QUEENSLAND BULK TERMINALS
A WILMAR GAVILON COMPANY

SUBMISSION

Queensland Bulk Terminals application for continued exemption from the *Competition and Consumer (Industry Code - Port Terminal Access (Bulk Wheat)) Regulation 2014*.

29 May 2015

EXEMPTION APPLICATION

Queensland Bulk Terminals Pty Ltd (**QBT**) makes this submission to the Australian Competition and Consumer Commission (**ACCC**) in support of its application for QBT to be determined to be an exempt service provider pursuant to clause 5(2) of the *Port Terminal Access (Bulk Wheat) Code of Conduct* (the **Code**).

SUMMARY

QBT is the operator of the QBT bulk grain terminal located at 156 Colmslie Rd, Murrarie in the Port of Brisbane (**Brisbane**), which competes with the other Brisbane grain terminal, being the Fisherman Islands Port Terminal operated by GrainCorp Operations Limited (**Graincorp**). QBT was a new entrant to the market in 2011 (following acquisition and conversion of a bulk sugar terminal) and has sought to compete volume away from then incumbent Graincorp operations.

QBT acknowledges it is a port terminal service provider for the purposes of the Code. However, it has not previously been required to provide the ACCC with a Part IIIA access undertaking (under the *Wheat Export Marketing Act 2008* (Cth)) and was providing port terminal services prior to 30 September 2014. As such, QBT remains exempt from the Code until 1 October 2015 under clause 4(6) of the Code.

QBT is a wholly owned subsidiary of Wilmar Gavilon Pty Ltd (**WG**), which is ultimately 50% owned by each of Wilmar International Limited and Marubeni Corporation.

WG is an exporter of grain in Brisbane, such that there is a degree of vertical integration between QBT and WG's businesses. However unlike various competing vertically integrated models, within Australian port terminal services providers, QBT has no ownership in up-country supply chain assets. QBT therefore is at a relative disadvantage to the competing GrainCorp terminal, for which a large up-country receival network exists. QBT’s ability to influence utilisation of its port terminal is therefore limited to providing a flexible and competitive offering at its port facility only, in order to maximise throughput.

The Brisbane port zone is also subject to strong competition from alternative and competing uses, with Brisbane supporting a large domestic consumer base and robust container packing market coupled with excess port capacity. It is important to note that in most years the Brisbane port zone is a net importer of grains for domestic consumption mostly from northern NSW and the central QLD growing region.

QBT is also restricted by result of being a road only facility and by existing river draft issues which prevent the loading of larger Panamax vessels that can be catered for by GrainCorp's terminal. GrainCorp, via up-country receival networks, also has access to a larger pool of grain from which to attract exports by use of rail infrastructure that is significantly freight advantaged over road in certain parts of the Brisbane port zone.

QBT's continued exemption from Parts 3 to 6 of the Code is therefore considered critically necessary to:

- ensure QBT maintains the current flexibility to react to competitive market influences, namely the large domestic consumptive market, container packing market and GrainCorp’s competing port terminal;
- maintain QBT’s competitive offering to bulk grain exporters;
- ensure that the Code does not impose unnecessary administrative burden and costs on QBT when it is already vigorously competing; and
- support the continued investment by QBT and optimisation of port services to minimise costs, and ensure a competitive and efficient supply chain for the Australian grain industry.

DETERMINATION MATTERS

In making a determination as to whether a port terminal service provider should be determined to be an exempt service provider, the ACCC must have regard to the matters set out in section 5(3) of the Code.

QBT has set out below, how the matters in section 5(3) of the Code relate to QBT and its application for exemption.

(a) The legitimate business interests of the port terminal service provider

The Brisbane port zone is one of the most competitive port zones in the Australian grain market with limited exportable surplus driven by seasonal production variances, large consumptive demand and significant excess capacity in container packing assets.

A continuation of QBT's exemption will allow QBT to dynamically compete for bulk export tonnes on sound commercial terms, to ensure that investment capital is optimised in order to reduce supply chain costs and to ensure the QBT terminal remains competitive with the nearby GrainCorp terminal and internationally competitive more generally. As a relatively new entrant, QBCT needs the flexibility to compete as vigorously as possible to attract volumes away from the GrainCorp terminal.

It would be contrary to QBT's legitimate business interests to be subjected to regulatory burden and the related costs when there would be no benefit to competition, grain exporters or growers, or the public from doing so.

