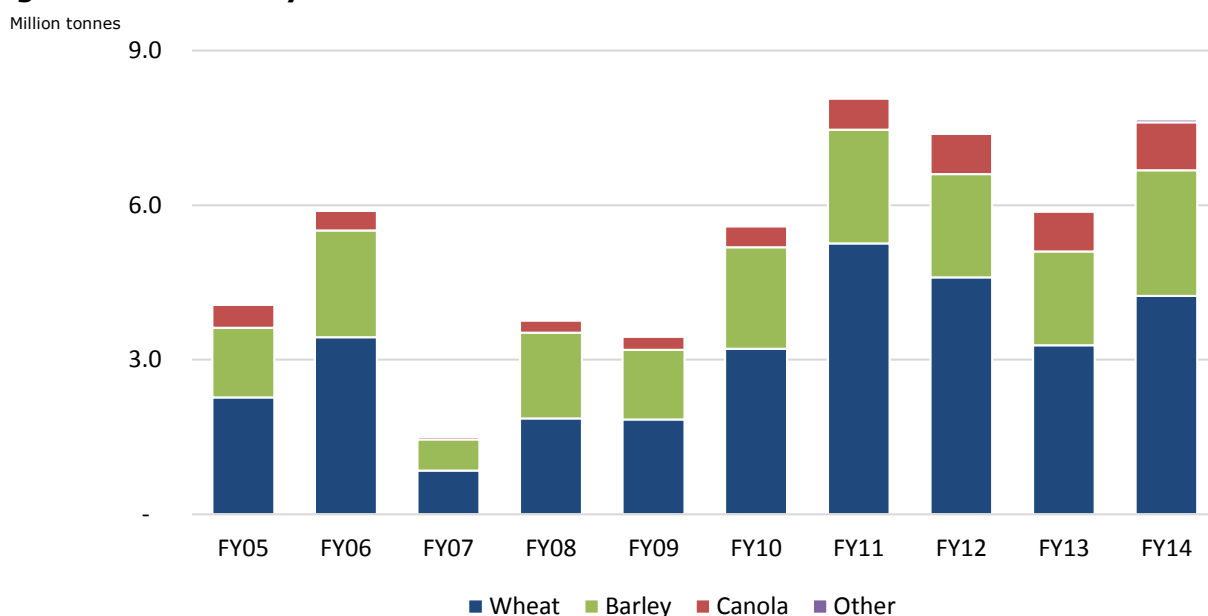
3.2 PRODUCTION

Victoria produces on average 5.3Mt of grain per annum. Grain production is highly variable, given seasonal conditions, ranging from 1.5Mt to 8.1Mt over the last 10 years. Around 58% of all grain production in Victoria is wheat, followed by barley at 33% and Canola at 9%.

Figure 3. Commodity Metrics – Total Production in Victoria

			Drought									
Customer	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Yr Avg	Share
Wheat	2.3	3.4	0.8	1.9	1.8	3.2	5.3	4.6	3.3	4.2	3.1	58%
Barley	1.3	2.1	0.6	1.7	1.4	2.0	2.2	2.0	1.8	2.4	1.7	33%
Canola	0.4	0.4	0.0	0.2	0.3	0.4	0.6	0.8	0.8	0.9	0.5	9%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0%
Total	4.1	5.9	1.5	3.8	3.5	5.6	8.1	7.4	5.9	7.7	5.3	100%

Figure 4. Commodity Metrics – Total Production in Victoria



3.3 NUMEROUS MARKETS FOR VICTORIAN GRAIN

Unlike the grain markets in SA and WA, the grain market in eastern Australia is dominated by the domestic and container packing markets. The AEGIC report into bulk grain supply chains reports the finding of ABARES 2013 Australian Crop Report, including that:

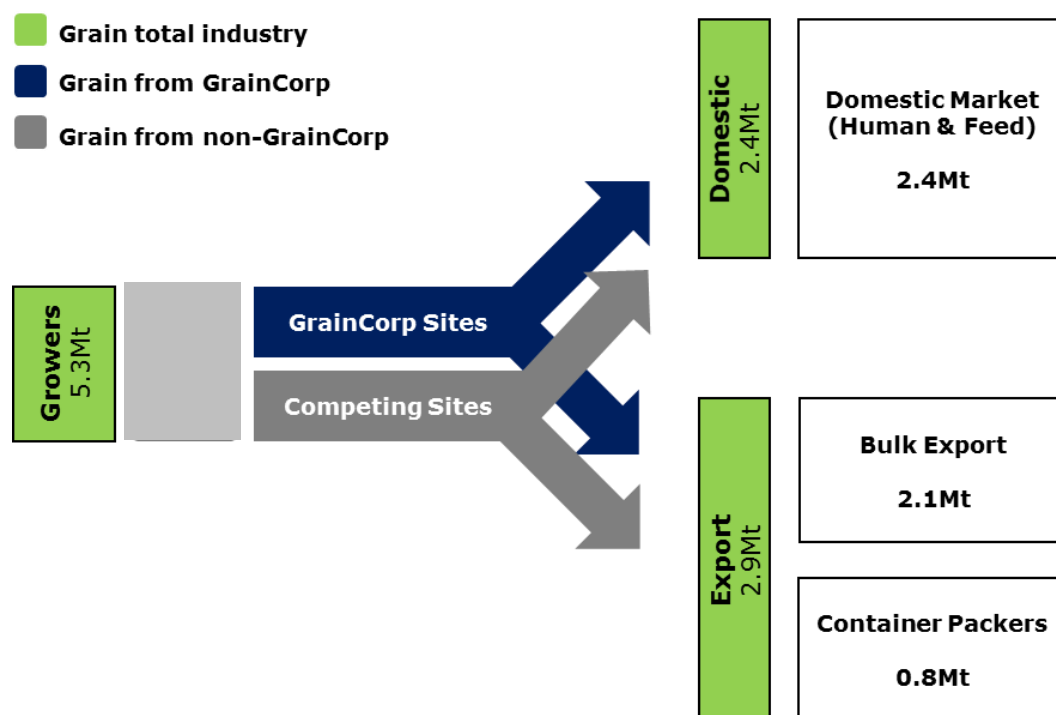
Of the 35MT of Australian grain produced annually, about 10-11MT is consumed domestically, leaving about 25MT available for export. Most of the domestic consumption occurs in eastern Australia. Annual grain production in New South Wales, Victoria and Queensland has averaged 19.5MT/yr during the past 10 years, with approximately 50% of production available for export.¹

Hence, growers in Victoria have ready access to a large number of buyers for their grain and are even less dependent on bulk grain exports than in other states.

