



# QUATTRO

PORTS

## **SUBMISSION**

### **Quattro's Application for Exemption from Parts 3 – 6 of the Port Terminal Access (Bulk Wheat) Code of Conduct**

April 2015

## 1. Introduction

Quattro Ports (“Quattro”) is an incorporated joint venture between Noble Resources, Qube, Emerald Grain and Cargill Australia with the objective of becoming a leading Australian port developer and operator.

Quattro’s investors have committed capital to the construction of a bulk grain terminal in Port Kembla, which is expected to be completed and operational toward the end of 2015.

More information on Quattro Port Kembla and Quattro’s investors is available on Quattro’s website: [www.quattroports.com.au](http://www.quattroports.com.au)

## 2. Application for Exemption

On 27 March 2015, the Australian Competition and Consumer Commission (“ACCC”) assessed that Quattro is a port terminal service provider under the Port Terminal (Bulk Wheat) Code of Conduct (“Code”) and invited Quattro to make a submission for exemption from Parts 3 – 6 of the Code in respect of Quattro’s Port Kembla port terminal facility.

Quattro makes this submission as its application for exemption under clause 5(2) of the Code for Quattro’s Port Kembla port terminal facility.

## 3. Basis for Application

With the deregulation of the Australian Wheat Industry there has been a raft of development across Australia which has included new grain export terminals at Newcastle, Brisbane, Bunbury and further potential terminals at Geelong and Portland. Quattro’s new grain terminal at Port Kembla operates in a very competitive environment and will be sourcing grain from the same areas as the existing terminals in Port Kembla, Newcastle and Melbourne along with the new Newcastle Agri Terminal (“NAT”).

As the Productivity Commission noted in its 2010 Inquiry into Wheat Export Marketing Arrangements, the bulk wheat export market in the east coast of Australia, and particularly in New South Wales, is subject to more competition than other markets (Report No 51, p68).

In the same Inquiry Report, the Productivity Commission noted that the market for bulk storage and transport services in the East Coast of Australia is dominated by GrainCorp. Although there is a lack of data which reliably forecasts expected market share once Quattro’s Port Kembla facility is completed, the current surplus capacity is likely to neutralise any ability for Quattro to impose unilateral terms on exporters if an exemption is granted.

Once Quattro's new terminal at Port Kembla is complete and operational, it will need to compete with GrainCorp's existing terminal located at the same port, a mere 300 metres away. To do so effectively, Quattro will need the flexibility to offer cost effective alternatives to exporters. Later sections of this submission will illustrate that grain from Southern NSW can flow to not only the existing GrainCorp facility at Port Kembla and the new Quattro facility at the same port but also into Victoria, meaning competition from Emerald and GrainCorp's Melbourne and Geelong terminals respectively. Similarly, grain in the central and northern regions of NSW can also flow into the Newcastle ports.

Recently, the ACCC has proposed for Emerald's Melbourne terminal and GrainCorp's Geelong terminal to be granted exemption from the Code. With the ACCC already having granted an exemption to GrainCorp for its Newcastle terminal, Quattro submits that a requirement on it to comply with Parts 3 to 6 of the Code (in respect of Port Kembla) would unnecessarily restrict Quattro's ability to be competitive.

#### 4. Description of Facility

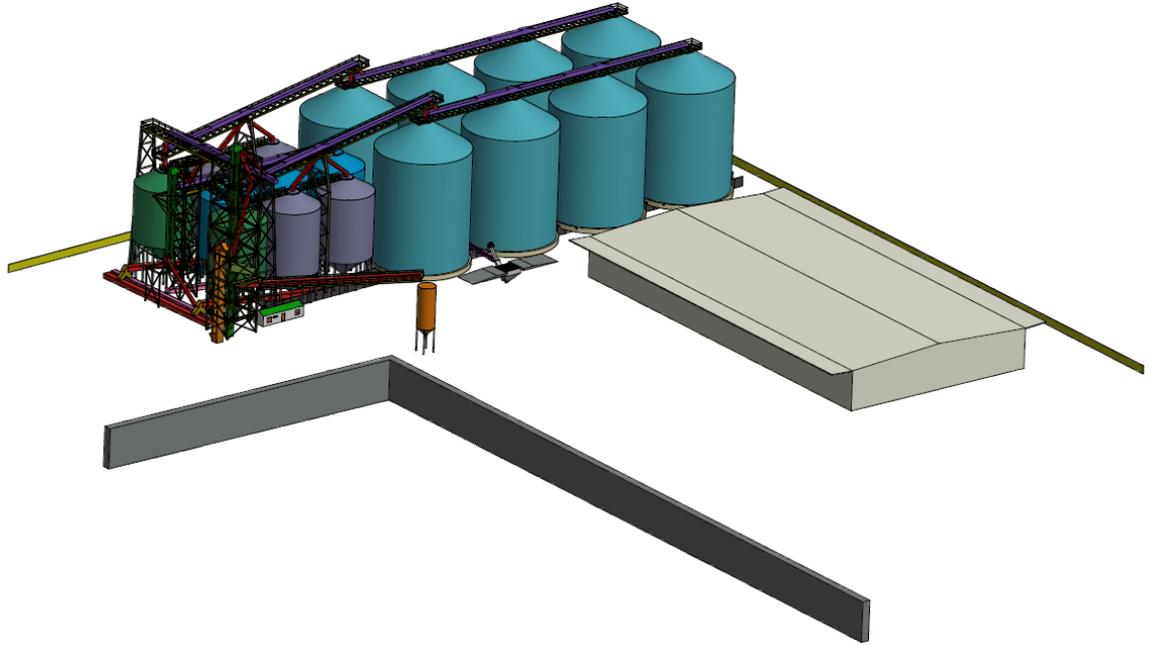
The new Quattro Port facility will consist of approximately 100,000 tonnes of wheat storage capacity in vertical steel silos with a projected annual throughput of up to 1.3 million tonnes per annum.