(b) The public interest, including the public interests of the port terminal services provider

The continued exemption for QBT will ensure that a focus on reducing supply chain costs and competitive and responsive pricing continues to provide a potential source of competitive advantage for QBT. Lower costs of terminal storage and handling ultimately lead to higher on farm prices but these may not be the only benefits.

Supply chain efficiencies may be part of a broader supply chain strategy by QBT clients that may include future investment or partnerships in storage and freight assets. Any such investments would support growth within the Australian agribusiness sector and regional communities.

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

Exporters have access to two competing grain terminals in Brisbane.

Exports from QBT began in late 2011 (as a new entrant following QBT's acquisition and conversion of what was previously a bulk sugar terminal) and in that time, close to 1 million metric tonnes of bulk grains has been shipped from QBT. WG (including associated entities) has accounted for approx. [redacted]% of total exported volumes from QBT through to the 2013/14 marketing year (see table 1 below):

Table 1: QBT Exports by Customer

Client	11/12	12/13	13/14	Avg	%
[redacted]					

As should be clear from that data, QBT is reliant on continuing to be a multi-user facility, and given existing surplus capacity in the facility, is incentivised to compete vigorously to obtain a larger share of volumes from those and other marketers of grain.

All of QBT's export customers have also utilised GrainCorp for export through Brisbane over the same time period.

The ability to attract tonnage to QBT at times has been limited with a competitive offering unable to overcome the financial implications for marketers of take or pay rail and/or shipping slots (reallocated from out of zone ports).

It is not in the interests of exporters to take away the commercial flexibility that QBT needs in order to challenge GrainCorp's incumbency or impose additional costs on QBT which make it harder to provide competitive pricing.

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(d) The likelihood that exporters of bulk wheat will have fair and transparent access to port terminal services

Significant excess capacity in Brisbane ensures QBT remains commercially incentivised to attract export volumes to maximise asset utilisation.

If QBT does not compete vigorously on price and service with GrainCorp, it will simply quickly lose business to GrainCorp.

The Brisbane port zone is also subject to strong competition from alternative and competing markets. QBT competes with a large domestic consumer base and a robust container packing market for exportable tonnage.

The significant capacity that exists in the bulk export market also ensures QBT remains incentivised to attract volume from all grain exporters as opposed to attempting to favour its own or associated entity's trading arm.

(e) The promotion of the economically efficient operation and use of the port terminal facility

As per the above, given the strong competition QBT faces from various parts of the supply chain the ability to offer flexible and innovative port terminal services to all exporters will drive efficient (and increased) utilisation of QBT and associated supply chain assets in the delivery of port terminal services.

QBT is not a monopoly which can afford to be inefficient.

(f) The promotion of efficient investment in port terminal facilities

Investment in port terminal facilities will ultimately be driven by financial returns.

Given the high level of competition in Brisbane, QBT strongly favours continuation of the exemption to allow flexible and innovative supply chain offerings and responsive pricing that will help to drive higher utilisation and/or lower costs supporting future port and supply chain investment.

(g) The promotion of competition in upstream and downstream markets

It is unlikely that QBT's continued exemption would lessen competition in upstream and downstream markets. As previously mentioned, the size of the domestic consumptive demand and up country packing facilities limits any ability for QBT to exercise power over the Brisbane port zone.

The excess capacity that exists has and will continue to provide Growers with a range of downstream markets to maximise on farm returns, for which a competitive export market is essential.

As previously noted, QBT's activities to date have not been regulated, so the introduction of the Code and application from 1 October 2015 of Parts 1 and 2 of the Code to all port terminal service providers will already impose more regulation on QBT than currently exists.

(h) Whether the port terminal service provider is an exporter or an associated entity of an exporter

QBT is a port terminal service provider as defined at clause 3 of the Code. QBT is a wholly owned subsidiary of WG, which as outlined above is an exporter of grain under the Code.

However, the volumes exported by WG are relatively small compared to the volumes exported by the major Australian grain exporters (including GrainCorp).

(i) Whether there is already an exempt service provider within the grain catchment area for the port concerned

QBT is currently exempt under the Code through to 1 October 2015 (and was not regulated under the previous grain access regime under the *Wheat Export Marketing Act 2008* (Cth)). This application is merely seeking to maintain that status quo.