The movement of grain from Victoria is shaped by the interplay of the export (container and bulk) and domestic markets. Grain from Victoria can move north, south and west into the export and domestic markets (by rail and road). In drought years, increasing demand from the domestic market limits surplus grain available for export. Additionally, new supply chain operators in Victoria are increasing, as exporters explore options to operate up-country storage and handling facilities.

Figure 5 shows the Victorian grain flow based on an average 5.3Mt production year:

Figure 5. Victorian Port Zone Supply and Demand



3.4 TRANSPORT

Victoria is a geographically compact State with relatively short hauls for grain to both the domestic and export markets.

Rail's transport role is generally limited to the longer hauls of over 400kms for export grain from north west Victoria. Rail efficiency and the ability to use rail resources efficiently is restrained by Victoria having two rail track gauges and weight restrictions from most grain lines.

¹ AEGIC, The cost of Australia's bulk grain export supply chains – an information paper, January 2014, p.9

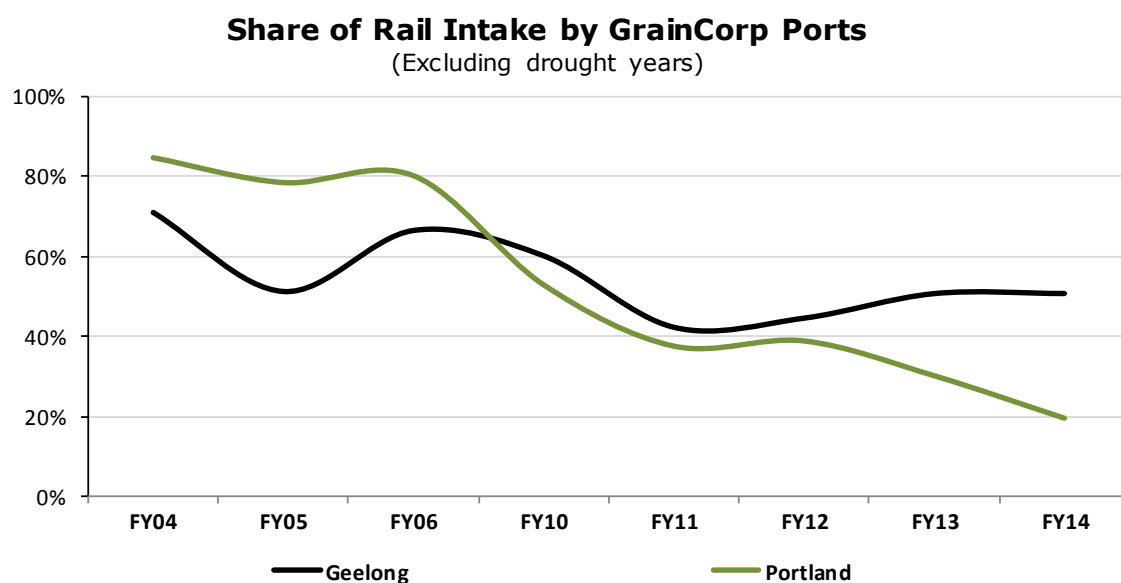
Road has become the primary means of transport to port, as most grain is located within distances of 250-350km, where road is more competitive.

Accordingly, almost all domestic grain is moved by road, and over 50% of bulk export grain is moved by road (GrainCorp estimates).

The dominance in the use of road for the transport of grain opens up more marketing options as:

- Grain stored in on-farm storages and road only non-GrainCorp silos can readily access both local and export markets, and
- Road provides lower barriers of entry for new export supply chains, such as container packers and the planned Bunge Port Terminal.

Figure 6. Export of grain by rail – GrainCorp Port Terminals



4. BULK GRAIN PORT TERMINALS IN VICTORIA

Figure 7. Comparison of Victorian port terminals

Capability	GNC Geelong	GNC Portland	Emerald MPT ²	Bunge (proposed) ³
Rail receipt	Dual gauge up to 2,000 TPH	Standard gauge up to 1,000 TPH	Dual gauge up to 1,000 TPH	-
Road receipt	8,000 T / Day	4,000 T / Day	4,000 T / Day	4,000 T / Day
Ship loading	up to 2,500 TPH	up to 1,400 TPH	up to 1,500 TPH	up to 1,000 TPH
Berth draft	Berth Depth 11.5-12.5M	Berth Depth 13.0M	Berth Depth 10.8 – 11.4m	Not disclosed
Vessel capacity	Ship Capacity 70,000 DWT	Ship Capacity 60,000 DWT	Panamax vessels 70,000 DWT	Average vessel 30,000 DWT
Storage capacity	Vertical Storage 140,000 tonnes (excl non export grain capacity)	Vertical Storage 60,000 tonnes	Vertical Storage 48,000 tonnes	Vertical Storage 24,000 tonnes (expansion to 48,000 tonnes)

4.1 GRAINCORP GEELONG

GrainCorp's Geelong facility has an annual elevation capacity of 3.4 million tonnes and an ability to service vessels up to 70,000 deadweight tonnes (**DWT**). Grain is received via rail at a rate of up to 2,000 tonnes per hour (**TPH**) or road at a rate of up to 400 TPH. The facility has one ship loader which is capable of loading at a rate of up to 2,500 TPH. Total storage capacity for grain at the facility is around 140,000 tonnes.

