

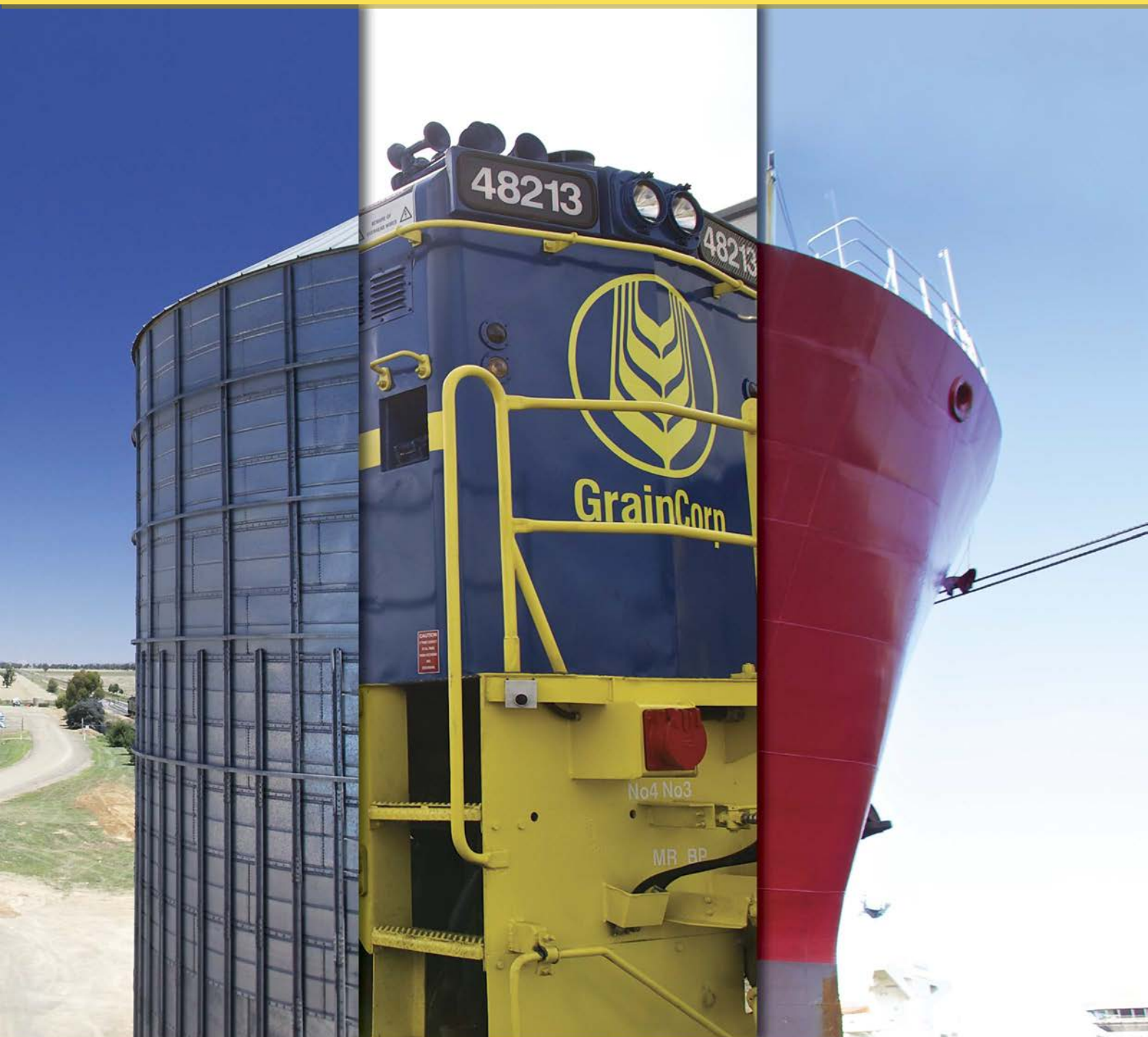
SUBMISSION

Port Kembla: Exemption from Port Terminal Access
(Bulk Wheat) Regulation

APRIL 2015



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 Port Kembla Port Terminal Facility (**Port Kembla 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 NSW. However GrainCorp's ability to exercise market power in NSW and Port Kembla is limited given:

- Variable grain production;
- Strong competition from competing alternative domestic and container packing markets, particularly in low production years;
- Excess country storage capacity;
- Excess container packing capacity;
- Excess port elevation capacity; and
- Impending competition for port elevation services for bulk grain from Qube's Quattro Grain Port Terminal (**Quattro**) at Port Kembla (expected to be operational for the coming harvest).

GrainCorp is commercially incentivised to maximise grain throughput at its Port Terminals.

Granting an exemption for GrainCorp's Port Kembla Port Terminal will:

- Place GrainCorp on a level playing field with competing alternative markets (domestic and container packing), neither of which are subject to regulation.
- Promote grain industry competition by allowing GrainCorp to provide competitive services to exporters for bulk grain exports, noting Quattro has already announced it has agreed medium-term take-or-pay commitments with Noble, Cargill and Emerald for "substantial volumes."¹
- Support lower supply chain costs by allowing GrainCorp to operate its Port Terminals flexibly. More flexibility and efficient operations at port will allow increased investment in improving port and supply chain infrastructure.

¹ ASX announcement - Qube Holdings Limited Capital Raising, 27 March 2014, p.5

2. COMPETITION CONSIDERATIONS IN NSW

This section considers certain matters the ACCC have regard to under Subclause 5(3) of the Code.

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

GrainCorp's Port Kembla Port Terminal faces:

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

Granting an exemption to GrainCorp's Port Kembla Port Terminal 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 shipped on average 1.3 million tonnes of bulk grain per annum from its Port Kembla Port Terminal. Based on exports for the past five years (post removal of the single desk) the largest three exporters represent around 96% of total exports, they are:

- GrainCorp, with average of 0.56Mt (44%)
- Cargill (33%) and
- Glencore (18%).