(j) Other relevant factors

Unlike many of the major grain terminal providers, any costs of compliance imposed on QBT would be borne by a single-terminal operation and would have a disproportionate impact on its effective cost base per terminal.

BRISBANE PORT ZONE COMPETITION ANALYSIS

The availability of grain for export in the Brisbane Port Zone (**Brisbane**) is subject to large swings in production and robust demand from domestic end-users. Consequently significant surplus capacity exists in both container and bulk export assets. This creates an extremely competitive environment for growers with a large number of routes to market across domestic and export grain markets.

Production

The 10 year average for total grain (barley, wheat, sorghum) production in Brisbane is 2.2 million metric tonne (**MMT**) with production over the same period varying from a low of 0.9MMT to a high of 3.2MMT (see Table 2 below).

Figure 1: Brisbane Port Zone Production by Commodity

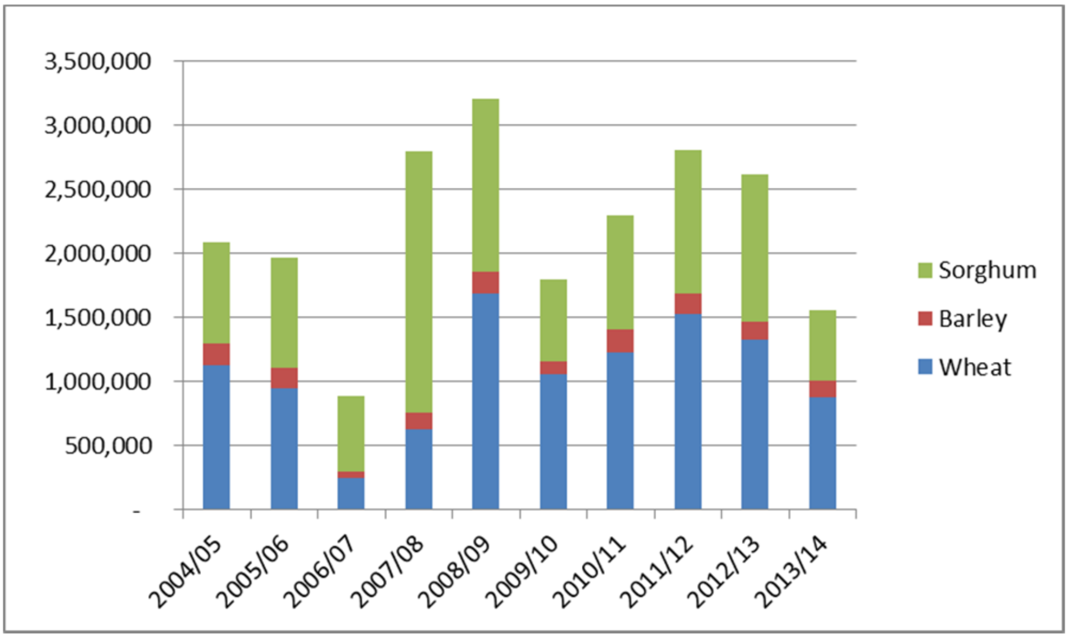


Table 2: Brisbane Port Zone Total Production 10 YR Summary

Port Zone	5 YR AVG	10 YR AVG	10 YR MIN	10 YR MAX
Brisbane	2,216,496	2,204,450	892,208	3,208,292