Bulk grain exports through Geelong have ranged from 125,000t to 2.7Mt over the past decade. Available capacity at GrainCorp's Geelong Port Terminal has never been fully utilised across the year. Average bulk grain exports over the last 10 years is 1.13Mt. Around 50% of the bulk grain export is wheat, while 33% is barley and 16% is canola.

The largest exporters serviced at the Geelong facility over the last five years since the removal of the single wheat desk are GrainCorp Marketing (33%), Glencore (21%) and Cargill (21%). The top 5 exporters make up 89% of exports.

² Emerald Grain, Shipping at Melbourne Port Terminal. Available at: <http://www.emeraldgrain.com/industry-store-and-move-grain/shipping-at-melbourne-port-terminal/>

³ Bunge Development Application for a grain storage facility and associated works submitted to the Greater City of Geelong on 31 July 2014. Advertised for public consultation [now closed] - <http://www.geelongaustralia.com.au/residents/planning/advertising.aspx>

Figure 8. Customer and Commodity Metrics – GrainCorp Geelong Terminal Exports

Million tonnes												5 Year Adj Average	
Customer	FY05	FY06	Drought			FY10	FY11	FY12	FY13	FY14		Average	Share
												0.37	33%
												0.24	21%
												0.24	21%
												0.10	9%
												0.06	5%
												0.03	3%
												0.03	2%
												0.02	2%
												0.02	2%
												0.02	1%
												0.01	1%
												0.00	0%
												0.00	0%
												-	0%
												-	0%
												0.00	0%
Total	0.49	1.07	0.26	0.13	0.22	0.54	2.10	2.67	2.18	1.68		1.14	100%

Million tonnes												10 Yr Avg	
Customer	FY05	FY06	Drought			FY10	FY11	FY12	FY13	FY14		Share	
Wheat												0.54	50%
Barley												0.42	33%
Canola												0.15	16%
Other												0.00	1%
Grand Total	0.50	1.08	0.26	0.13	0.22	0.54	2.10	2.61	2.18	1.68		1.13	100%

4.2 GRAINCORP PORTLAND

GrainCorp's Portland Port Terminal has an annual elevation capacity of 1.5 million tonnes and an ability to service vessels up to 60,000 DWT. Grain is received via rail at a rate of up to 1,000 TPH or road at a rate of up to 250 TPH. The facility has one ship loader at Berth 1 which is capable of loading at a rate of up to 1,400 TPH. Total grain storage capacity at the facility is around 60,000 tonnes.

Bulk grain exports through Portland have ranged from Nil to 1.0Mt over the past decade. Available capacity at GrainCorp's Portland Port Terminal has never been fully utilised across the year. Average bulk grain exports over the last 10 years is 0.4Mt. Around 53% of the bulk grain export is wheat, while 27% is barley and 16% is canola.

The largest exporters serviced from Portland Port Terminal over the last five years since the removal of the single wheat desk are GrainCorp Marketing (25%), Cargill (29%) and Glencore (14%). The top 5 exporters make up 88% of exports.

Figure 9. Customer and Commodity Metrics – GrainCorp Portland Terminal Exports

Million tonnes											5 Year Adj Average	
Customer	FY05	FY06	Drought			FY10	FY11	FY12	FY13	FY14	Average	Share
											0.10	25%
											0.12	29%
											0.06	14%
											0.04	11%
											0.04	9%
											0.04	9%
											0.00	1%
											0.00	1%
											0.00	1%
											0.00	1%
											-	0%
											-	0%
Grand Total	0.46	0.56	0.06	-	-	0.03	0.64	1.02	0.74	0.55	0.41	100%

Million tonnes											10 Yr Avg	
Customer	FY05	FY06	Drought			FY10	FY11	FY12	FY13	FY14	Share	
Wheat											0.23	53%
Barley											0.12	27%
Canola											0.08	20%
Other											0.00	1%
Grand Total	0.46	0.56	0.06	-	-	0.03	0.64	1.02	0.74	0.55	0.41	100%

4.3 EMERALD GRAIN MELBOURNE PORT TERMINAL

The Emerald Grain Melbourne Port Terminal (MPT) is a high throughput bulk grain terminal located at the Port of Melbourne. MPT's berth is located at Appleton Dock F Berth. The port terminal also has container packing capability.

MPT has an annual elevation capacity of 1.5 million tonnes and an ability to service vessels up to Panamax-size.⁴ Cargoes can be accumulated from either road or rail transport, with road intake of up to 350 TPH and rail of up to 1,000 TPH. Vessels can be loaded at up to 1,500 TPH via one ship loader.⁵ Total grain storage capacity at the facility is around 48,000 tonnes.⁶

According to Emerald Grain, annual port throughput hit a ten-year high of 1.4 million tonnes from July 2012 to June 2013.⁷ Exports included about 1.3 million tonnes of bulk shipments of wheat, barley, canola and corn and 100,000 tonnes of containerised grain.⁸ In February 2013, Emerald recorded its strongest month of exports of 185,000 tonnes since it began operating in 2000.⁹

⁴ Emerald Grain, Record Grain Exports at Melbourne Port Terminal, 4 March 2013. Available at:

<http://southernaggrain.com.au/2013/03/04/record-grain-exports-at-melbourne-port-terminal/>

⁵ Emerald Grain, Shipping at Melbourne Port Terminal. Available at: <http://www.emeraldgrain.com/industry-store-and-move-grain/shipping-at-melbourne-port-terminal/>

⁶ Emerald Grain, Record Grain Exports at Melbourne Port Terminal, 4 March 2013. Available at:

<http://southernaggrain.com.au/2013/03/04/record-grain-exports-at-melbourne-port-terminal/>

⁷ ATN, Expansion plans follow record grain exports: Emerald Grain, July 11, 2013. Available at:

<http://www.fullyloaded.com.au/news/logistics/1307/expansion-plans-follow-record-grain-exports-emerald-grain/>

