

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

May 2017



Summary

Riordan Grain Services (RGS) is seeking exemption for its operations at Lascelles Wharf, North Shore from parts 3-6 of the Port Terminal Access (Bulk Wheat) Code of Conduct 2014 (“The Code”).

RGS seeks exemption as:

1. RGS is providing an alternative supply chain for farmers to access niche export markets and increasing competition for bulk loading of grain out of the Geelong region.
2. Parts 3-6 of The Code are onerous and if RGS is required to comply with them it would add significant cost and complexity to this small-scale operation that works primarily because it is flexible and can work in with the existing road based supply chain for grain moving to ports and domestic end users.
3. The Code was established to deal with an incumbent grain bulk handling system that is based around significant capital cost in storage and rail access to port. The RGS model for bulk loading is opportunistic and requires limited capital at port to implement. There remains substantial competition for bulk loading services in Victoria and two of the incumbents in the RGS catchment for Lascelles, being Graincorp Geelong and Emerald Melbourne, are exempt from The Code.
4. The bulk loading model being employed by RGS at Lascelles wharf can be replicated by others in the grain industry.
5. The potential grain tonnages to be loaded by RGS represent only approx. 3-5% of the total volume of grain that could potentially be exported out of the incumbent Geelong, Melbourne and Portland ports in any given year.

The Victorian Grain Market

RGS operates primarily in the Victorian market with some activity in Southern NSW and the Riverina region of NSW. The dominant player in the Victorian and East Coast market is Graincorp (www.graincorp.com.au) with a storage and handling network of 187 sites that can handle up to 20mmt of product spread across the east coast of Australia. Other commercial operators in the market include Grainflow (owned by Cargill) and Emerald (www.emeraldgrain.com owned by Sumitomo) as well as many private storage operators. In addition, on the east coast there is a significant and growing grower on farm storage network.

Total grain production in the RGS catchment is approx. 15mmt of wheat, barley, canola and other broad-acre cropping commodities (NB these are RGS generated statistics derived from independent and government forecasts). Domestic usage in this region is approx. 6mmt so in any given year there is around 9mmt of potential exportable surplus from the ports of Port Kembla (NSW), Melbourne (Emerald), Geelong and Portland (both Graincorp ports). However, this exportable surplus can vary depending on:

- seasonal conditions eg weather and its effect on quantity produced
- crop quality profile
- market conditions and competitiveness of Australian product for export
- domestic market factors – local demand for grain

About RGS

RGS has been operating in the Victorian grain market for 20 years and is an integrated supply chain company focused on origination, storage and transport of grain products to a variety of domestic and export markets. [REDACTED]

[REDACTED] To access export markets RGS sells grain primarily to delivered to wharf (DCT) for containers or loaded on vessel (FOB) for bulk.

RGS owns the following storages:

- Lara Shed and Silos = up to 37,500mt storage multi use grain, fertiliser and meals;
- Balliang shed, silo and bunker = 37,500mt shed (multi use), bunker and silo grain storage;
- Stawell = 2,000mt grain shed storage;
- Lismore = 35,000mt silo and shed storage;

These RGS owned storages are utilised for our existing domestic business and to link in with our ongoing container packing and bulk loading program.

In addition to the above RGS has storage and handling agreements in place with a wide range of up country private storage sites with the potential to accumulate up to [REDACTED] in multi-use private stores. These storages are primarily road based and where appropriate RGS utilises the transport capabilities of the storage operator to assist with execution of grain. However, RGS is not obliged to own tonnes in these sites year on year. [REDACTED]

RGS is Australian owned and managed from our head office in Lara where we have an ongoing staff of around 60 full time employees as well as a significant number of seasonal and casual staff to handle the workload.

RGS has always tried to be at the forefront of supply chain innovations including

- being an early entrant into container packing for grain exports,
- working with authorities to improve truck configurations and gross weight management,
- innovative storage solutions and now
- bulk loading via a mobile conveyor in Lascelles.

In addition, RGS handles imported product (fertiliser, urea and soymeal) from the wharf at Lascelles into our own and third party sheds in the area.