The facility will primarily receive grain by rail and have capability to discharge trains at 1,000 tonnes per hour ("tph"). A road discharge facility is also incorporated in the design with unloading capacity of 400 tph.

Vessel loading will be undertaken at approximately 1500 tph using a mobile shiploader on the NSW Ports owned Berth 103.

The terminal will handle predominantly wheat, canola and barley cargoes as well as handling imported agri products through a 30,000 tonne horizontal cargo warehouse adjacent to the silo complex.

**Figure 1: Silo Layout**



## 5. Factors unique to Quattro

The Code was developed to regulate the conduct of port terminal service providers, and to ensure that exporters of bulk wheat have fair and transparent access to port terminal services<sup>1</sup>.

Part 3 of the code requires a port service provider to:

- Not discriminate in favour of itself or its trading businesses, or hinder third party exporters' access to port terminal services;
- Enter into an access agreement or negotiate the terms of an access agreement with an exporter to provide services if an exporter has applied to enter into an access agreement and certain criteria are satisfied; and
- To deal with disputes during negotiations via specified dispute resolution processes including mediation and arbitration.

These requirements place an undue burden on Quattro as a new entrant into the market. Quattro Port Kembla is expected to have an annual throughput of between 1.1 to 1.3 million tonnes, and in order for the business model to be feasible, Quattro will need the flexibility to secure offtake commitments from exporters, initially from its own investors, and subsequently from other exporters.

The time and cost of upfront compliance with the Code will hinder Quattro in its critical start-up period. Without existing commitments and an established customer base, the obligation to enter protracted negotiations for access, and submit to costly arbitration can be exploited by competitors to impede Quattro's operational efficiency at a time when Quattro will need to make rapid commercial decisions in response to competitive market pressures.

Quattro's primary focus at the time of this submission is the completion of construction, which is not expected until after 1 October 2015, by which time the Code is expected to apply to Quattro unless an exemption is granted. Quattro does not currently have the necessary infrastructure to devote to compliance with the Code.

Quattro Port Kembla's port loading protocols are still under development, and will not have been tested by the time the Code is deemed to apply. The prescriptive rules in the Code in relation to the management of capacity prevent Quattro from optimising its protocols in response to customer desires, or for efficiency.

Quattro is being built and designed to operate as an independent joint venture and as a profitable business in its own right by developing a best in-class operational facility that will bring new supply chain efficiencies to the market place.

---

<sup>1</sup> Clause 1(2) of the Code



# QUATTRO

PORTS

As highlighted above, Quattro is an incorporated joint venture of four independent companies. In this regard:

- Quattro has a commercial objective of generating a profit. Qube, with a [REDACTED] % interest in Quattro does not export grain, and therefore a substantial level of impartiality will be maintained in the selection of customers and allocation of capacity.
- Noble and Qube together hold a [REDACTED] % interest in Quattro, with no ownership in any upcountry supply chain assets, and therefore no desire to ‘pull’ inventory through its supply chain assets toward Quattro Port Kembla if an alternative export option is available at a lower cost.
- It is expected that the three Quattro investors which export grain will collectively export less than two thirds of Quattro Port Kembla’s export capacity.
- Quattro Port Kembla is introducing new capacity. As volume is taken up by Quattro’s investors, equivalent capacity at competing facilities for other exporters will become available.

Quattro’s ability to grant preference to its investors (to the detriment of other exporters) is restricted by the fact that Quattro operates in the largest and most competitive domestic grain market in Australia; one with numerous supply chain alternatives. Quattro is unique in Australia amongst the bulk terminal operators in that it is the first and only venture where a major shareholder is not a grain export company. In addition, with the excess up-country and export facility currently available at GrainCorp’s Newcastle and Port Kembla facility, Quattro is naturally incentivised to provide transparent and fair access in order to promote use of its new facility.