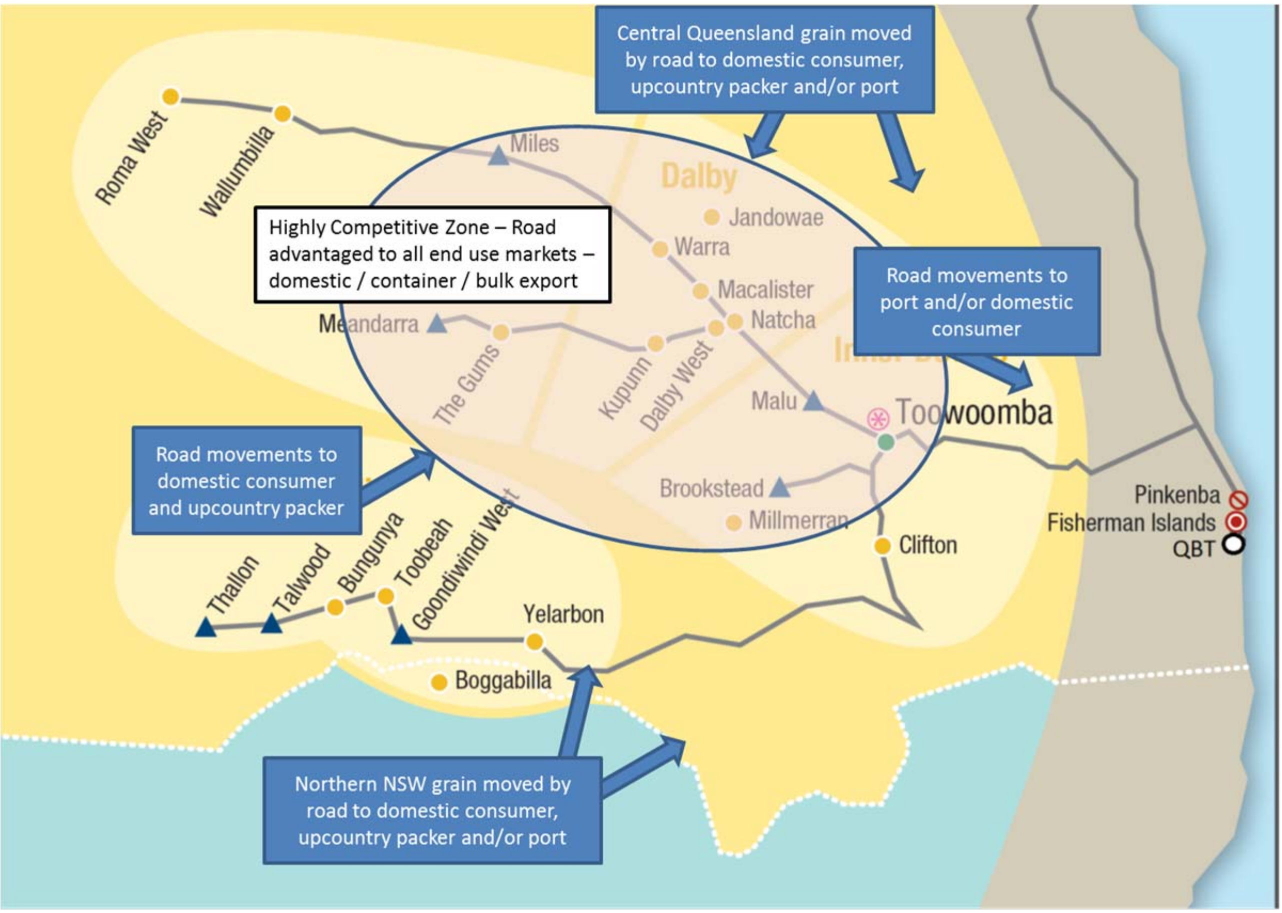
Source: ABS

Usage

The Brisbane port zone is dominated by domestic end-users with demand requirements close to 100% of total Brisbane grain production. Domestic consumption in Brisbane is estimated to be on average circa 2.0MMT. As a result we also estimate the total amount of 'out of zone' grain delivered into the Brisbane port zone to be circa 1MMT.

These interstate grain movements come from a variety of sources with malt barley imported from southern states and the balance sourced from Northern New South Wales and Central Queensland (**CQ**) production regions. In dryer years where production of grain has been limited, feed grains and milling wheat has also been imported from VIC, SA and WA.