Most of GrainCorp's export customers have access to alternative supply chains. The two largest export customers at GrainCorp's Port Kembla terminal, (Cargill and Glencore), have access to the following:

- Cargill is a participant in the Quattro Grain Terminal and have a call option to acquire an equity stake of 20%.² (Quattro is owned 50:50 by Qube Holdings and Noble Resources).
- Glencore has an interest the Newcastle Agri Terminal (NAT) at Newcastle, where it can divert grain from Central NSW to this port.

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.

GrainCorp is commercially incentivised to provide fair access to its Port Kembla Port Terminal for all exporters, as it has significant excess capacity at the port and faces strong competition from alternative markets for grain:

1. **Significant excess capacity:** the Central and Southern regions of NSW will have, with the new Quattro Port Terminal, 5.6Mt of annual elevation capacity to handle an average bulk grain export task of 1.3Mt (10 year average). Average utilisation at the Port Kembla terminal is already a low 23%.

² Qube Holdings Ltd, Capital raising investor presentation, March 2014. Available at: http://www.qube.com.au/downloads/announcements/Investor_Presentation_Capital_Raising.pdf

2. **Alternative markets:** bulk grain export competes with the cost competitive domestic and containerised grain export markets. These alternative markets account for most of NSW's average grain production (at least 75%).

The promotion of competition in upstream and downstream markets

Any exercise of power at GrainCorp's Port Kembla Port Terminal are limited by competition and excess capacity along the whole supply chain, combined with low barriers of entry:

- **Substantial country storage capacity:** there is an estimated 14Mt of storage capacity to service an average crop of 5.6Mt.
- **Substantial container packing capacity:** Container exporting facilities supply boxes into Port Botany, Australia's second-largest container port. The large number of players includes Glencore, Cargill, Louis Dreyfus, Fletchers, Agrigrain and others.
- **Numerous marketing options:** Growers have a range of marketing options for their grain including grain processing, animal feed processors and feedlots, 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.

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

- CBH, Olam (Agrex) 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).

These recent developments in NSW, along with plans for new port terminals announced in other States, indicate that the barriers to entry for new port terminal elevation capacity are low.

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

The new Quattro port terminal will not be subjected to the Code until the end of 2015. In the meantime the Quattro terminal is exempt and able to negotiate with customers without the Code's prescribed access requirements and transparency. Quattro has announced that it has agreed take-or-pay commitments with Noble, Cargill and Emerald for "substantial volumes." As such, GrainCorp's Port Kembla Port Terminal operating within the Code is currently competitively constrained.

In addition, the container export market is exempt from the Code and otherwise unregulated. Containers account for over 700,000 tonnes of exports each year from NSW

3. NSW GRAIN MARKET OVERVIEW

3.1 PORT KEMBLA PORT ZONE

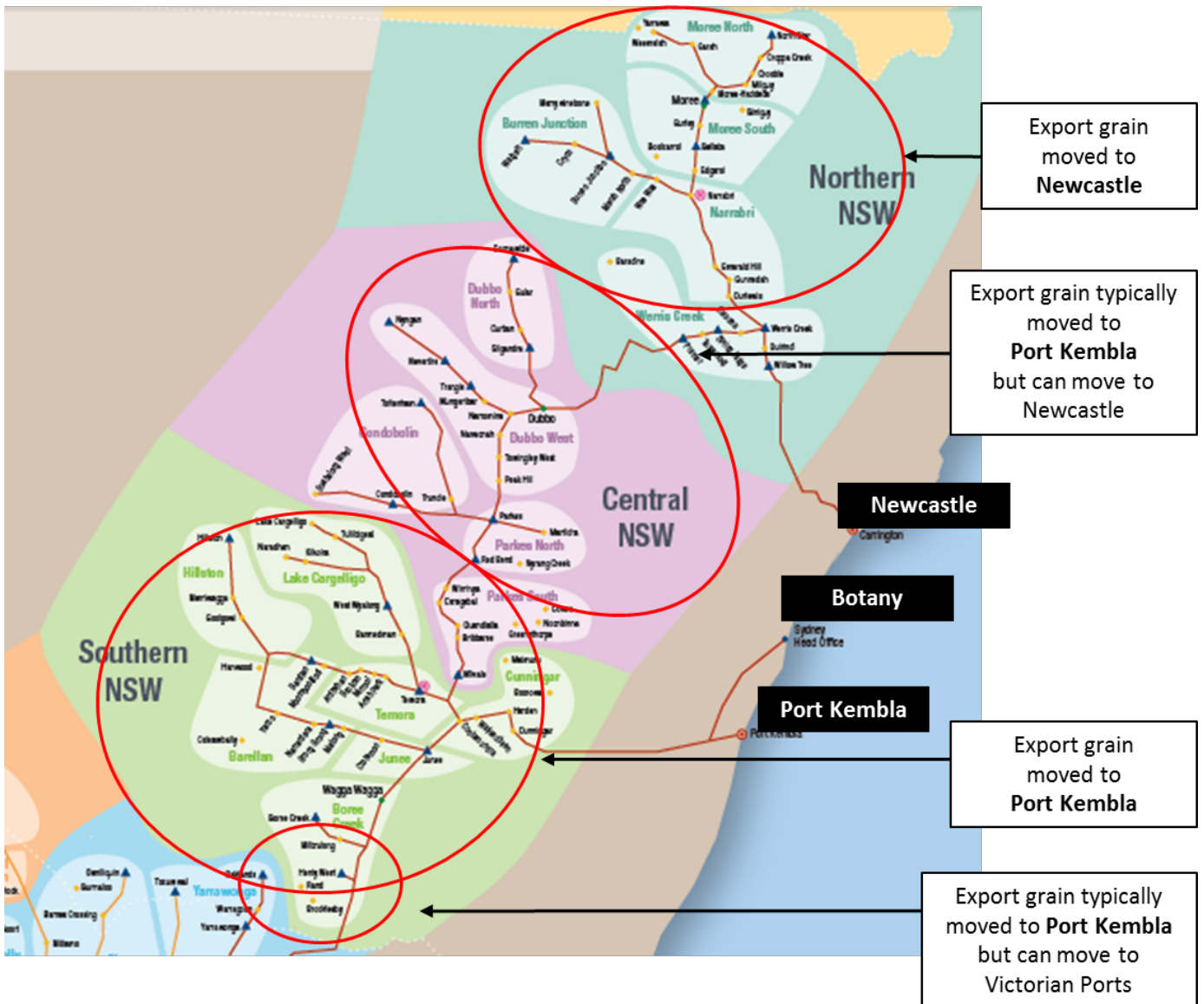
Grain produced in NSW, given the size of the State, enjoys a range of substitutable demand alternatives from domestic, container and bulk export markets.