# QUATTRO PORTS

## 6. Analysis of Competition

### Area Production

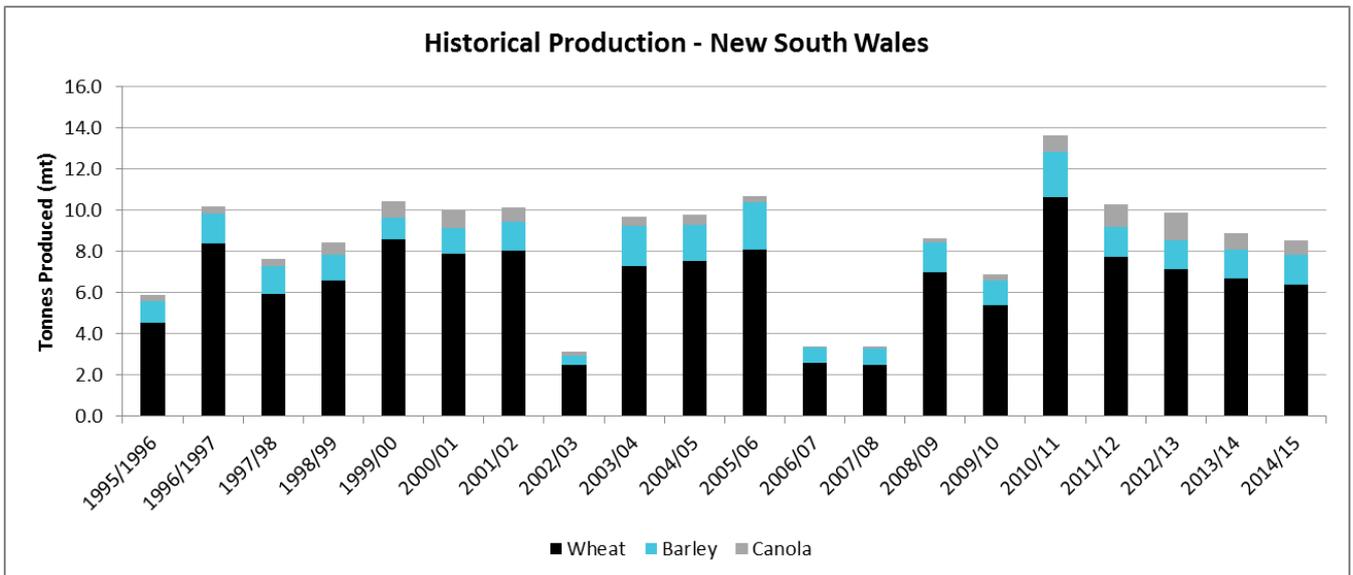
Over the last 20 years, production in New South Wales (NSW) has averaged 8.5 million tonnes. Fluctuations in production have mainly been due to yield variations.

**Table 1: NSW Historical Production by commodity**

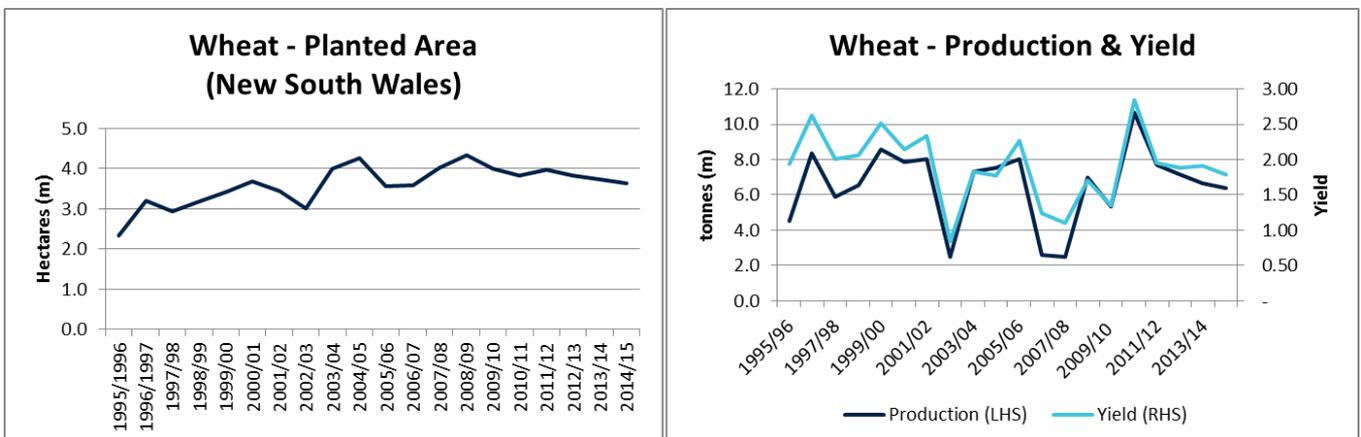
mt	2010/11	2011/12	2012/13	2013/14	2014/15	5 Year Avg	10 Year Avg	20 Year Avg	5 Year Min	5 Year Max	10 Year Min	10 Year Max	20 Year Min	20 Year Max
			est	est	est									
<b>NSW production</b>														
Total - Newcastle	5.9	4.3	4.0	2.6	3.1	4.0	3.7	3.8	2.6	5.9	1.9	5.9	1.1	5.9
Total - Port Kembla	4.9	3.9	3.8	4.1	3.4	4.0	3.0	3.0	3.4	4.9	0.8	4.9	0.8	4.9
Other (VIC/QLD)	2.9	2.1	2.1	2.2	2.0	2.2	1.7	1.6	2.0	2.9	0.5	2.9	0.5	2.9
<b>Total - NSW Production</b>	<b>13.6</b>	<b>10.3</b>	<b>9.9</b>	<b>8.9</b>	<b>8.5</b>	<b>10.2</b>	<b>8.4</b>	<b>8.5</b>	<b>8.5</b>	<b>13.6</b>	<b>3.4</b>	<b>13.6</b>	<b>3.1</b>	<b>13.6</b>