Figure 2: Brisbane Port Zone Catchment



Source: Base map GrainCorp Operations Ltd

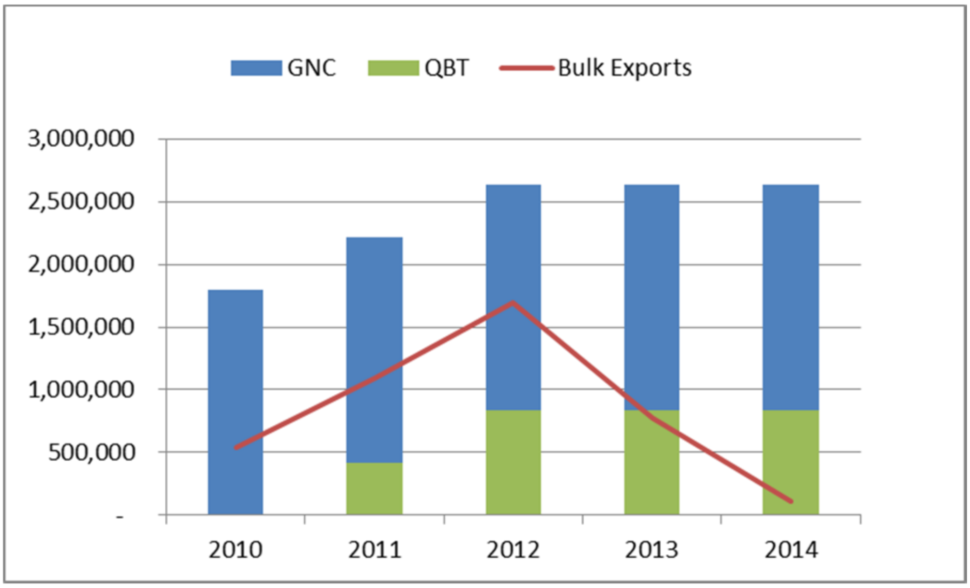
Capacity

Domestic consumption in Brisbane is estimated to be on average approx. 2.0MMT. If we also estimate the total amount of 'out of zone' grain delivered into the Brisbane port zone of approx. 1MMT this would leave approx. 1.2MMT available for export based upon 5-10 year averages.

This is supported by export data below (see Figure 3) which shows exports for both bulk and container from the Port of Brisbane averages circa 1.15MMT (note this excluded chickpeas and cottonseed).

Brisbane has significant surplus export bulk grain capacity with average capacity utilisation at 35% and peak capacity utilisation 64%. Adjusting for the more opportunistic and sporadic chickpea and cottonseed export market, which can lessen available capacity circa 200,000 MT, then utilisation figures move to 39% and 70% respectively. In real tonnage terms this 800,000 MT of available capacity in peak periods.

Figure 3: Bulk Export capacity vs Exports – 2010 through 2014



Source: ABS and QBT analysis (figures in metric tonnes)

Transport

The production and consumptive points for grain in Brisbane are reasonably condensed with grain moved predominantly by road. Rail is limited in use predominantly for the movement of grain to port for export with the majority from western Brisbane sites where rail has significant costs advantages over road shipment. For that reason, for growers in grain growing regions connected to rail, there are some barriers to QBT effectively competing with GrainCorp.

Given the significant domestic demand, road shipments from northern NSW and CQ become competitive vs. the competing export markets within their natural port zones given the short distances by road to domestic end-users. Grain exported from within these zones, are subject to longer hauls, where rail is unable to create enough incentive to prevent the interzone movements (see Figure 2 above).

With such a significant amount of competition for available grain in the Brisbane Port Zone Road is the preferred carrier and for a large majority of the production areas, is competitive versus rail (see Figure 4 below).

Figure 4: Freight movement – Road vs Rail

BRISBANE PORT TERMINALS

Within the Brisbane port zone there are currently 2 port operators operating 2 port grain terminals:

1. Queensland Bulk Terminals – 100% subsidiary of Wilmar Gavilon
2. GrainCorp Fisherman Islands Terminal

There are three main advantages the GrainCorp facility has over QBT: (i) rail receival capability, (ii) a large upcountry storage network to support rail transport and (iii) a deep water berth that can serve Panamax vessels. The use of Panamax vessels provides freight efficiencies which can attract grain away from QBT.

Storage capacity at QBT is also limited in that, being flat storage, segregation capabilities are limited. The GrainCorp terminal is advantaged by having significantly upright storage, providing greater segregation capability.

Figure 5: Brisbane Port Terminal Key Comparisons

	GrainCorp - Fisherman Island	QBT
Capacity	1,800,000 MT	840,000 MT
Storage	112,700 MT	70,000 MT
Rail Receival	Yes - up to 2,200 TPH	No
Road Receival	Yes - up to 400 TPH	Yes - up to 350 TPH
Ship Loader	2,200 TPH	1,200 TPH
Vessel Size	up to Panamax	avg Handymax

TPH = Metric Tonnes per Hour

Queensland Bulk Terminals (**QBT**)

QBT is located at 156 Colmslie Rad, Murrarie in the Port of Brisbane (see Figure 6 below).

The annual elevation capacity is 960,000 MT and with the recent upgrade of the QBT shiploader has the ability to load vessels up to 55,000 DWT subject to draft restrictions. The shiploader has capacity up to 1,200 TPH. Receival into the QBT facility is by **road only** with a current rate of up to 350 TPH.