As shown on the map in Figure 1 grain growing regions in Central and Southern NSW supply most of the export grain to Port Kembla. In Central NSW, this includes receival and storage country sites located within the Dubbo, Condobolin and Parkes growing regions. In Southern NSW, this includes country sites located in the Junee, Boree Creek, Hillston, Borellan, Temora, Lake Cargelligo and Cunningham growing regions.

However, grain from Central NSW sometimes moves to the Port of Newcastle where exporters have the option of shipping through three bulk export terminals, being GrainCorp's Carrington facility, the Louis Dreyfus Commodity Terminal, and the Newcastle Agri Terminal

Grain production in Central and Southern NSW also supply grain to containers through Port Botany.

Figure 1. NSW growing regions and typical route to export market



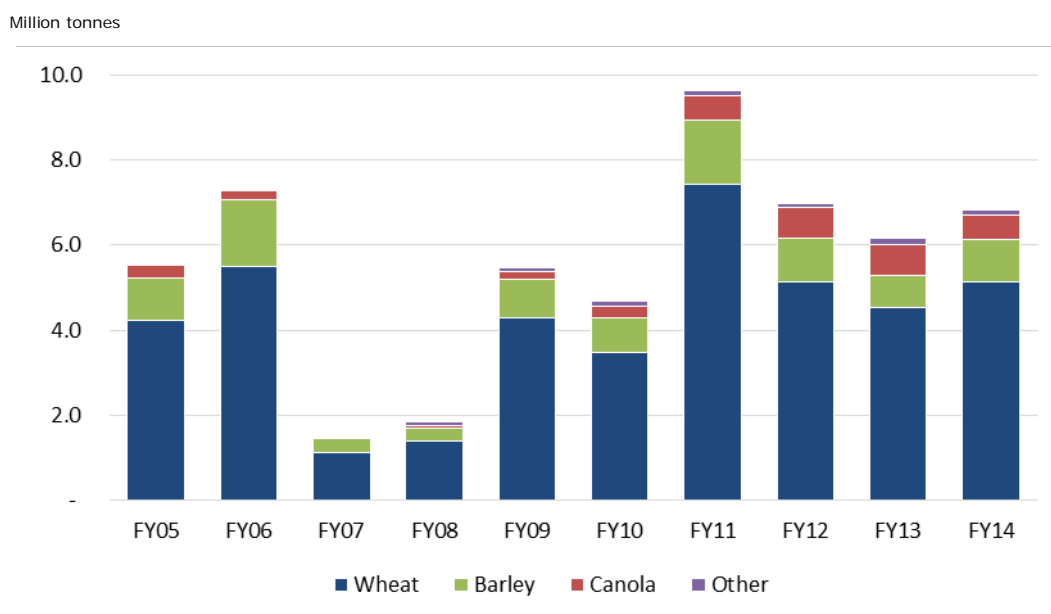
3.2 PRODUCTION

Central and Southern NSW produces on average 5.6Mt of grain per annum. Grain production is highly variable and has ranged from 1.5Mt to 9.6Mt over the last 10 years. Around 75% of all grain production in NSW is wheat, followed by barley at 16% and canola at 7%.

Figure 2. Commodity Metrics – Total Production in NSW

| Customer | Drought | | | | | | | | | | Yr Avg | Share |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | | |
| Wheat | 4.23 | 5.49 | 1.13 | 1.40 | 4.29 | 3.47 | 7.44 | 5.15 | 4.52 | 5.15 | 4.23 | 75.5% |
| Barley | 0.99 | 1.57 | 0.33 | 0.30 | 0.92 | 0.82 | 1.50 | 1.01 | 0.75 | 0.98 | 0.92 | 16.4% |
| Canola | 0.33 | 0.22 | 0.03 | 0.05 | 0.18 | 0.26 | 0.58 | 0.74 | 0.75 | 0.58 | 0.37 | 6.7% |
| Other | 0.03 | 0.03 | 0.03 | 0.09 | 0.08 | 0.12 | 0.12 | 0.08 | 0.13 | 0.11 | 0.08 | 1.5% |
| Total | 5.57 | 7.32 | 1.52 | 1.84 | 5.47 | 4.67 | 9.64 | 6.97 | 6.15 | 6.81 | 5.60 | 100% |

Figure 3. Commodity Metrics – Total Production in Central and Southern NSW



3.3 NUMEROUS MARKETS FOR NSW GRAIN

Growers in NSW 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. Unlike the grain markets in SA and WA, the grain market in eastern Australia (and specifically in the Port Kembla port zone) is serviced by domestic and container packing markets.