Note: Commodities included – wheat, barley & canola. Source ABS. Estimates for 2012/13 to 2014/15.

**Figure 2: NSW Historical Production by commodity**



**Figure 3: NSW Wheat planted, production and yield**



## Grain Available for Export

Grain produced in NSW is currently:

- Consumed domestically;
- Exported through bulk or in containers through one of NSW's port terminals; or
- Transported out into Victoria and Queensland

Grain available for export out of NSW is impacted by production, domestic consumption and competition from other ports.

**Table 2: Grain Available for Export**

	mt	
<b>Production - 20 year avg</b>		
Port Kembla Zone	3.8	
Newcastle Zone	3.0	
VIC/QLD Zone	1.6	
<b>Total NSW</b>	<b>8.5</b>	
Less: NSW Domestic Demand	4.0	5 year average
Less: Port Botany Containers	0.6	5 year average
<b>Avg production available for export</b>	<b>3.9</b>	

As noted in the ACCC draft determinations for Victorian wheat ports exemptions, according to data from Australian Crop Forecasters, domestic demand for grain is highest in Victoria and NSW. Quattro would submit that its new terminal at Port Kembla will face the same competition from the domestic market and container exports that are faced by Quattro's competitors where exemptions have been granted.

In addition, c.0.6 million tonnes of wheat is exported out of Port Botany in containers per annum.

## Port Export Capacity

Quattro Port Kembla port terminal will increase competition in the region, increasing Port Kembla's port export capacity by over 40%. This will increase NSW port export capacity up to 7.7 million tonnes in total, compared to estimated average production available for export of c.3.9 million tonnes.

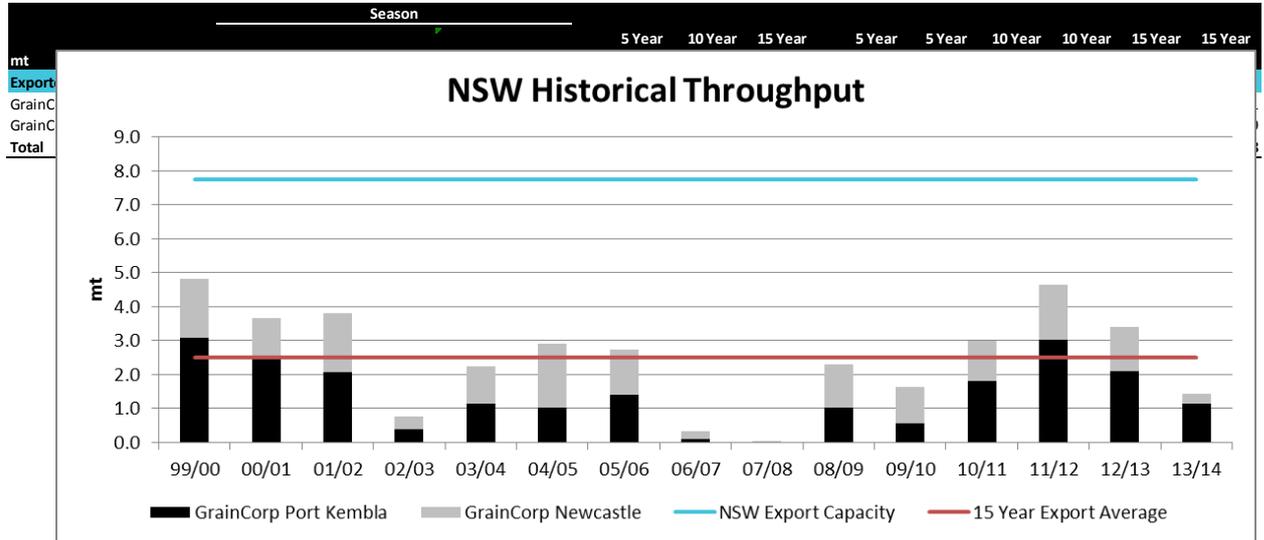
**Table 3: NSW Port Export Capacity**

	Export Capacity
<b>Port Kembla</b>	
GrainCorp Port Kembla	3.1 Previously demonstrated
Quattro Port Kembla	1.3
<b>Total Port Kembla</b>	<b>4.4</b>
<b>Newcastle</b>	
GrainCorp Newcastle	1.9 Previously demonstrated
Newcastle Agri Terminal	1.5
<b>Total Newcastle</b>	<b>3.4</b>
<b>Total NSW Port Capacity</b>	<b>7.7</b>

## Historical Exports

Over the last 15 years, GrainCorp has exported on average 1.4 million tonnes out of Port Kembla, representing only c.45% of GrainCorp's Port Kembla capacity.

