



Response

Riordan Grain Services application for exemption from the Port Terminal
(Bulk Wheat) Code of Conduct

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GrainCorp
100 YEARS OF GROWTH

1. Executive summary

GrainCorp notes the recent submission by Riordan Grain Services for exemption of its operations at Corio Quay North and Portland from the Port Terminal (Bulk Wheat) Code of Conduct (“the Code”), and the publication of the ACCC’s Issues Paper on 26 October 2018.

As part of this process, GrainCorp is formally requesting the ACCC concurrently to consider exemption for GrainCorp’s export facility at Portland from Parts 3-6 of the Code.

This development demonstrates the progressively lower barriers to entry for port terminal operators, it underscores the excess in export capacity and it intensifies the competition that already exists for export grain in Victoria.

GrainCorp is committed to serving the Australian grain industry by providing open access at our ports. Exporters are readily able to access alternative, competing supply chains and GrainCorp has a strong commercial incentive to maximise throughput at its facilities. Significant excess capacity in the grain supply chain – and specifically at the Portland terminal – and strong competition within country and export grain infrastructure across Victoria (and further abroad) constrains GrainCorp’s ability to favour itself.

Experience and the ACCC’s own data at exempt port terminals¹ clearly demonstrate GrainCorp’s commitment and track record as an open access port operator to export customers, even where ports have been exempted from the Code.

2. Competitive environment for grain exports in Victoria

Grain production in Victoria is highly variable, ranging between 3.57 million tonnes and 9.51 million tonnes since the 2015-16 harvest. Average production over that period is 6.9 million tonnes² (see Figure 1).

The market for grain in Victoria is one of the most competitive in Australia, with a range of substitutable demand alternatives, as outlined in Figure 2.

The large domestic market consumes a significant share, averaging approximately 40% of Victoria’s grain production (2.8 million tonnes per annum).

The container market generally has first call on export grain and has grown rapidly, averaging 1.4 million tonnes per annum in the past three completed export seasons. In drought years, container exports account for up to 70% of total grain exports from Victoria.

Bulk grain exports are generally restricted to the surplus remaining after domestic and container demand is satisfied. This means that bulk exports are highly volatile, ranging from 990,000-4.85 million tonnes over the past three years.

Figure 1: Grain production & bulk exports in Victoria (tonnes)

	2015/16	2016/17	2017/18 s	2018-19 f
Production	3,566,000	9,509,000	7,652,000	4,900,000
Bulk exports	985,627	4,848,927	2,338,884	-

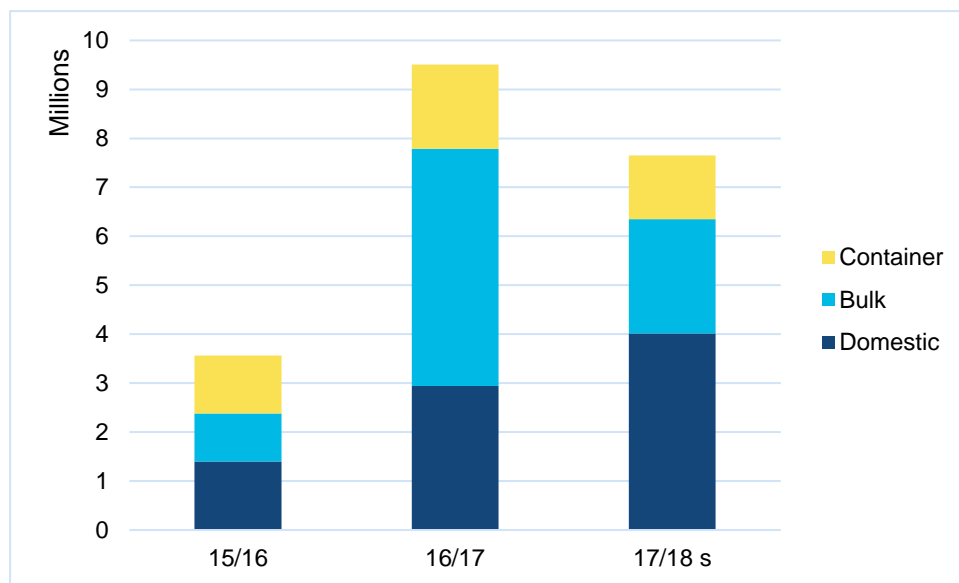
s = estimate

f = current ABARES forecast (production only)

¹ See for example ACCC Bulk Wheat Ports Monitoring Report 2016-17

² Does not include current season, which is expected to be below average.

Figure 2: Victorian grain use, 2015-16 to 2017-18 (tonnes)



The Victorian grain market is also characterised by strong competition up-country, with significant on-farm storage and numerous commercial storage providers. Over the past three completed seasons, the share of Victorian production received into GrainCorp's network has ranged between 36%-39%. This share can reasonably be expected to be significantly lower this year, due to the severe drought conditions in eastern Australia and strong domestic demand for grain.

3. GrainCorp's Portland Terminal

GrainCorp's Portland port terminal services vessels up to 60,000 DWT through one ship loader. Commodities are received via rail or road. Total grain storage capacity at the terminal is around 60,000 tonnes.

The terminal's catchment is not clearly linked with established rail lines. The terminal has relatively poor rail access compared with alternate options, due to weight restrictions on its feeder rail lines, and the fact that rail freight to the port travels a circuitous route via Ararat.