The recent AEGIC report into bulk grain supply chains reports:

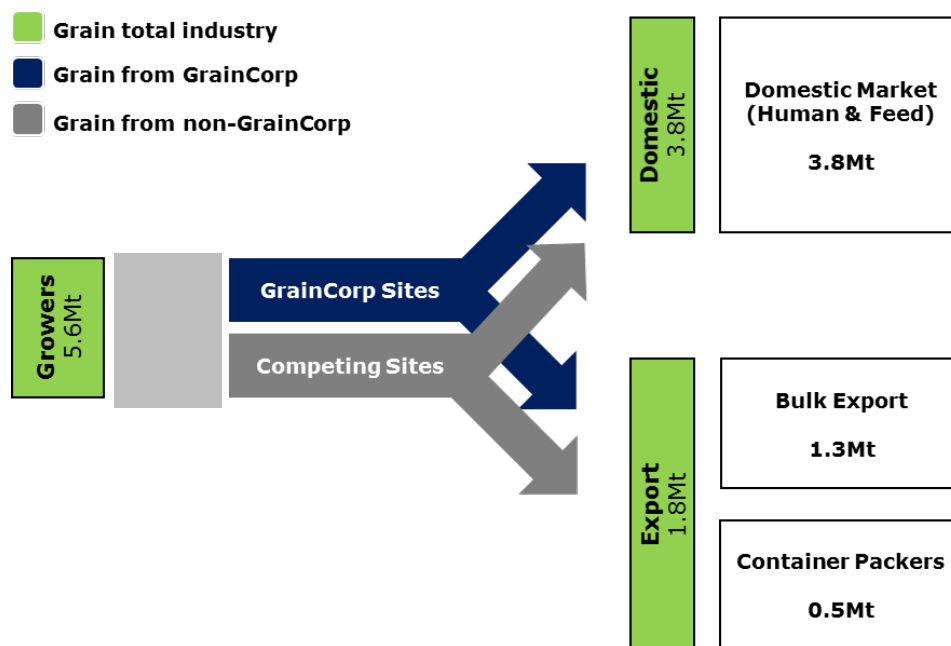
Of the 35MT of Australian grain produced annually, about 10-11MT is consumed domestically, leaving about 25MT available for export. Most of the domestic consumption occurs in eastern Australia. Annual grain production in New South Wales, Victoria and Queensland has averaged 19.5MT/yr during the past 10 years, with approximately 50% of production available for export.³

³ AEGIC, The cost of Australia’s bulk grain export supply chains – an information paper, January 2014, p.9

The movement of grain from Central and Southern NSW is shaped by the interplay of the export and domestic markets – which changes from year to year. Grain from Central and Southern NSW can move east into the export and domestic markets (by rail and road) but also can move north and south into the large domestic markets, and the bulk and container export supply chains. In drought years, ‘first call’ 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 4 shows the Central and Southern NSW grain flows based on average 5.6Mt production year:

Figure 4. NSW Port Zone Supply and Demand



3.4 TRANSPORT

Rail plays an important role in the bulk export of grain from Central and Southern NSW due to longer hauls of up to 600kms to Port Kembla. However, grain grown within approximately 400 kilometres of Port Kembla tends to move by road into the large local domestic market, or by road via containers out of Port Botany.

It is also estimated that over 50% of domestic and containerised grain is moved by rail. Containerised grain is moved on flat wagons that are used for containers.

Bulk export grain from the country sites on the Coonamble and Nyngan rail lines in Central NSW can be consigned to Port Kembla or Newcastle. All 5 Port Terminals in NSW have access to rail.

Rail is serviced by a range of rail providers. The incumbent major rail provider, Pacific National, supplies rail to a number of grain exporters and can readily relocate trains within NSW (and to some extent to the standard gauge network in Victoria). Rail services are being supplied by new rail providers such as Qube, Aurizon and G&W. While most export bulk grain is moved in bulk wagons, Louis Dreyfus use flat wagons with specially built ‘containers’ to handle bulk grain.

Figure 5 details the number of grain trains currently operational in NSW, noting this number can vary depending on seasonal conditions.

Figure 5. NSW Standard Gauge Export & Domestic Trains

| Exporter | NSW Trains | Rail Provider | Domestic | NSW Domestic |
|------------------------|------------|---------------|------------------------|--------------|
| | | | | |
| Total Trains | 18 | | Total Trains | 7 |
| GrainCorp Share | 56% | | GrainCorp Share | 0% |

4. BULK GRAIN PORT TERMINALS AT PT KEMBLA

Figure 6. Comparison of Southern NSW port terminals

| Capability | GNC Port Kembla | Qube Quattro |
|--------------------------|---------------------------------|---------------------------------|
| Rail receipt | up to 3,600 TPH | up to 2,000 TPH (est) |
| Road receipt | up to 250 TPH | up to 350 TPH (est) |
| Ship loading | up to 5,000 TPH | 1,200-1,500 TPH |
| Berth draft | 16.25m | 14.5m |
| Vessel capacity | 120,000 DWT | 70,000 DWT (est) |
| Storage capacity | 260,000 tonnes Vertical Storage | 100,000 tonnes Vertical Storage |
| Shipping capacity | 4.3 million tonnes per annum | 1.3 million tonnes per annum |

4.1 GRAINCORP PORT KEMBLA

The GrainCorp Port Kembla facility is located within the Inner Harbour at Port Kembla. Port Kembla can handle all cereal grains, legumes and oilseeds. The facility has rail and road intake/receipt, grain storage and weighing facilities, and two ship loaders.

The NSW Government commissioned construction of the Port Kembla elevator in 1985 to replace the Sydney grain export elevator that was commissioned in 1922. Construction at Port Kembla was completed in 1989.

The Port Kembla facility is managed by GrainCorp on leased land and wharf from NSW Ports. The wharf is available to other users on an as needs basis.