**Table 4: NSW Port Historical Throughput**



**Figure 4: NSW Port Historical Throughput**

**Figure 5: Port Kembla Historical Throughput by Marketer**

mt	Season					Avg
	09/10	10/11	11/12	12/13	13/14	
GrainCorp	0.2	0.7	1.6	0.7	0.5	0.7
Glencore	0.0	0.4	0.6	0.4	0.1	0.3
Other	0.2	0.3	0.0	0.1	0.1	0.1
Quattro Shareholders						
Cargill	0.1	0.5	0.7	0.8	0.4	0.5
Emerald	0.0	0.0	0.0	0.0	0.0	0.0
Noble	0.0	0.0	0.0	0.1	0.0	0.0
Total	0.1	0.5	0.8	0.8	0.4	0.5
<b>Total Port Kembla</b>	<b>0.6</b>	<b>1.8</b>	<b>3.0</b>	<b>2.1</b>	<b>1.1</b>	<b>1.7</b>

Two of Quattro's four investors currently have long term take-or-pay arrangements with GrainCorp which involve its Port Kembla and Newcastle operations. Over the last five years, Quattro's investors have on average exported c.0.5 million tonnes per annum out of GrainCorp Port Kembla. Once Quattro Port Kembla is operational, volumes conducted by Quattro's investors will be made through Quattro Port Kembla. However, as Quattro Port Kembla is introducing new capacity, volume taken up by Quattro's investors, equivalent capacity at competing facilities for other exporters will become available.

## NSW Upcountry Network

The introduction of numerous grain traders in the East Coast since deregulation and through significant M&A activity has maintained a highly competitive environment, exhibited through the existence of a large upcountry storage and handling network with greater capacity than the volume of grain produced.

Based on Grain Trade Australia’s (“GTA”) 2014/2015 Location Differential assessment, there are over 170 upcountry storage sites in New South Wales, representing over 15 million tonnes of estimated storage capacity. In addition, there is an estimated 6.4 million tonnes of on farm storage in NSW<sup>2</sup>.

**Table 5: NSW Upcountry Sites**

	Natural Port Terminal			Total
	Port Kembla	Newcastle	VIC/QLD	
GrainCorp	48	44	17	109
Cargill (GrainFlow)	4	5	1	10
Emerald	3	-	2	5
Other Private Storages	5	8	35	48
<b>Total</b>	<b>60</b>	<b>57</b>	<b>55</b>	<b>172</b>

Source Grain Trade Australia 2014/15

Quattro in its own capacity is not an owner of any upcountry storage facilities in Australia and with the significant degree of competition in upcountry storage this is not a factor in limiting competition at port. Quattro’s investors, Cargill and Emerald own in total c.15 upcountry storages in NSW, of which 7 naturally sit within Port Kembla’s catchment area. This represents a small portion of the total upcountry storage facilities available in NSW.

## Competition

Quattro Port Kembla will face competition from four NSW grain terminals and in addition, Victorian and Queensland grain terminals.

**Table 6: NSW Grain Terminals**

	Quattro Port Kembla	GrainCorp Port Kembla	Graincorp Newcastle	NAT Newcastle	Louis Dreyfus Newcastle
<b>Vertical bins</b>	100kmt	260kmt	164kmt	60kmt	NIL – shed 25kmt
<b>Rail receival</b>	1000tph	1 hopper – up to 3600 tph	16 hoppers – up to 2700 tph	1 hopper – up to 2000 tph	Containers, rail & road
<b>Road receival</b>	1 hopper 400tph	1 hopper – up to 350 tph	3 hoppers – up to 600 tph	second stage- not yet designed	tip containers into shed
<b>Ship loaders</b>	1200-1500tph	2 – up to 5000 tph	4 – up to 4000 tph	1- 2000 tph	400tph

<sup>2</sup> Source AEGIC, The cost of Australia’s bulk grain export supply chains 2014

Key competition drivers include:

- **Terminal capability**

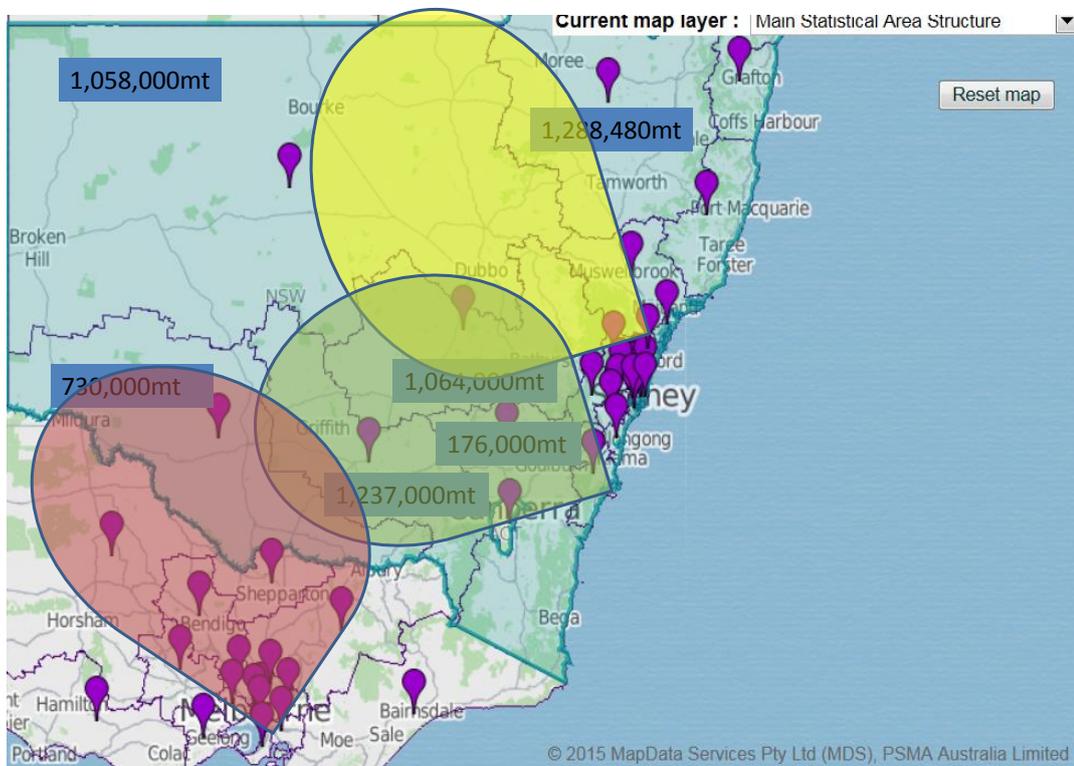
As presented in the above table, with the exception of Louis Dreyfus Newcastle, each of NSW's grain terminals have strong export capability (through port storage and operational efficiency) and are highly competitive.

- **Pricing**

The natural drawing arc of Port Kembla based on least cost logistics allows both the Newcastle and Victorian zones to contest grain in nearby upcountry sites, and much of the competition depends on pricing differentials between each zone.

The below diagram shows the overlap in catchment areas.

**Figure 6: NSW Catchment Areas**



**Within Port Kembla Catchment Area**

Port Kembla's key catchment areas include the Murrumbidgee area, Central West NSW and South Eastern NSW. GrainCorp's Port Kembla terminal located immediately adjacent represents Quattro's main competitor, as both terminals will share the same catchment area and hence similar freight requirements and market price forces.



# QUATTRO

PORTS

## **Port Kembla and Newcastle Catchment Area**

Port Kembla and Newcastle are situated approximately 250km apart. Based on GTA 2014/15 Location Differentials, there are a number of upcountry sites where the difference to either Port Kembla or Newcastle is small. Examples include Peak Hill, Tomingley West, Tottenham and Trundle, all which have Location Differentials variances of lower than \$5 p/t between the two catchment areas. In total, 28 upcountry sites have Location Differential variances of lower than \$10 p/t between the two catchment areas.

As the ACCC has noted in its draft public determination in respect of Victorian ports, GTA produces 'Location Differentials' to value upcountry grain on a port basis. Location Differentials are not actual freight rates from storage facilities to ports. However, the Locational Differentials provide an indication of the costs to move grain from a specific upcountry site to port.

## **Port Kembla and Victoria Catchment Area**

Further, as the ACCC has noted, GTA's Location Differentials also suggest that there are upcountry sites within the Victorian and Southern NSW region where the difference in indicative freight costs to either Melbourne or Geelong port terminal are small. As such, Melbourne has been used as indicative of the Victoria catchment area.

Port Kembla and Melbourne are situated over 800km apart. However, due to rail linkages, these catchment areas can contest for volumes. Based on GTA 2014/15 Location Differentials, there are a number of upcountry sites where the difference to either Port Kembla or Melbourne is small. Examples include, Bomen, The Rock, Milbrulong and Lockhart, all which have Location Differentials variances of lower than \$5 p/t between the two catchment areas. In total, 17 upcountry sites have Location Differential variances of lower than \$10 p/t between the two catchment areas.