⁸ ATN, Expansion plans follow record grain exports: Emerald Grain, July 11, 2013. Available at:

<http://www.fullyloaded.com.au/news/logistics/1307/expansion-plans-follow-record-grain-exports-emerald-grain/>

⁹ Emerald Grain, Record Grain Exports at Melbourne Port Terminal, 4 March 2013. Available at:

<http://southernaggrain.com.au/2013/03/04/record-grain-exports-at-melbourne-port-terminal/>

In July 2013, Emerald announced plans to expand the MPT over the next three years to increase export throughput capability to up to 2.4 million tonnes per annum.¹⁰

4.4 BUNGE GEELONG

Bunge Australia, wholly-owned by Bunge Limited, recently announced that it intends to build a bulk grain export terminal at Geelong. Bunge has applied to the City of Greater Geelong for planning permission to construct a grain receival facility and three storage silos that will connect to the current Toll Ports woodchip loader at Corio Quay North on land owned by Midway Limited.

The Bunge facility is targeting exports of up to 450,000 tonnes per annum - the project includes:¹¹

- Development of 24,000 tonnes of storage capacity for fast cycling of grain;
- Road receivals for B double trucks; and
- Utilisation of the existing woodchip shiploader with a loading rate of 1,000 TPH.

Construction is expected to commence this year with completion prior to the 2015 harvest season.

Figure 9. Geelong Port - Location of proposed Bunge facility



4.5 PLANNED ADDITIONAL PORT CAPACITY IN VICTORIA

There are low barriers of entry to develop and further expand port terminal capacity in Victoria. Expansion could potentially bring on the market well in excess of 1Mt of export elevation capacity. GrainCorp is aware of the following potential expansion plans:

- Emerald has stated that it intends to invest significantly in the grain supply chain to double its port elevation capacity at MPT from 1.5Mt to 3Mt in the next three years.¹²

¹⁰ ATN, Expansion plans follow record grain exports: Emerald Grain, July 11, 2013. Available at: <http://www.fullyloaded.com.au/news/logistics/1307/expansion-plans-follow-record-grain-exports-emerald-grain/>

¹¹ Bunge Development Application for a grain storage facility and associated works submitted to the Greater City of Geelong on 31 July 2014. Advertised for public consultation [now closed] - <http://www.geelongaustralia.com.au/residents/planning/advertising.aspx>

¹² Emerald Grain, The Emerald Network – Key Statistics. Available at: <http://www.emeraldgrain.com/about/>

- Bunge in its Development Application has sought approval to expand its planned new Port Terminal at Geelong to 480,000 tonnes.
- There is speculation that Quattro (backed by Cargill and Emerald) is exploring the opportunity to build a new port terminal at Portland.

4.6 GLENCORE PORT TERMINALS IN PORT ADELAIDE

The Victorian grain industry, given its close proximity and supporting rail connections, can access port elevation capacity in Adelaide. GrainCorp is aware of competitive rail rates from Victoria into Adelaide.

Glencore, through its subsidiary Viterra, own all of the bulk grain port terminals in South Australia. Port Adelaide is strategically located 300-400kms from key grain growing regions in north western and western Victoria, providing exporters with an alternative route to export market via rail.

Glencore's Outer Harbor facility at Port Adelaide was opened in January 2010 on a deep-water berth to handle large Panamax-size vessels and can accommodate standard gauge trains from Victoria.

Figure 10. Glencore Port Adelaide Port Terminal Outer Harbor – Berth 8¹³



Average loading rate: 1,000 TPH
 Storage capacity: 65,000 tonnes
 Rail: Balloon loop
 Services: All grain

¹³ Viterra Australia, Port Adelaide Outer Harbour. Available at: <http://www.viterra.com.au/ports-shipping/viterra-port-terminals-2/outer-harbor>

5. COMPETITION ANALYSIS

The Victorian grain industry operates as a diverse and competitive grain market. The table below outlines the key indicators for the Victorian grain industry from 2005 to 2014, with both 5 and 10 year averages to demonstrate through-the-cycle averages. The key indicators demonstrate the diversity of the Victorian grain market:

- The large domestic market consumes an average of 2.4Mt representing 35-45% of grain production in an average year.
- The container export market has increased rapidly from 0.3Mt up to a peak of 1.7Mt, on the back of low cost back load container rates, and low barriers to entry. This market handles on average of 0.8-1.3Mt (representing 15-20% of grain production). Containers usually have first call of export grain, as demonstrated by their higher share of export grain (rising to 70%) in drought years.
- The bulk export market handles on average 2.1-3.2Mt of surplus grain that is not consumed by the domestic and export container markets, (40-45% of grain production in an average year).

Figure 11. Grain Market and Competition Metrics - Victoria

Million tonnes	Drought										10 Yr Avg		5 Yr Avg	
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Avg	Share	Avg	Share
Grain Production											5.3		6.9	
<i>GNC Receivals</i>														
<i>GNC Country Share</i>														
Bulk Export											2.1	39%	3.2	46%
Estimated Containers											0.8	16%	1.3	19%
Container share											29%		29%	
Grain Exports											2.9	55%	4.5	65%
<i>GNC Bulk Exports</i>											1.5		2.4	
<i>GNC Bulk Export Share</i>											53%		54%	
Estimated Domestic (1)											2.4	45%	2.4	35%

(1) Average reflects underlying domestic demand. Year to year varies due to grain added into and taken from carry over stocks

(2) Based on container average and underlying share of past 5 years with buk export averages adjusted accordingly

Source: GrainCorp analysis

5.1 EXCESS BULK GRAIN EXPORT CAPACITY

Victoria has significant excess bulk export grain capacity. With the commissioning of the new Bunge terminal in Geelong, Victoria will be serviced by four bulk grain facilities and an estimated combined bulk elevation capacity of almost 7Mt per annum:

- 3.4Mt at GrainCorp's Geelong facility;
- 1.5Mt at GrainCorp's Portland facility;
- 1.5Mt at Emerald's MPT; and
- 0.45Mt at the Bunge Geelong Port Terminal.