Further, Victoria's relatively small geographic area and the consequent dominance of road transport means that, for most grain growing areas, the road distance (and cost) to sell grain to the domestic market or to Melbourne Container Terminals is comparable to that of moving it to alternative destinations, including ports in Melbourne, Geelong and – for some growers in North West Victoria – Adelaide. RGS's submission points out that grain accumulation in Portland's catchment is influenced by Glencore's Adelaide ports, Geelong, Melbourne and other mobile bulk loading ports operated by Semaphore and Cargill.³

Grain loading capacity at the GrainCorp's Portland facility is substantially underutilised (Figure 3). From a grain exporting perspective, the terminal has been playing an increasingly niche role, meeting specific customer demands as required, or being used to 'top-up' vessels from Geelong or other ports. The great majority of bulk grain exports from Victoria are serviced through the terminals at Geelong and Melbourne.

Portland's theoretical annual loading capacity is well over 2 million tonnes, however the terminal has only loaded an average of 280,000 tonnes of grain across the last three shipping years (ranging from 98,000 to a maximum of 544,000 tonnes). There are currently no grain vessels booked to load at Portland for the 2018-19 shipping year and this situation is unlikely to change. This translates to an average utilisation of offered grain elevation capacity at the terminal of only 33%.

³ Riordan Grain Services application for exemption from the Port Terminal (Bulk Wheat) Code of Conduct for Corio Quay North and Portland, p.2

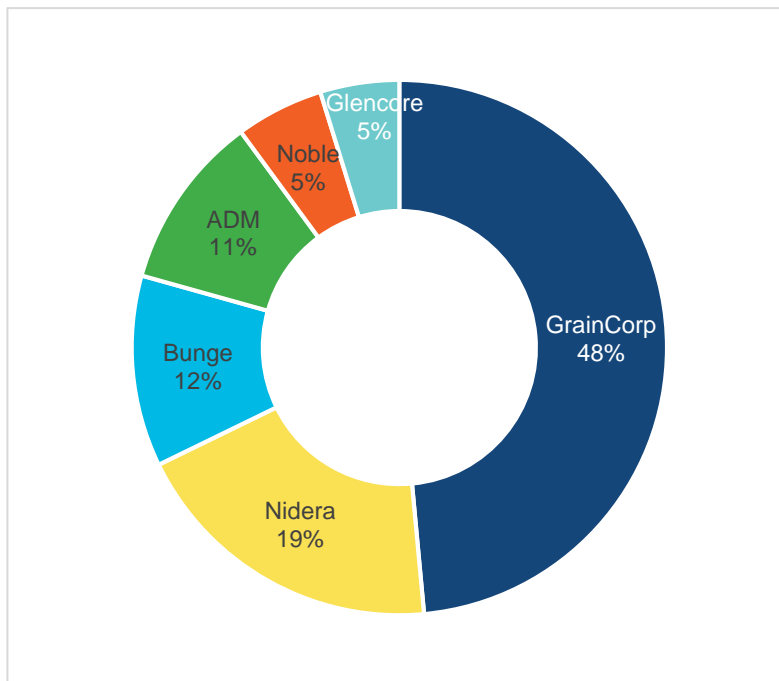
Figure 3: Utilisation of grain elevation capacity at Portland

	2015/16	2016/17	2017/18	2018-19 c
Capacity offered	840,000	840,000	840,000	840,000
Grain exports	98,260	544,353	198,689	0
Utilisation	12%	65%	24%	0%

c = current stem

Over the last three completed shipping years, the majority of grain exports from Portland terminal (52%, or 433,058 tonnes) have been elevated by third party access seekers (noting that at least one of these switched to use RGS facilities last year). GrainCorp exports accounted for 48% of total grain exports from the Portland terminal (408,244 tonnes), as outlined in Figure 4.

Figure 4: Exporter share of grain exports, Portland terminal, 2015-16 – 2017-18



4. Matters the ACCC is required to consider

GrainCorp makes the following observations in relation to matters the ACCC is required to consider when exempting a terminal from the Code.

Legitimate business interests of the port terminal service provider

GrainCorp's Port Terminal at Portland faces:

- › Variable grain production and receipts and an 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;

- › Bulk competition from Riordan Grain Services (RGS), whose low-cost model can be easily be replicated by others (as they point out in their submission)⁴; and
- › Strong competition and excess capacity at each step of the grain supply chain.

Granting an exemption to GrainCorp's Portland 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 RGS, assuming it is exempt from the Code; and
- › Reduce the overall level of regulation and cost of compliance.

Interests of exporters who may require access to port terminal services

A reduction in the level of regulation of Portland will enable GrainCorp to operate more flexibly, innovate with its customers and freely compete to provide an efficient export pathway for customers.

GrainCorp's track record at exempt terminals indicates that it continues to provide third party exporters with access to its infrastructure after exemptions have been granted.

Were its Portland facility to be exempted, GrainCorp would have similar motivations to continue providing access, including underutilised infrastructure and strong countervailing competitive pressure from competing operators, containers and the domestic market.

Likelihood that exporters of bulk wheat will have fair and transparent access to port terminal services

Strong competition within country and export grain infrastructure across Victoria constrains GrainCorp's ability to favour itself. 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 Portland for all exporters, as it faces strong competition from alternative markets for grain and significant excess port elevation capacity.

5. Contact

To discuss the information in this submission in further detail, please contact:

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⁴ Riordan Grain Services application for exemption from the Port Terminal (Bulk Wheat) Code of Conduct for Corio Quay North and Portland, p.2