

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

**October 2018**



## **Summary**

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

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 and Portland 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 grain loading services in Victoria including Graincorp Geelong and Portland and Emerald Grain Melbourne. In addition in the Adelaide zone Glencore operate two bulk ports and Semaphore Containers and Cargill both operate mobile bulk loading ports. These ports do influence grain accumulation in the Portland catchment zone.
4. The mobile bulk loading model being employed by RGS can be replicated by others in the grain industry. The same bulk loader will be utilised by RGS at both ports (Corio Quay North and Portland) as it is road based and is able to be moved between ports. RGS is not able to be loading at both ports at the same time.
5. The potential grain tonnages to be loaded by RGS represent only approx. 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](http://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](http://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

## **Portland Grain Catchment**

Grain for the Portland port catchment is typically grown in the west of Victoria with roughly a vertical line north and south of Horsham being the west of this line working into Portland and east of this line working into Geelong and Melbourne. Movement of grain to ports outside of this rough zone is subject to domestic requirements, rail logistics and demand at ports for grain. With grain on trucks there is no physical impediment to moving within zones, however pricing points at different zones will ultimately determine end destinations for grain. As a result ports such as Geelong, Melbourne and Adelaide do offer an alternate destination to Portland, however typically over the longer term the best result for the grower in the Portland catchment zone would be for grain destined to Portland port. RGS believe that alternate bulk loading capacity at Portland via alternate bulk loading solutions will lead to overall better competition for grain in the Portland zone.

## **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. RGS will handle around 550,000mt of grain for the 16/17 financial year of which approx. 50% is destined for domestic markets with the balance being container and bulk markets for grain. It is anticipated that given adverse seasonal crop growing conditions for the 17/18 financial year export volumes will be significantly lower than the 16/17 year at more like 20% of all RGS volume. These seasonal factors are outside the control of RGS.

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 400,000mt 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. In any given year RGS will carry up to 150,000mt of grain out of harvest and is a buyer of grain throughout the year from growers and the trade.

RGS is Australian owned and managed from our head office in Lara where we have an ongoing staff of around 80 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 vessel loading via a mobile conveyor

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

### **Bulk loading niche product via mobile bulk loading**

RGS has received significant support from our growers, customers and other trade counterparties for the mobile bulk loading activities who see it as an opportunity to access niche and specific quality export markets for bulk commodity from Victoria. 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 mobile bulk loading process enables access to specific grower parcels of grain (particularly on-farm and in private storages) and to load these parcels onto vessels.

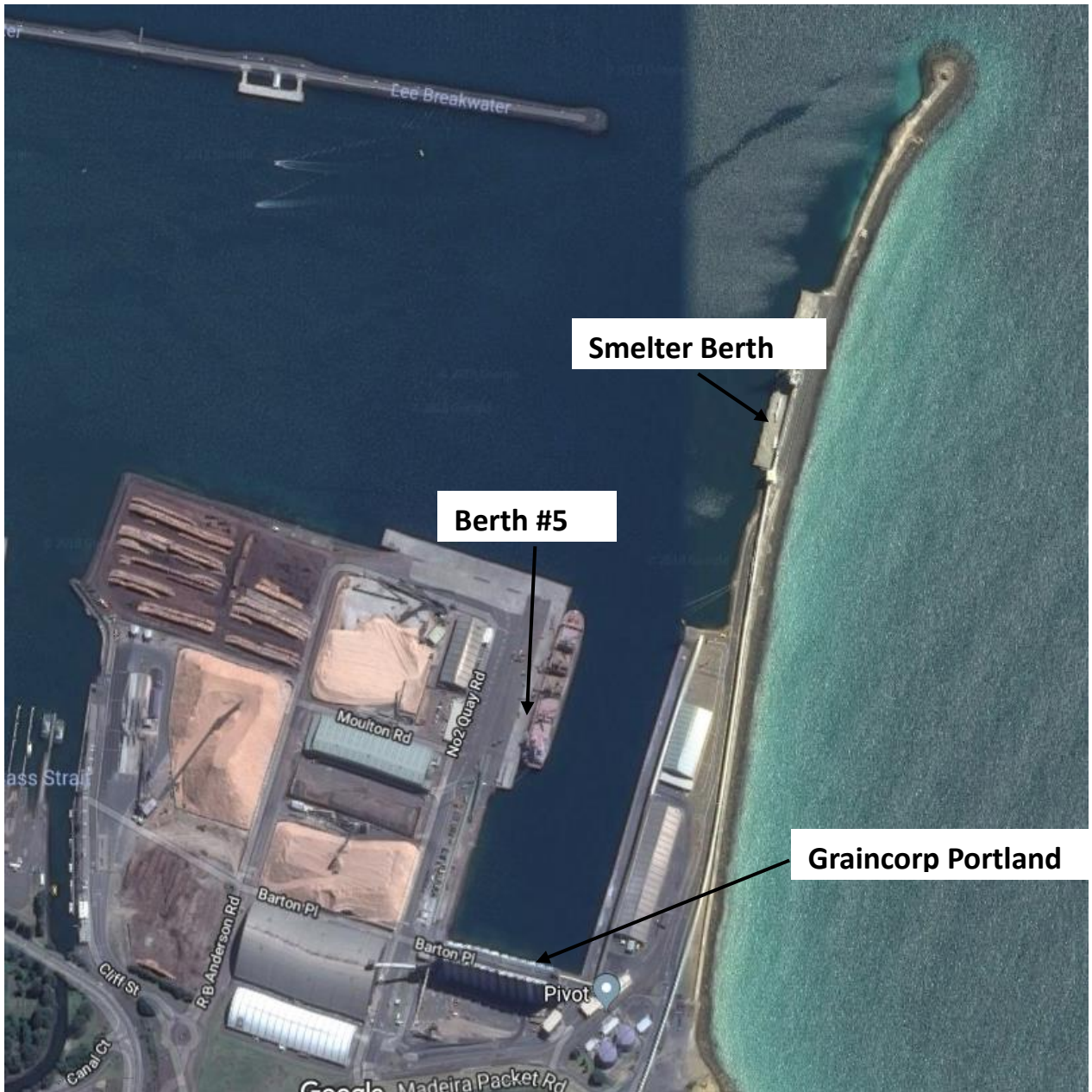
RGS operates mobile bulk loading out of Geelong and Portland Ports. These ports are multiuse public facilities that are independently owned and operated – Geelong ports [www.geelongport.com.au](http://www.geelongport.com.au) and the Port of Portland [www.portofportland.com.au](http://www.portofportland.com.au)