GrainCorp has operated a first-in-first served capacity allocation model for vessel slots to customers since 2009. Since 2013 it has operated a long term capacity allocation model for some of Port Kembla's port capacity.⁴

Within the Port Kembla Port Zone, GrainCorp operates 50 country silos and transport arrangements for rail and road. GrainCorp's Port Kembla customers have the opportunity to utilise this network when planning accumulation strategies, managing risk and servicing clients.

Available capacity at Port Kembla Port Terminal has never been fully utilised across the year. The prevailing drought conditions in some areas and competing interests for grain from within the Port Kembla Port Zone have resulted in less grain moving to export at Port Kembla.

GrainCorp has shipped on average 1.3 million tonnes of bulk grain from its Port Kembla Port Terminal. The dominant export commodity is wheat (77%) followed by canola (13%).

Based on exports for the past 5 years (post removal of the single desk) the largest 3 exporters represent around 96% of total exports, they are:

- GrainCorp with 44%.
- Cargill with 33%, and

⁴ GrainCorp Long Term Capacity Allocations 1 October 2013 - 30 September 2016

- Glencore with 18%.

Most of GrainCorp's export customers have access to alternative supply chains. Cargill is a participant in the Quattro Grain Terminal and have a call option to acquire an equity stake of 20%.⁵ (Quattro is owned 50:50 by Qube Holdings and Noble Resources).

Figure 7. Customer and Commodity Metrics – GrainCorp Port Kembla Terminal Exports

Customer Metrics - GrainCorp Port Kembla Terminal Exports

| Million tonnes | | | | | | | | | | | 5 Year Adj Average | |
|----------------|-------------|-------------|-------------|----------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|-------------|
| Customer | FY05 | FY06 | Drought | | | FY10 | FY11 | FY12 | FY13 | FY14 | Average | Share |
| | | | FY07 | FY08 | FY09 | | | | | | | |
| | | | | | | | | | | | 0.56 | 44% |
| | | | | | | | | | | | 0.42 | 33% |
| | | | | | | | | | | | 0.23 | 18% |
| | | | | | | | | | | | 0.04 | 3% |
| | | | | | | | | | | | 0.01 | 1% |
| | | | | | | | | | | | 0.00 | 0% |
| | | | | | | | | | | | 0.00 | 0% |
| | | | | | | | | | | | 0.00 | 0% |
| | | | | | | | | | | | 0.00 | 0% |
| Total | 1.06 | 1.66 | 0.09 | - | 1.11 | 0.60 | 2.14 | 3.01 | 1.98 | 1.10 | 1.27 | 100% |

Commodity Metrics - GrainCorp Port Kembla Terminal Exports

| Million tonnes | | | | | | | | | | | 10 Yr Avg | |
|--------------------|-------------|-------------|-------------|----------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Customer | FY05 | FY06 | Drought | | | FY10 | FY11 | FY12 | FY13 | FY14 | 10 Yr Avg | Share |
| | | | FY07 | FY08 | FY09 | | | | | | | |
| Wheat | | | | | | | | | | | 1.02 | 77.1% |
| Canola | | | | | | | | | | | 0.14 | 12.7% |
| Barley | | | | | | | | | | | 0.11 | 9.5% |
| Other | | | | | | | | | | | 0.01 | 0.8% |
| Grand Total | 1.06 | 1.66 | 0.09 | - | 1.11 | 0.60 | 2.14 | 3.01 | 1.98 | 1.10 | 1.27 | 100% |

4.2 QUBE QUATTRO PORT TERMINAL

The Quattro Grain (**Quattro**) joint venture has been established to construct and operate a new grain handling facility at Port Kembla. Quattro will manage the new facility and co-ordinate the rail, stevedoring and other logistics activities through the facility. Quattro Grain is initially owned equally by Qube Holdings (**Qube**) (50%) and Noble Resources (**Noble**) (50%). The joint venture partners have each granted separate call options to major grain exporters Cargill Group (**Cargill**) and Emerald Group (**Emerald**), which if exercised, would enable these parties to each acquire up to a 20% stake in Quattro.⁶

Quattro will sub-lease land from Australian Amalgamated Terminals (AAT), which is 50% owned by Qube. The project comprises an upgrade to berth 103 Inner Harbour to accommodate large bulk carriers up to 225 metres in length (Panamax-size vessels) and construction of a new grain storage facility with a 100,000-tonne capacity.⁷

The proposed new facility will have the capacity to handle in excess of 1.3Mt of export grain per annum and is expected to be operational by October 2015.

⁵ Qube Holdings Ltd, Capital raising investor presentation, March 2014. Available at: http://www.qube.com.au/downloads/announcements/Investor_Presentation_Capital_Raising.pdf

⁶ Qube Holdings Ltd, Capital raising investor presentation, March 2014. Available at: http://www.qube.com.au/downloads/announcements/Investor_Presentation_Capital_Raising.pdf

⁷ NSW Ports, Media release, Port infrastructure upgrades to increase grain capacity, 27 March 2014, Available at: <http://www.nswportskembla.com.au/assets/Press-Releases/NSWP-Media-Release-B103-Upgrade-Qube-Noble-grain-FINAL.pdf>

Specifically, the project involves:⁸

- Construction of ten x 10,500 tonne capacity, 38 metre high silos;
- Dredging of approximately 120,000 cubic metres to increase berth depth to 14.5m;
- Installation of an overland covered conveyor to link the existing rail siding to the new silos and a road receival hopper; and
- Installation of a 1,200-1,500 TPH capacity out loading conveyor to connect to a mobile ship loader and batch weighing system.