Average utilisation of bulk port elevation is only 30% based on an average bulk export task of 2.1Mt or 64% based on peak bulk export task of 4.4Mt.

Figure 12. Estimated Total Bulk Export Capacity in Victoria

Port Elevator	Capacity	Portion	Utilisation	
	Tonnes	Share	Avg Export / Capacity	Peak Export / Capacity
GNC Geelong	3,400,000	50%	61%	130%
GNC Portland	1,500,000	22%	139%	294%
MPT	1,500,000	22%	139%	294%
Bunge	450,000	7%	463%	980%
Total Capacity	6,850,000	100%	30%	64%
Bulk Exports			2,084,857	4,410,335

Victoria has significant excess bulk export grain capacity in terms of both annual and average monthly throughput resulting in low levels of utilisation in an average production year.

Figures 14 & 15 show that, based on an average export task of 2.1Mt:

- Port Terminal utilisation is very low with average port storage capacity turning over only 7 times a year. This compares to 26 to 52 turns at port terminals in North America.
- The annual utilisation of capacity ranges from 5% to 50% with an average of 30%. In 6 of the past 10 years the competing MPT and Bunge Port Terminals would have enough capacity to the handle all of Victoria's export task.
- The average monthly utilisation of capacity ranges from 20% to 50%. In 6 of the 12 months the competing MPT and Bunge Port Terminals would have enough capacity to the handle all of Victoria's export task.

Figure 13. Total grain elevation capacity vs. Victorian bulk exports - Annually

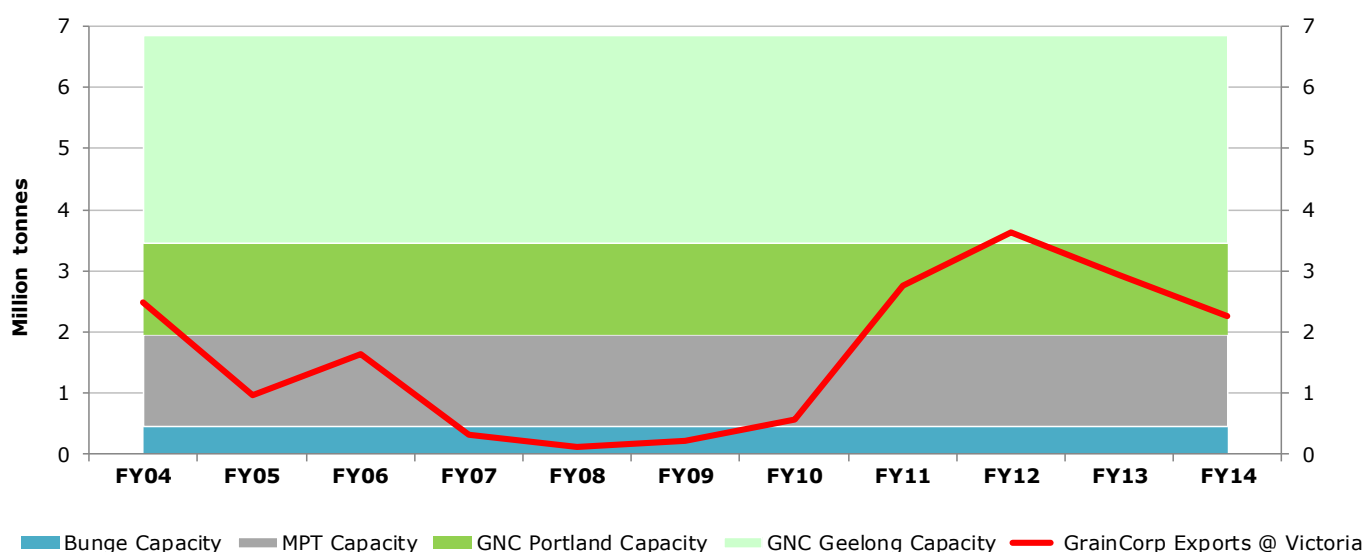
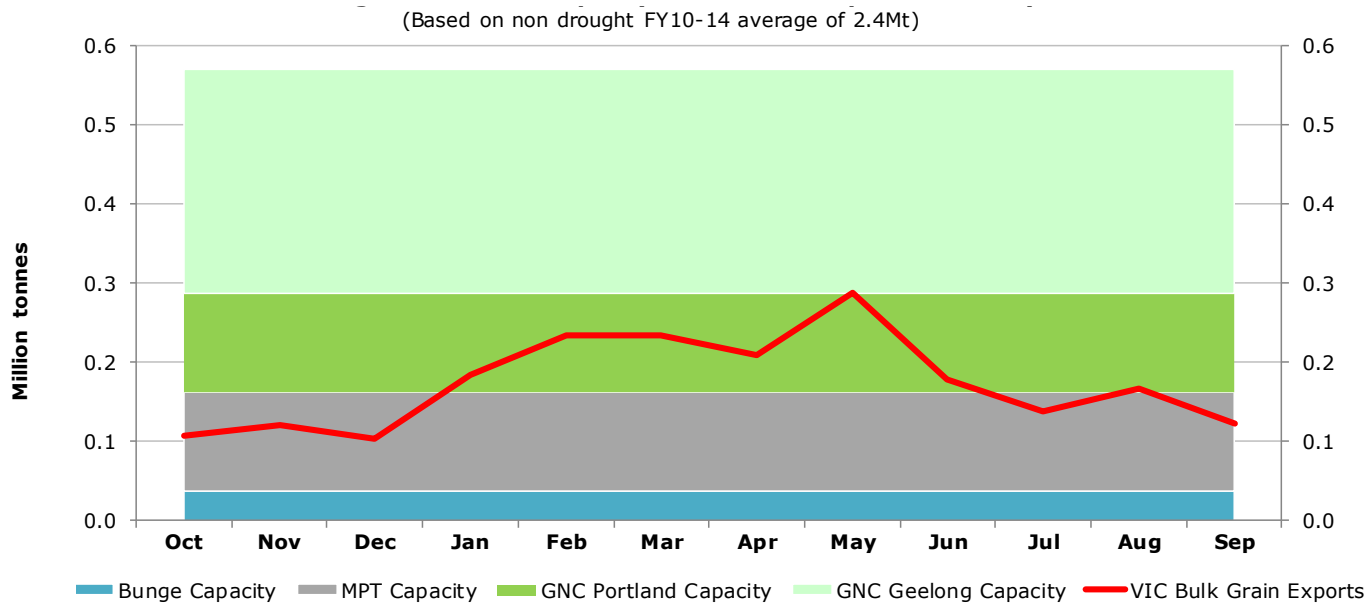