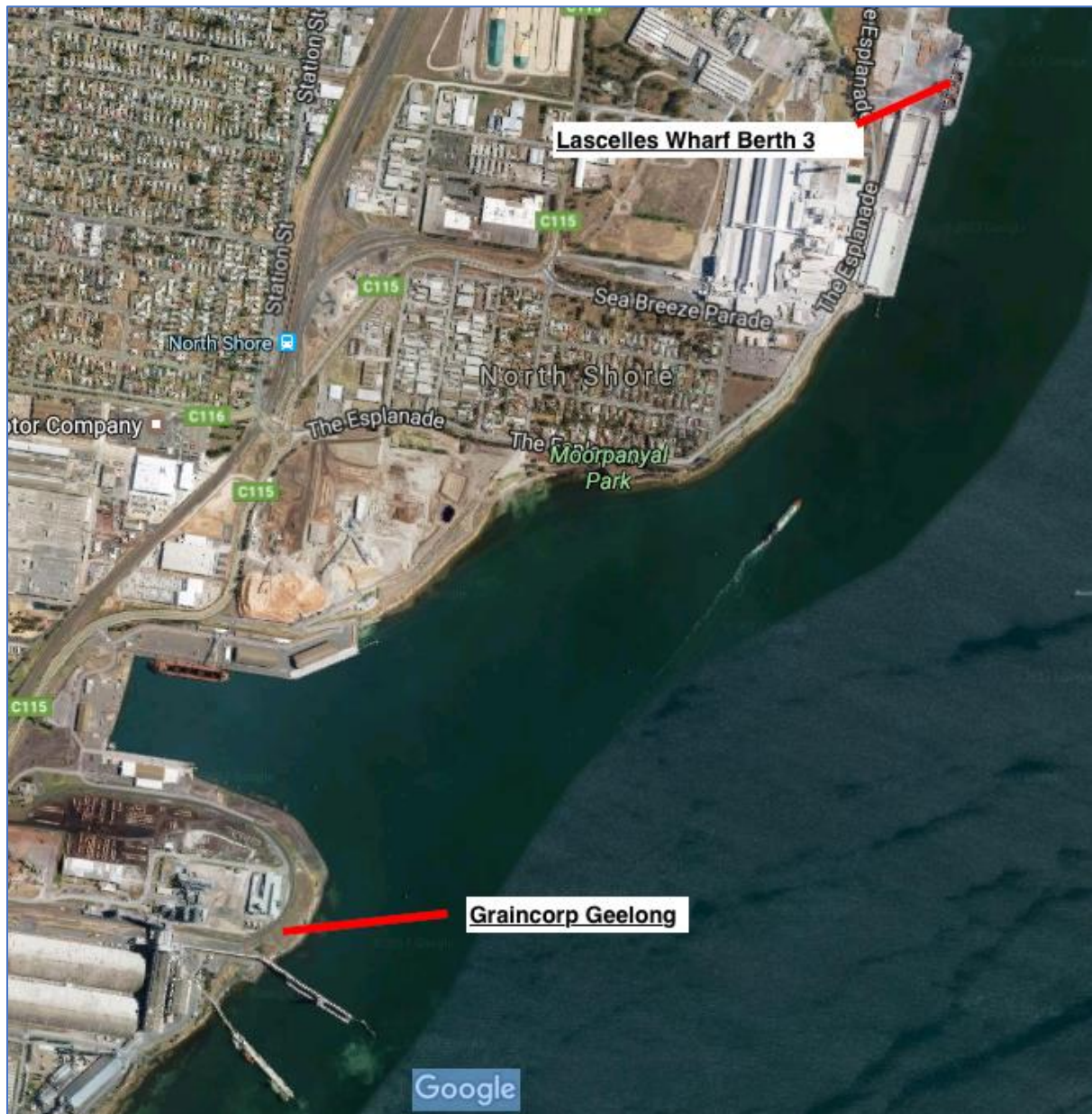
Bulk loading niche product via Lascelles Wharf

RGS has received significant support from our growers, customers and other trade counterparties for the bulk loading at Lascelles wharf who see it as an opportunity to access niche and specific quality export markets for bulk commodity from Geelong. The incumbent bulk loading system is a comingled system that does not easily allow exporters to access specific parcels of grain to be loaded onto bulk vessels.

The RGS bulk loading process at Lascelles enables access to specific grower parcels of grain (particularly on-farm and in private storages) and to load these parcels onto vessels.