Qube has entered into new contracts for the provision of bulk rail services by Qube Logistics to participants in the Quattro joint venture. Qube has indicated that new rail services will represent a total of around 150 bulk rain services per annum per customer once fully operational. Noble will use Qube's rail services on a "take or pay" basis and the grain traders Emerald and Cargill will use Quattro and Qube's rail services.

It is anticipated that Quattro shareholders will direct grain from their country silos to the Quattro Port Terminal by rail and road: from Emerald's storage and receival sites at Ardlethan, Coolamon, Goolgowi and The Rock; and from Cargill's country sites located at Nyngan, Gilgandra, Narromine, Bogan Gate, Stockinbingal, West Wyalong, Temora and Grong Grong.

Figure 8. Port Kembla – Location of Quattro Terminal development



⁸ NSW Ports, Media release, Port infrastructure upgrades to increase grain capacity, 27 March 2014, Available at: <http://www.nswportskembla.com.au/assets/Press-Releases/NSWP-Media-Release-B103-Upgrade-Qube-Noble-grain-FINAL.pdf>

5. COMPETITION ANALYSIS

The NSW grain industry is diverse and competitive. Figure 9 outlines the key indicators for the Central and Southern NSW grain industry over the past decade, providing 10 year averages. The key indicators demonstrate the diversity of the NSW grain market:

- GrainCorp country silos typically handle around 50% of grain production.
- The large domestic market consumes 4Mt, or 70% of grain production.

The container export market has increased rapidly from 0.2Mt up to a peak of 0.7Mt, on the back of low cost container rates and low barriers to entry. This market handles an estimated 0.5-0.6Mt from Southern NSW (representing 9% of grain production). Containers usually have first call of export grain, as demonstrated by their higher share of export grain (rising to 100%) in drought years.

- The bulk export market handles on average 1.3Mt of surplus grain that is not consumed by the domestic and export container markets, (23% of grain production in an average year).

Figure 9. Grain Market and Competition Metrics – Central and Southern NSW

Grain Market and Competition Metrics - Central and Southern NSW

| Million tonnes | Drought | | | | | | | | | | 10 Yr Avg | |
|-------------------------------|---------|------|------|------|------|------|------|------|------|------|-----------|-------|
| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | Avg | Share |
| Grain Production | | | | | | | | | | | 5.6 | |
| GNC Receivals | | | | | | | | | | | | |
| GNC Country Share | | | | | | | | | | | | |
| Bulk Export | | | | | | | | | | | 1.3 | 23% |
| Estimated Containers (1) | | | | | | | | | | | 0.5 | 9% |
| Container share | | | | | | | | | | | 27% | |
| Grain Exports | | | | | | | | | | | 1.7 | 31% |
| Estimated Domestic (2) | | | | | | | | | | | 3.8 | 69% |

(2) Average reflects underlying domestic demand. Year to year varies due to g carry over stocks

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

5.1 EXCESS BULK GRAIN EXPORT CAPACITY

NSW has significant excess bulk export grain capacity. With the commissioning of the new Quattro terminal at Port Kembla, NSW will be serviced by five bulk grain facilities. Furthermore, subject to seasonal conditions and freight economics, some grain from the furthest southern regions of NSW such as Henty, is drawn down to the Port of Melbourne.

Port Kembla will have a combined bulk elevation capacity of at least 5.6Mt per annum:

- 4.3Mt at GrainCorp's Port Kembla Port Terminal; and
- 1.3Mt at Qube's Quattro Port Terminal;

Average utilisation of bulk port elevation at Port Kembla will be only 23%, (based on an average bulk export task of 1.3Mt); or 53% (based on the peak bulk export task of 3.0Mt).

Figure 10. Estimated Total Bulk Export Capacity in NSW

| Port Elevator | Capacity | Portion | Utilisation | |
|-----------------------|------------------|-------------|-----------------------|------------------------|
| | Tonnes | Share | Avg Export / Capacity | Peak Export / Capacity |
| GNC Port Kembla | 4,300,000 | 77% | | |
| Qube Quattro | 1,300,000 | 23% | | |
| Total Capacity | 5,600,000 | 100% | 23% | 53% |
| Bulk Exports | | | 1,269,996 | 2,973,902 |

NSW has significant excess bulk export capacity for both annual and average monthly throughput, resulting in low levels of utilisation in an average production year.

Figures 11 & 12 show that, based on an average export task of 1.3Mt:

- Port Terminal utilisation is very low, with average port storage capacity turning over only 5 times a year. This compares to 26 to 52 turns at port terminals in North America.
- Annual capacity utilisation averages 23% (ranging from 0%-53%). In six of the past 10, years the competing Quattro Port Terminal would have enough capacity to handle the entire export task for the Port Kembla port zone.
- Average monthly utilisation of capacity ranges from 20% to 40%. In 6 of the 12 months, Quattro Port Terminal would have enough capacity to handle all of the Port Kembla port zone’s export task.