Figure 14. Total grain elevation capacity vs Victoria bulk grain export – Monthly average

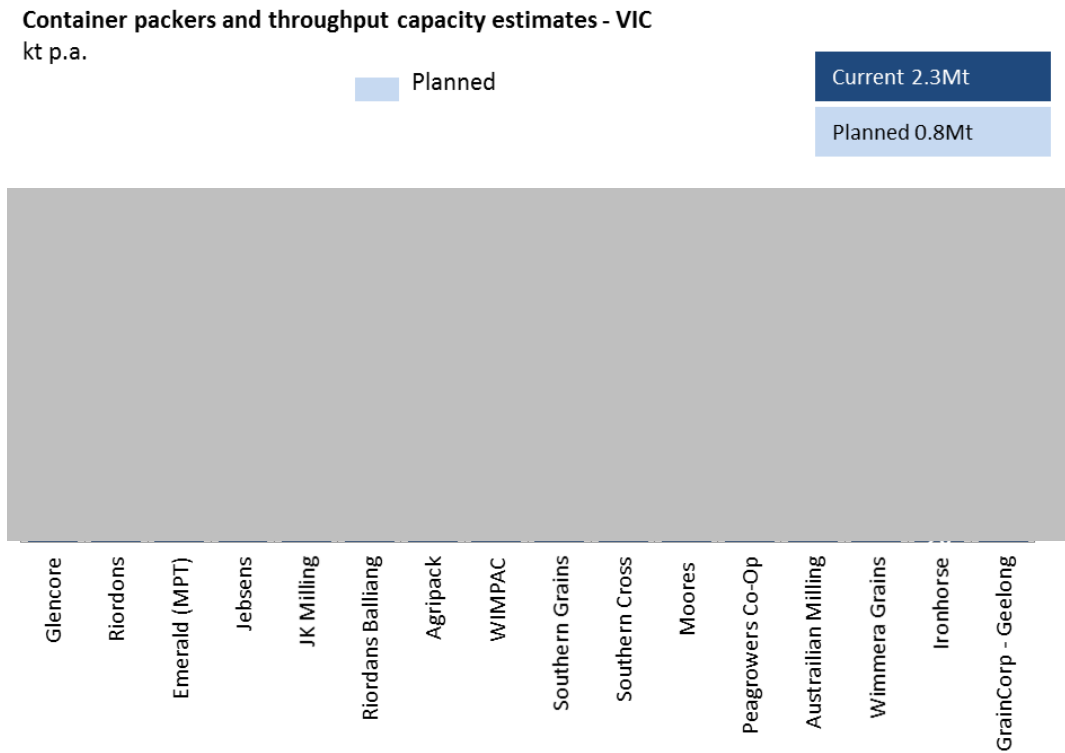


5.2 COMPETING EXPORT CONTAINER PACKERS

The non-regulated export container market is a major competitor for bulk wheat and other grains (eg barley and pulses) across eastern Australia. In Victoria, GrainCorp faces competition from 16 major container packers with an estimated total packing capacity of around 2.5Mt. In the last five years, on average 1.3Mt has been exported by containers, peaking at 1.7Mt.

Container packing facilities are located around the Port of Melbourne, Port of Geelong and in country Victoria accessing Port of Melbourne by rail or road. This includes packers owned by major grain exporters, Glencore and Emerald, plus large independents including Riordans and Jepsens.

Figure 15. Container packers and throughput capacity estimates - Victoria



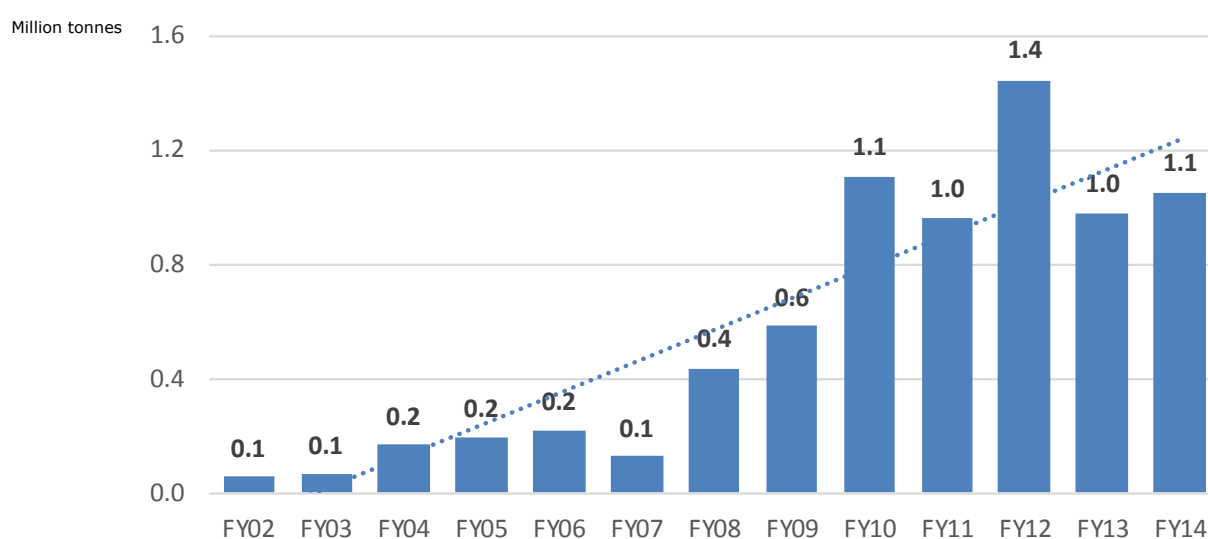
Source: GNC estimates

Export of grain in containers has expanded significantly over the last 5 years with a compound annual growth rate (CAGR) of 11% and average annual volume of over 1Mt, representing 30% share of exports. Strong growth in container exports has been driven by:

- Deregulation in 2004 which allowed this industry to grow substantially prior to removal of the single wheat desk for bulk exports in 2008.
- Strong demand from small millers in south-east Asia who prefer smaller parcels of grain. Ports in some of these areas cannot handle the larger ships used for bulk shipping.
- Favourable supply-side drivers including the availability of empty containers in eastern Australia, low container shipping rates compared to bulk shipping rates, and relatively low barriers to entry for container packers to enter the market.

Consequently, GrainCorp anticipates that containerised grain volumes are more resilient than bulk volumes in a normalised year, representing base grain exports of 1.0-1.3Mt.

Figure 16. Victorian container wheat exports



The Port of Melbourne is the largest container port in Australia and accordingly is the largest export of containerised grain from Australia. Detailed information of export grain container volumes is limited. Department of Transport estimated that the Port of Melbourne has grown containerisation of all export grain from 215,528 tonnes in 2001 to 2,232,000 in 2011.¹⁴ This represents a CAGR of 26% over the 10 year period. The graph below show the growth of container exports of wheat.

5.3 EXCESS COUNTRY STORAGE CAPACITY

The large range of marketing options in Victoria has supported the construction and operation of a substantial and competitive country storage network. Various storage providers can readily supply wheat and other grains into alternative local and exports channels, depending on the market price and supply chain cost for grain.

Victoria has significant excess country storage capacity as outlined in Figure 17. GrainCorp estimates that Victoria has total storage capacity of 14Mt. Average utilisation of country storage is only 39% based on an average grain production of 5.3Mt or 59% based on peak grain production.

¹⁴ State Government of Victoria, Department of Transport, Planning and Local Infrastructure, PAEC 2013 Ports Presentation, Tuesday 14 May. Available at: http://www.parliament.vic.gov.au/images/stories/committees/paec/2013-14_Budget_Estimates/Presentations_and_QoNs/PAEC_13-14_BEH_14-05_Ports PRES.pdf

Figure 17. Estimated Total Country Capacity in Victoria

Country Storage	Capacity	Portion	Utilisation	
	Tonnes	Share	Avg Production / Capacity	Peak Production / Capacity
GrainCorp	5,000,000	37%	107%	162%
Independent	5,478,975	40%	97%	148%
On-farm	3,200,000	23%	167%	253%
Total	13,678,975	100%	39%	59%
Production			5,337,209	8,097,429

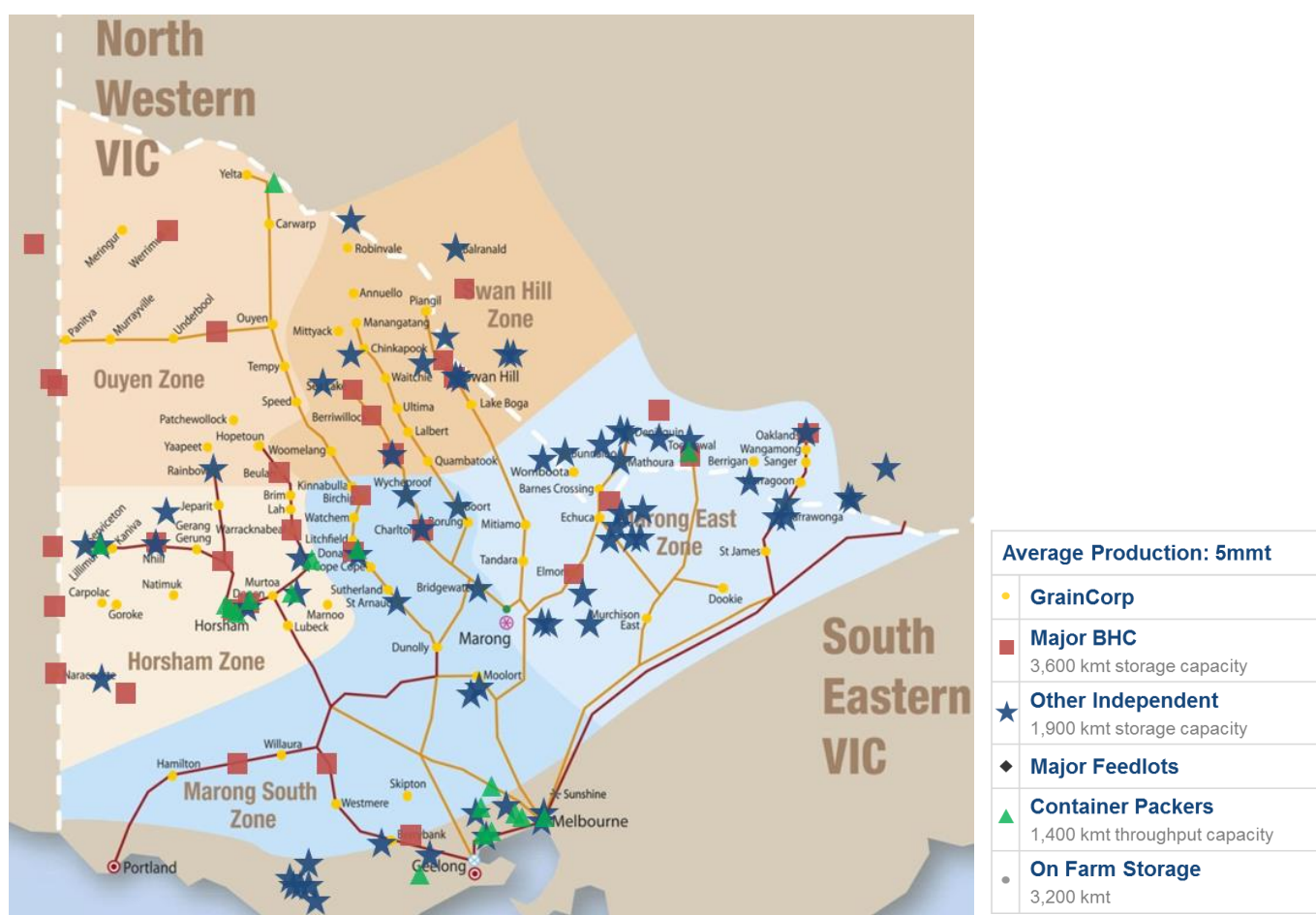
GrainCorp operates 50 country silos in Victoria with a total capacity of 5Mt. These silos receive on average 2.4Mt of grain, representing an average market share of 45% against average grain production of 5.3Mt.