RGS operates out of Berth 3 at Lascelles Wharf, North Shore. This is a multiuse public berth owned and operated by Geelong Ports (<http://www.geelongport.com.au>). RGS has a lease arrangement with Geelong Ports over Berth 3 at Lascelles that exists only whilst RGS has a vessel on the berth. This arrangement is ongoing between RGS and Geelong Ports.

Lascelles Wharf has 3 berths that handle a substantial amount of primarily imported product into Geelong. A map of the location of the berth is below:



As it is a multiuse and public berth there remains opportunity for others to pursue bulk mobile grain loading at various wharfs in and around Geelong.

Parts 3-6 of The Code

The Code was established to address the issues around potential monopolistic behaviour by grain export terminal operators to the detriment of other potential exporters. The government in introducing The Code is stated to be trying to encourage investment, innovation and improve productivity in agriculture. RGS is not a target of this regulation as RGS is attempting to innovate and improve supply chain solutions for growers and trade participants. In addition, RGS will not be a major player in the potential bulk export market for grain out of Victoria. RGS is part of the solution for The Code and not a part of the problem of monopolistic behaviour the code is trying to address.

Obligations in parts 3-6 of The Code from which RGS seeks exemption, contain onerous requirements including:

- Access to non-discrimination provisions
- Developing a dispute resolution mechanism
- Capacity allocation system
- Publishing available capacity
- Publishing KPI's
- Publishing stock information
- Record keeping obligations

The above obligations are onerous and if RGS is required to comply with them it will limit flexibility and will discourage the ongoing investment in supply chain innovations not only for RGS but for others interested in pursuing similar activities.

In response to clause 5 of The Code and matters that the ACCC must consider when determining an exemption:

- (a) *The legitimate business interests of the port terminal service provider:*
Exemption will encourage not only RGS but others to pursue innovative supply chain solutions for export of grain out of Australia;
- (b) *The public interest, including the public interest in having competition in markets:*
Exemption will increase competition and reduce regulatory compliance on RGS and others to pursue innovation in agriculture and drive supply chain efficiencies;
- (c) *The interests of exporters who may require access to port terminal services*
Exemption will encourage others to pursue supply chain solutions and enable access to improved quality and pricing opportunities that increased competition and supply chain innovations can provide
- (d) *The likelihood that export of bulk wheat will have fair and transparent access to port terminal services*
Exemption will reduce the compliance burden on RGS and encourage smaller scale operators to pursue innovation in agricultural supply chain. Incumbent bulk terminal operators being Graincorp Geelong and Emerald Melbourne are both exempt from The Code providing substantial access to port terminal services.
- (e) *The promotion of economically efficient operation and use of the port terminal facility*
Reducing compliance will enable efficient operation of the facility and encourage others to pursue similar supply chain innovation
- (f) *The promotion of efficient investment in port terminals*
Reducing compliance will enable efficient operation of the facility and encourage others to pursue similar supply chain innovation
- (g) *Whether the port terminal service provider is an exporter or an associated entity of an exporter*
RGS is a seller of grain loaded onto vessels in bulk and not a grain exporter to destination or an associated entity of an exporter to destination
- (h) *Whether there is already an exempt service provider within the catchment area for the port concerned*
Both Graincorp Geelong and Emerald Melbourne are exempt service providers from The Code and are in the catchment area for Lascelles Wharf.

Potential tonnages loaded via Lascelles Wharf by RGS

To operate bulk loading at Lascelles Wharf RGS operates a road based delivery system with limited investment at port and no storage available on wharf for accumulation of tonnes. As a result, deliveries and loading onto vessel are restricted to approx. 200mt per hour (vs 1,500-2,500mt per hour via the incumbent bulk handling system). Given the intensive nature of this loading plus the slower loading rates, RGS anticipates loading a maximum of 300,000mt per year being approx. 10 vessels, at 30kmt each. This compares to a potential capacity at Graincorp Geelong alone of 300,000 loading per month.

RGS welcomes the opportunity to submit an exemption to The Code with the ACCC for bulk loading via a mobile conveyor at Berth 3, Lascelles Wharf. RGS are happy to report the loading statements that grain loading facility operators submit on the basis that the statement is submitted each time there has been a change in the shipping stem.