The QBT facility has handled wheat, barley, sorghum, chickpeas and salt since 2011. Previously the terminal was a bulk sugar export facility.

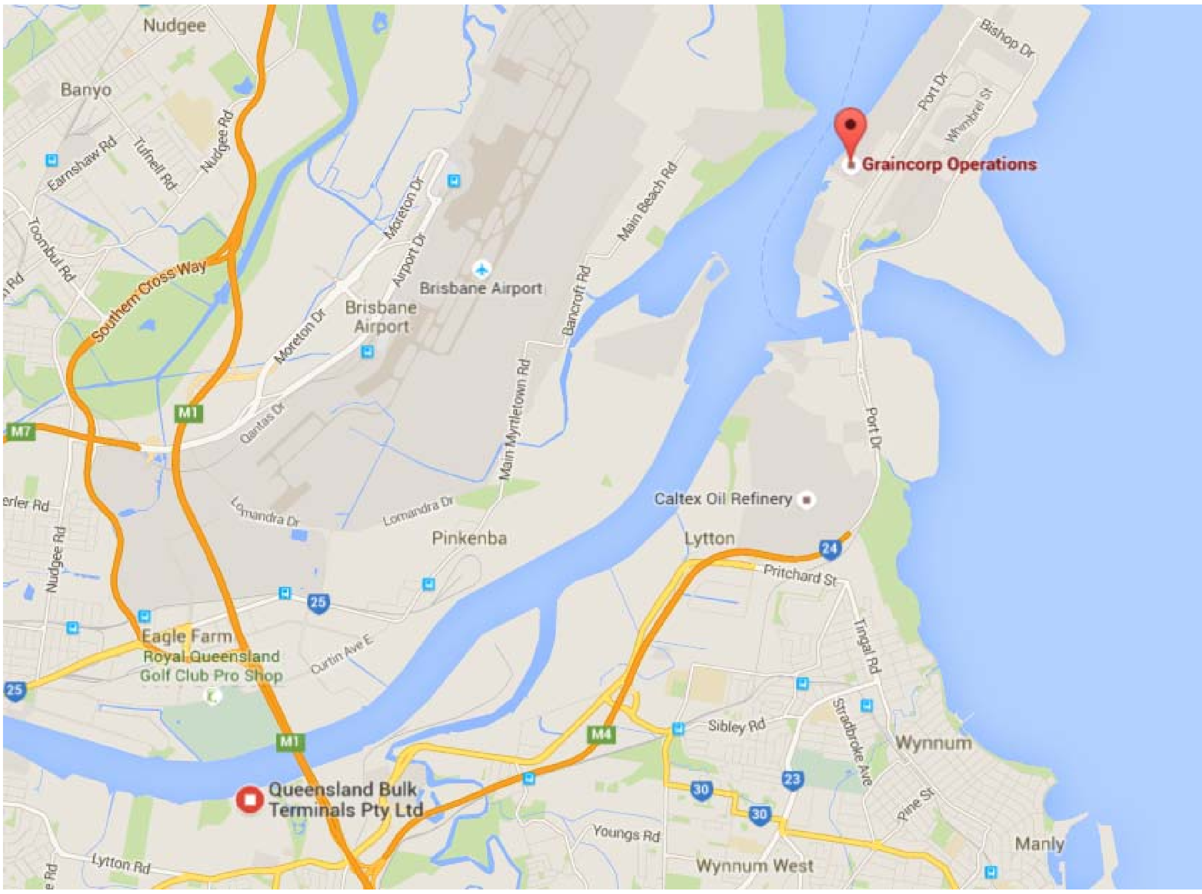
GrainCorp Fisherman Island

GrainCorp Fisherman Island terminal is located approx. 16km from the QBT terminal at the Port of Brisbane (see Figure 6 below).

The annual elevation capacity is approx. 1,800,000 MT with capacity to load Panamax size vessels at a load rate up to 2,200 TPH. Receival into the GrainCorp site is by both road and rail with rates of 2,200 and 400 TPH respectively.

The Fisherman Island terminal can handle wheat, barley, sorghum, legumes, oilseeds, cottonseed, mineral sands, sugar and woodchips.

Figure 6: Brisbane Port Zone Export Terminal Locations



Source: Google Maps