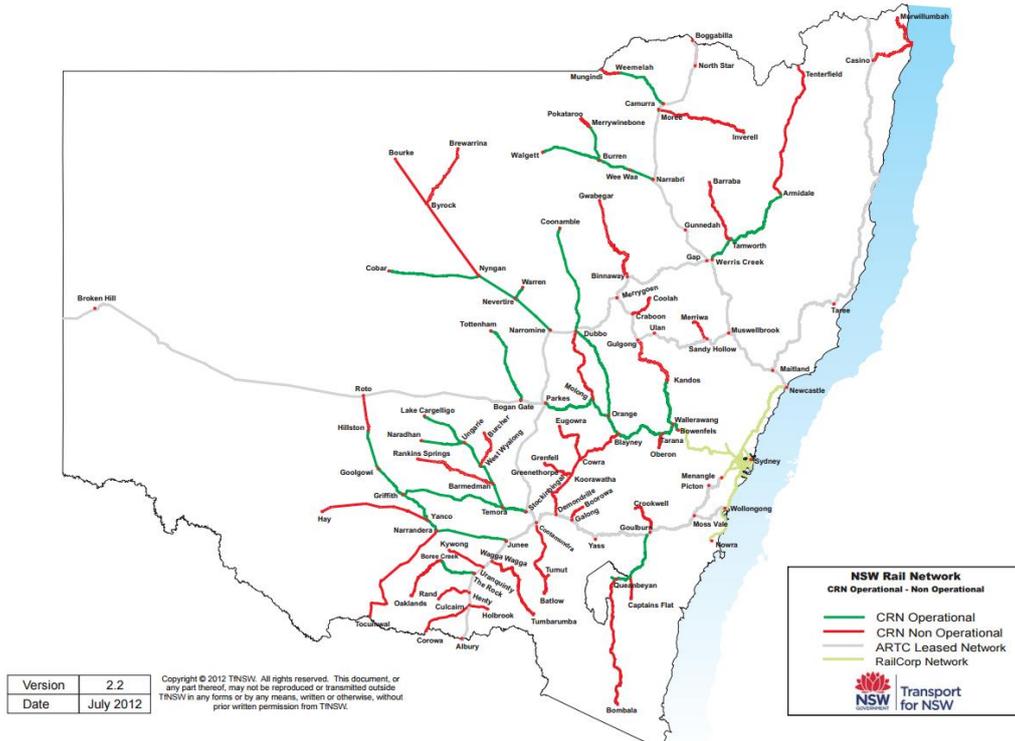
## **Rail Network**

Similar to the Newcastle Port Zone, bulk grain exporters operating in the Port Kembla Zone have access to rail resources to move their grain from upcountry to Port. Rail resources are available from Qube, Pacific National, Southern Shorthaul Rail (currently operating for Weston Milling) and Freightliner (recently acquired by Genesse Wyoming). Aurizon is also able to operate in the space should there be sufficient demand. As noted earlier in this document and in the Newcastle submission, bulk grain exporters also have access to a large and competitive domestic market (predominately serviced by road) and competitive container market (serviced by both rail and road).



# QUATTRO PORTS

Figure 7: NSW Rail Network



## 7. Matters to be considered by ACCC

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

Quattro has not yet completed construction of its Port Kembla facility, and the terminal is not operational. Its key focus at the moment is the timely completion of the project, and its resources are almost entirely devoted to this objective.

Having not yet established and tested the efficiency of its port protocols, the cost of complying with the Code is much greater for Quattro than its established competitors. This is because the risk of unintentional breach of the Code (from 1 October 2015 onwards), would force Quattro to develop two versions of port protocols while awaiting the ACCC's determination. Accordingly, a timely exemption for Quattro is comparatively more critical to Quattro than its competitors.

Granting an exemption to Quattro's Port Terminal at Port Kembla would:

- Allow Quattro and its investors to compete commercially for the export of bulk grain, especially in the critical start-up period;
- Support operational flexibility to improve service and reduce supply chain costs;
- Provide small operators and exporters improved access to fobbing capacity which has been limited by the terms and conditions imposed by the existing bulk handling companies;
- Provide equity with the competing export container packers that are not regulated; and
- As a new start-up company minimise the level of regulation and costs imposed by such to allow Quattro to more effectively compete against operators with established systems.

Quattro submits that Parts 3 to 6 of the Code are an impediment to Quattro's legitimate business interests.

**(b) *The public interest, including the public interest in having competition in market***

Quattro offers viable competition at Port Kembla, and together with improved utilisation of Quattro's investors' upcountry storage networks serves the public interest by reducing supply chain costs and increase the ability to competitively price grain purchases.

The ability for Quattro to offer long term agreements to its investors will further strengthen their confidence in terms of ability to access Quattro infrastructure, thereby increasing appetite in local development by Quattro's investors, with a positive flow on effect on regional employment.



# QUATTRO

PORTS

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

Quattro is a new port, offering new capacity. Any capacity taken up by its investors will logically free up equivalent capacity at other ports for exporters.