Maps of the ports and berths are below. These berths are not owned or operated by RGS and are available for utilisation by any parties prepared to enter into a commercial relationship with the port operator.

Corio Quay North, Geelong



**Port of Portland**



### **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.
- (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*

Graincorp Geelong, Emerald Melbourne and Glencore Adelaide are exempt service providers from The Code and are in the catchment area for Geelong and Portland.

### **Potential tonnages loaded via Mobile Bulk Loading by RGS**

To operate mobile bulk loading at RGS operates a road-based delivery system with limited investment at port that limits or reduces the need for on wharf storage at Geelong and Portland. Typically product is part pre-accumulated at sheds or silos near the Geelong or Portland ports (approx. 30-50% of the cargo is pre-accumulated), with the balance of tonnes delivered direct from up country origins to the port for loading. 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).

Regarding storage on or near the wharf at Geelong and Portland there are various sheds and silos available for lease or purchase. Around Geelong RGS owns or leases sheds and silos at Lara, Corio, Balliang and Lismore, the capacity of this storage is approx. 130,000mt. These assets are currently utilised for various activities including storage of alternate products (fertiliser, imported meals etc.), storage of grain for domestic customers and storage for export pathways (containers and mobile bulk loading). Around Portland RGS has access to sheds to lease at various locations with an approx. storage capacity of 20,000mt. This capacity is currently utilised solely for pre-accumulation for bulk vessel loading.

Given the intensive nature of this loading plus the slower loading rates, RGS anticipates loading a *maximum* of 300,000mt per year across both Geelong and Portland being approx. 10 vessels, at 30kmt each. It is anticipated the tonnage splits would be roughly 50/50 between Geelong and Portland however this is dependent on seasonal and subsequent market conditions in each port zone. It is difficult to forecast the nature of volumes given these various factors around rainfall and weather, global market conditions and domestic demand for grain.

It is important to note that RGS only has access to the one ship loader and is not intending to be loading at both Corio Quay and Portland at the same time due to the availability of the loader and logistical constraints. The movement of the loader between the two ports takes about 8 hours but is subject to road movement constraints at the time of transit. In addition to moving the loader RGS relocates equipment required for the bulk loading between ports eg sample stand and testing equipment, grain loaders etc. The ship loader is not owned by RGS and is available for other parties to purchase or hire. In addition, it can be utilised for loading other bulk products such as woodchips, sand, minerals etc at the discretion of the company that owns the loader.

The Federal Department of Agriculture, Water and Resources (DAWR) in Canberra is in the process of finalising a guideline for Mobile Bulk Loading for participants in the industry to access mobile bulk loading. This guideline will be finalised shortly and will allow all potential exporters access the Mobile Bulk Loading opportunities providing they meet DAWR licence requirements.

Commodities handled at Geelong and Portland would include Barley, Wheat, Canola, Corn and Pulses.



RGS welcomes the opportunity to submit an exemption to The Code with the ACCC for bulk loading via a mobile conveyor both Corio Quay North and the Port of Portland. 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.