Figure 11. Total grain elevation capacity vs. NSW Bulk Exports – Annually

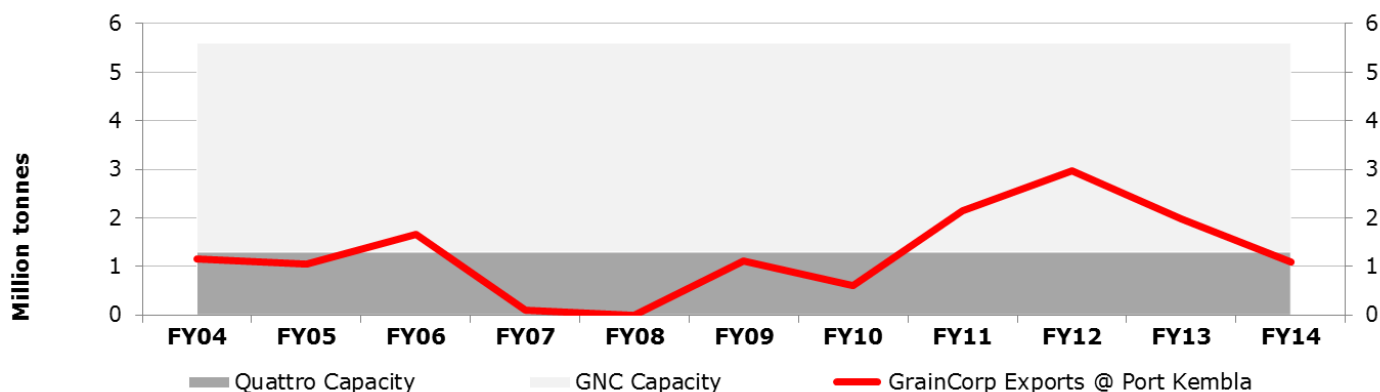
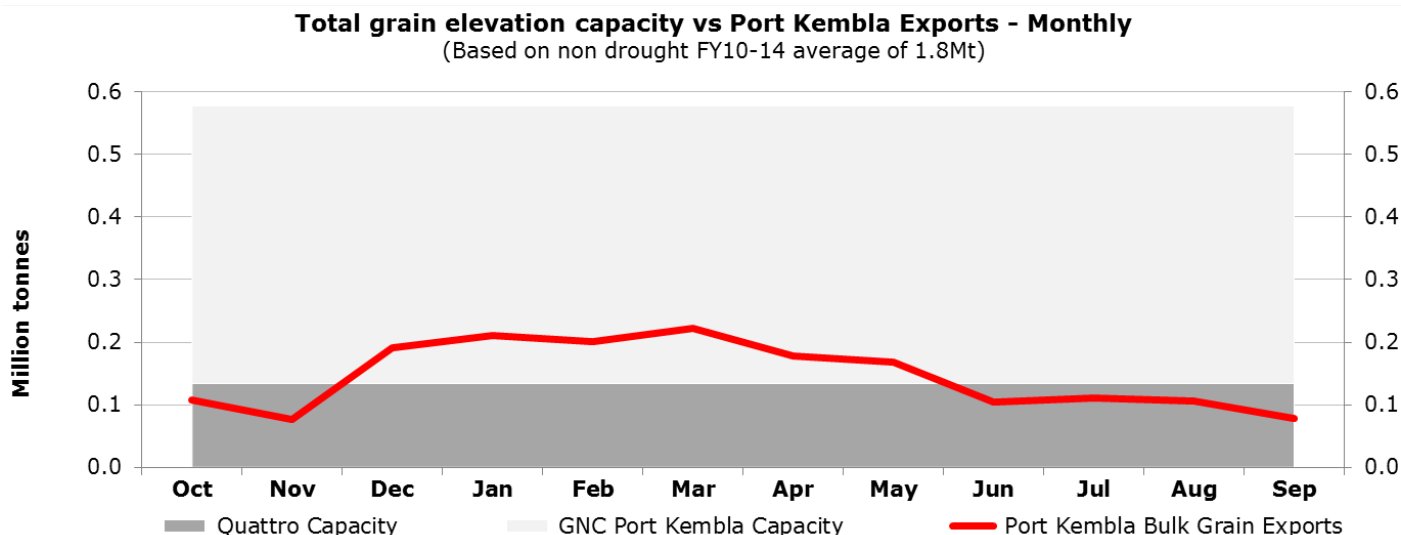


Figure 12. Total grain elevation capacity vs. Port Kembla Exports – Monthly



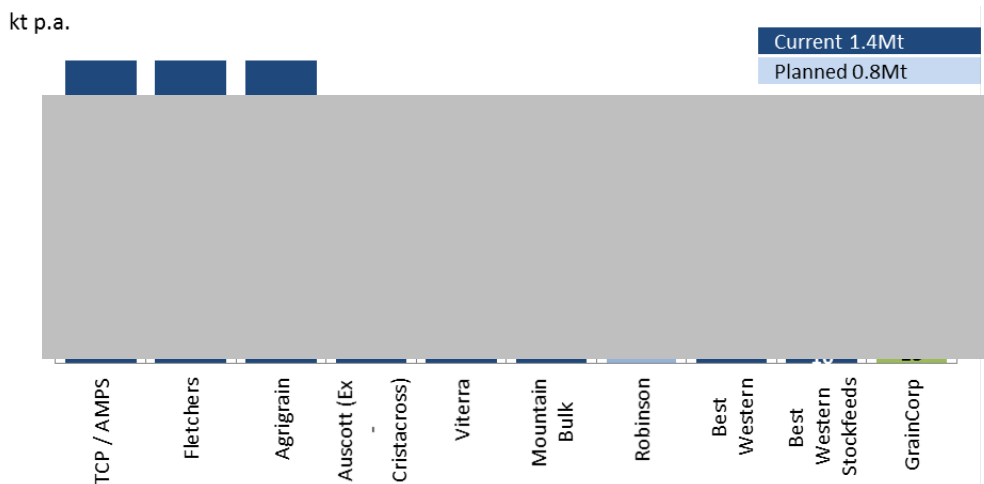
5.2 COMPETING EXPORT CONTAINER PACKERS

The non-regulated export container market is a major and growing competitor for bulk wheat and other grains (eg barley and pulses) across eastern Australia. In NSW, GrainCorp faces competition from 9 major container packers with an estimated total packing capacity of around 1.4Mt (see Figure 13).

In the last five years, on average 0.6Mt has been exported by containers, peaking at 0.7Mt.