Competition from adjacent GrainCorp facility and the existing overcapacity will ensure that exporters will have access to port terminal services.

In 2011, the ACCC formed the view that although capacity constraints exist on east coast ports during periods of peak demand, and that in years of high production and exports peak periods can extend over a number of months, port capacity on the east coast is adequate overall to meet the demand on it and is less constrained than in other wheat export regions.<sup>3</sup>

Quattro submits that an exemption for Quattro Port Kembla will not be detrimental to the interests of exporters requiring access to port terminal services.

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

Quattro is an incorporated joint venture of four independent companies. Quattro has a commercial objective to generate a profit. Qube, with a [REDACTED] % interest in Quattro does not export grain, and therefore a substantial level of impartiality will be maintained in the selection of customers and allocation of port services.

Further, any incentive for Quattro to apply self-preferential treatment is moderated by countervailing competitive pressures. Quattro must be permitted to introduce flexibility in the way that it allocates capacity in order to attract exporters from the incumbent GrainCorp facility.

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

The strong competition in Port Kembla and greater NSW region will drive efficient operation and use of port terminal facility. Quattro Port Kembla port terminal will increase competition in the region through increasing Port Kembla's port export capacity by over 40%. An exemption from the Code for Quattro Port Kembla will further promote economic efficiency.

---

<sup>3</sup> ACCC final decision to accept GrainCorp port terminal services access undertaking 22 June 2011, page 25



# QUATTRO

PORTS

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

Quattro Port Kembla is itself a new investment in port terminal facilities, one which will bring an additional 1.3 million tonnes of annual export capacity to NSW. Quattro's ability to be economically sustainable relies heavily on the removal of regulatory restrictions which would burden Quattro with significant compliance costs in its initial start-up phase.

Quattro submits that an exemption to the Code in relation to its Port Kembla facility would represent a positive signal to future investment in NSW port terminal facilities.

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

Quattro in its own right is not an exporter of grain. Although three of Quattro's investors are exporters of grain, it is expected that they will collectively utilise less than two thirds of Quattro Port Kembla's export capacity.

In addition, as stated above, Quattro's ability to grant preference to its investors (to the detriment of other exporters) is restricted by the fact that Quattro operates in the largest and most competitive domestic grain market in Australia; one with numerous supply chain alternatives. With the excess up-country and export facility currently available at GrainCorp's Port Kembla and Newcastle facility, Quattro is naturally incentivised to provide transparent and fair access in order to promote use of its new facility.

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

GrainCorp's Carrington (Newcastle) Port has been granted ACCC exemption from Parts 3 to 6 of the Code.

On 10 April 2015 the ACCC also released a draft determination exempting GrainCorp's Geelong Terminal and Emerald's Melbourne Port Terminal, both of which compete for Southern Kembla zone grain.

**(i) *The level of competition in the market for up country storage and handling services***

Based on GTA's 2014/2015 Location Differential assessment, there are over 170 upcountry storage sites in NSW, representing over 15 million tonnes of estimated storage capacity. In addition, there is an estimated 6.4 million tonnes of on farm storage in NSW<sup>4</sup>.

---

<sup>4</sup> Source AEGIC, The cost of Australia's bulk grain export supply chains 2014

Quattro is not an owner of any upcountry storage facilities in Australia in its own capacity and with the significant degree of competition in upcountry storage this is not a factor in limiting competition at port. Quattro's investors, Cargill and Emerald own in total c.15 upcountry storages in NSW, of which 7 naturally sit within Port Kembla's catchment area. This represents a small portion of the total upcountry storage facilities available in NSW.

In the ACCC's draft determination in respect of Victorian Ports, it was noted that the Productivity Commission addressed upcountry storage and handling transport networks in its inquiry into the Wheat Export Marketing Arrangements in July 2010<sup>5</sup>.

The Productivity Commission noted three findings relating to upcountry networks from its inquiry, specifically:

1. Greater competition can improve the efficiency of the grain supply chain. These efficiency improvements lower the cost of the supply chain, providing benefits to the industry and particularly to growers.
2. Up-country storage facilities do not exhibit natural monopoly characteristics. There is no case for specific third party access regulation. Specific access regulation is likely to hinder the development of efficient supply chains.
3. Competition in the grain supply chain requires that participants have the ability to by-pass the bulk handling system.

The ACCC considered that the current state of competition in upcountry storage and handling facilities across Victoria and southern NSW relevant to the determination regarding Victorian ports. Quattro submits that the degree of competition in NSW upcountry services similarly limits the ability of a port operator (or its investors) to leverage market power from upcountry networks to its port terminal services.

**(j) *The percentage of bulk wheat anticipated to be delivered to Port Kembla by road and by rail***

Quattro's investors have historically delivered over 90% of their grain to Port Kembla by rail.

**END OF SUBMISSION**

---

<sup>5</sup> ACCC Draft Determination regarding Victorian Ports dated 10 April 2015, page 27.