The volume of grain bypassing GrainCorp country silos ranges from 1.2-4.8Mt, demonstrating the capability and capacity of alternative supply chains. GrainCorp faces competition from over 100 competing country silos. These country silos are owned by 23 competitors including major grain exporters Cargill, Emerald, Glencore and Louis Dreyfus.

- These competing country silos have an estimated capacity of 5.5 million tonnes, capable of receiving and storing the entire Victorian crop.
- Most of these competing independent country silos have access to bulk or containerised grain trains, contracted by the owner of the facility or the exporter.

The map below shows the level of significant competition between GrainCorp and competing silos. See Appendix 1 for a list of storage location and ownership and Appendix 2 for site maps of major competitor storage facilities.

Figure 18. Competitive Country Landscape – Victoria



GrainCorp also faces significant competition from on-farm storage. Growers in Victoria have access to large on-farm storage capacity supplemented by silo bags. Australian Bureau of Statistics (ABS) farm survey in June 2010 *"industry sources estimate on farm storage capacity across the eastern seaboard (NSW, Vic, QLD) totals around 11MT or about 60% of average annual grain production."*¹⁵

Victoria has around 3.2Mt of on-farm storage.

¹⁵ AEGIC, The cost of Australia's bulk grain export supply chains – an information paper, January 2014, p.14

6. CONTACT INFORMATION

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APPENDIX 1:

MAJOR INDEPENDENT COUNTRY SITES

Major independent country sites – Northwestern Victoria

Competitor	Service Adelaide port zone	Site	Capacity	Nearest GNC Silo	GNC Avg Receivals
Moulamein					
Nelsons					
Co op					
Shannons					
AWB					
Viterra					
Pro Grain					
Hollands					
Emerald					
Brooks					
Viterra					
Moores					
Pearsons					
Pearsons					
Hawkers					
Deckerts					
Viterra					
Wimpak					
Co op					
Co op					
Viterra					
Emerald					
NBH					
Emerald					
Access Grain					
Viterra					
AWB					
Goulds					
Wimmera Grains					
AWB					
Miles					
Parsons					
Garrison Cattle Feeders					
Pearsons					
Motts					
Viterra					
Wilkins					
Viterra					
Viterra					
Emerald					
Parsons					
Total Northwestern Victoria C					

Major independent country sites – Southeastern Victoria

Competitor	Rail Access	Site	Capacity	Nearest GNC Silo	GNC Avg Receipts
Allied Mills					
Riordans					
Brooks					
Hazeldenes					
Ridleys					
AWB					
AGS (SunRice)					
Co-op					
Southern Stockfeeds					
Flaxvale Feedlot					
Bunnaloo					
AGS (SunRice)					
Five Star Stockfeed					
AWB					
Charlton Feedlot					
Inghams					
Langdon Produce/Logistics					
Reids/Langdon Mill					
CopRice Feeds					
Reids					
Rivlea					
Ridleys					
SQP					
Ridleys					
AGS (SunRice)					
Carusso					
Emerald					
Pea-Co					
Emerald					
Kellys					
South Gippsland Stockfeed					
Dairy Market - Direct					
Ridleys					
Barlow					
Danielli & Meyer					
Emerald					
Riordans					
Landons					
Daily Feed & Fert					
Ridleys					
Ridleys					
Associated Feedlot					
Westerns					
Barlow					
Rex James					
Irwins Stockfeed					
Riverland					
AWB					
Day's					
Ridleys					
Peechalba Feedlot					
Mg Agrilink					
Heytesbury Stockfeeds					
Unigrain					
Ridleys					
Emerald					
Shields					
Ridleys					
Emerald					
CopRice Feeds					
Reid					
Emerald					
Riverbank Stockfeed					
Wycheproof Grain Co					
Shiels					
Total Southwestern Victoria					
Total Victorian Competition					

APPENDIX 2:

COMPETITOR STORAGE & HANDLING NETWORKS

Viterra (Glencore) Storage and Handling Network¹⁶



GrainFlow (Cargill) Storage and Handling Network¹⁷



¹⁶ Viterra Storage & Handling Network. Available at: http://viterra.com.au/uploads/PDFs/Storage%20And%20Handling/Storage%20Commodities%20Map%202014_HR.pdf

¹⁷ GrainFlow, GrainFlow Centres. Available at: http://www.grainflow.com.au/NR/rdonlyres/9595CCE5-0896-478A-8A6E-C56683DFFF22/0/GrainFlow_Centres_Detailed_Map2.pdf

Emerald Grain Storage and Handling Network¹⁸



¹⁸ Emerald Grain, Our Storage and Handling Network. Available at: <http://www.emeraldgrain.com/grower-services/store-and-move-grain/our-network/>