Figure 13. Container packers and throughput capacity estimates – NSW



Source: GNC estimates

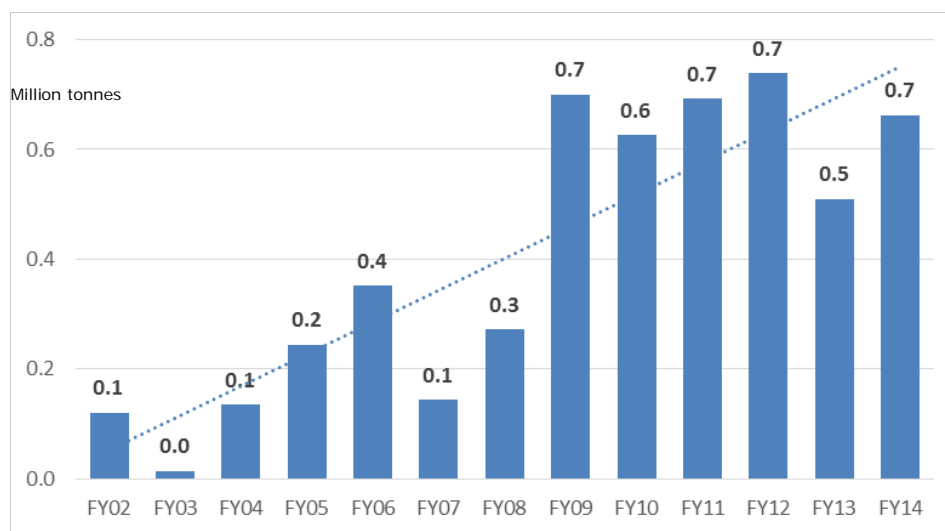
Export of grain in containers has expanded significantly over the last 10 years with a compound annual growth rate (CAGR) of 13% and average annual volume over the last 5 years of 0.6Mt, representing 26% share of exports.

Strong growth in container exports has been driven by:

- Deregulation for container exports in 2004, which allowed containers exports 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 around 2Mt.

Figure 14. NSW containerised wheat exports



Container packing facilities are located in country areas tributary to Port Botany, the second largest container port in Australia. Port Botany has recently undergone a major expansion of its facilities to

cater for long term trade growth. The Port Botany expansion project comprises the following developments, as outlined on the NSW Ports company website:⁹

- Construction of a third container terminal;
- 1,850 metres of additional wharf face for five extra shipping berths;
- 60 hectares of reclaimed terminal land;
- Deep water berths with depths of up to 16.5 metres;
- Dredging of approximately 7.8 million cubic metres of fill material to create shipping channels and berth boxes;
- Dedicated road access to the new terminal area;
- Additional rail sidings to provide rail access to the new terminal area;
- Additional tug berths and facilities; and
- Community facilities including boat ramp, look outs, pathways.

According to ABS statistics, Port Botany has exported on average 0.6Mt of wheat per annum over the last 6 years (limited data available on other grain exports).

5.3 EXCESS COUNTRY STORAGE CAPACITY

The large range of marketing options in NSW has supported 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.

NSW has significant excess country storage capacity as outlined in Figure 15. GrainCorp estimates that Central and Southern NSW has total storage capacity of 14Mt. Average utilisation of country storage is only 41% based on an average grain production of 5.6Mt.

Figure 15. Estimated Total Country Capacity in Central and Southern NSW

| Country Storage | Capacity | Portion | Utilisation | |
|---------------------|-------------------|-------------|---------------------------|----------------------------|
| | Tonnes | Share | Avg Production / Capacity | Peak Production / Capacity |
| GrainCorp | 6,500,000 | 48% | 86% | 148% |
| Other bulk handlers | 2,919,000 | 22% | 192% | 330% |
| On-farm | 4,100,000 | 30% | 137% | 235% |
| Total | 13,519,000 | 100% | 41% | 71% |
| Production | | | 5,597,383 | 9,644,685 |

GrainCorp operates 50 country silos in Central and Southern NSW with a total capacity of 5Mt. These silos receive on average 2.9Mt of grain, representing an average market share of 51% against average grain production of 5.6Mt.

The volume of grain bypassing GrainCorp country silos ranges from 1.2-3.9Mt, demonstrating the capability and capacity of alternative supply chains.

GrainCorp faces competition from around 40 major independent country silos. These country silos are owned by competitors including major grain exporters Cargill, Emerald, Glencore and Louis Dreyfus.

- These competing country silos have an estimated capacity of nearly 3Mt, which directly compete against 50% of GrainCorp’s average receivals.

⁹ NSW Ports website, Port Botany Expansion. Available at: <http://www.nswportsbotany.com.au/projects-and-planning/port-botany-expansion/>

- Most of these competing 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.

GrainCorp also faces significant competition from on-farm storage. NSW is estimated to have in excess of 6Mt of on-farm storage, of which around 4Mt is located in southern and central NSW.

Growers in NSW 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."¹⁰

Figure 16. Competitive Country Landscape - NSW



Source: GNC analysis

¹⁰ 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 – Central NSW

| Competitor | Site | Capacity |
|---|------|------------------|
| | | |
| Total Central NSW Competition Capacity | | 1,641,000 |

Major independent country sites – Southern NSW

| Competitor | Site | Capacity |
|--|------|------------------|
| | | |
| Total Southern NSW Competition Capacity | | 1,649,000 |

APPENDIX 2: COMPETITOR STORAGE & HANDLING NETWORKS

GrainFlow (Cargill) Storage and Handling Network¹¹



Emerald Grain Storage and Handling Network¹²



¹¹ GrainFlow, GrainFlow Centres. Available at: http://www.grainflow.com.au/NR/rdonlyres/9595CCE5-0896-478A-8A6E-C56683DFFF22/0/GrainFlow_Centres_Detailed_Map2.pdf

¹² Emerald Grain, Our Storage and Handling Network. Available at: <http://www.emeraldgrain.com/grower-services/store-and-move-grain/our-network/>