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HD **Newcomer Qube is no square**

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The arrival of a ravenous competitor in the grains logistics business in NSW would seem to complete six months of living disastrously for Australia's incumbent king of the east coast wheat market, GrainCorp.

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Very famously, last November GrainCorp lost a potential new owner and a chief executive in the space of a week after a then very new Treasurer Joe Hockey rejected in the national interest the **company**'s takeover by global American trader Archer Daniels Midland.

The underpinning logic to that rejection was that GrainCorp was effectively a monopoly in its core market of NSW and that allowing foreign ownership of this last Australian-owned jewel of our rural estate posed an unacceptable risk.

Then along comes Qube. Not only has it poached three major GrainCorp customers but together they have decided to form a joint venture, to be called Quattro Group, that will build a new grain storage and export facility at Port Kembla.

More galling still, this deal that confirms everything GrainCorp and its recommended suitor had told the government about the industry's competitive framework was supposed to have been done and dusted back in November last year.

If it had been, ADM and its frustrated target might well have been delivered with happier news from Canberra. Or perhaps Treasurer Hockey would have been reduced to telling the story as it really was: the proposed takeover of GrainCorp was just a step too far for his partners in government, the Nationals.Port Kembla export facility

The new export facility at Port Kembla will cost $75 **million** and will have the capacity to export 1.3 **million** tonnes a year of wheat. It will be operating by 2016, it will be built by Quattro and it will begin life with two shareholders, Qube and **Hong Kong** trading house, Noble Group.

Qube trains will transport Noble's grain to their port under take-or-pay contracts that were signed in the wee hours of Thursday morning. Qube has also signed take-or-pay rail deals with the Sumitomo-owned Emerald Group and the US commodities leviathan Cargill. Each has been given a call over 20 per cent of Quattro. There is **firm** confidence those calls will be made in the near term.

It is estimated that the three will use up to 60 per cent of Quattro's port capacity, which would imply something more than 7 **million** tonnes of wheat. To give you an idea of how that might hurt GrainCorp, in what was a very good year in 2013, it moved about 2 **million** tonnes through a best-in-class Kembla facility that has a capacity of maybe 3 **million** tonnes per annum.

GrainCorp estimates that the national grain system generally is already running at about two-thirds of its capacity and it has signalled changes of product mix at its major ports to diversify its income stream. That is why it is doing woodchips at Victoria's Portland and moving to put fertilisers through Kembla.

If we understand Qube's ambition rightly, then move to expand product lines in Portland might well prove to be prescient.

Sumitomo's Emerald is a big player in the Victoria grains business and currently exports from a facility at the Port of Melbourne. But we hear that Qube might be one that has responded to expression of interest for expanded grains capacity at Portland and that it might be looking to opportunities created by state government's embrace of Hastings as an alternative to the extant export facilities in Melbourne port.Shaping force

Inevitably, the shadow of Qube's paradigm-busting chairman, Chris Corrigan, looms large here as the shaping force of its mission to make money by challenging incumbents making money from our logistical bottlenecks.

Fittingly, the increasingly London-bound Corrigan is in Australia to enjoy this latest moment in the rapid maturation of a business that has grown its market capitalisation from $200 million two years ago to $2.1 billion today. This will please very much Corrigan's long-time ally in industry and reform, Peter Scanlon.

Having banked $377 million from the sale of Patrick to Toll Holdings back in 2006, Scanlon was an original investor in Qube's forbear, an investment fund run by another long-time member of the Corrigan coterie, Sam Kaplan.

To some degree, Kaplan Infrastructure Fund was set up as a sort of private equity retirement fund for a whole lot of the people who made Patrick such a valuable target for Toll. But things have moved on a long way since then. As things now stand, Scanlon owns just more than 7 per cent of Qube. At its post-listing low of 49¢ that investment was worth about $33 million. Ahead of Thursday's news, the Scanlon investment was worth $150 million.

For the record, Corrigan owns just under 2 per cent of the business, which means Qube has become a pleasantly enriching retirement plan for him as well.Qube ambitions

That there are Qube ambitions yet unfulfilled is announced pretty plainly by the fact that the company is in a trading halt while it raises $200 million from sophisticated investors. Qube will offer a further $30 million of shares to existing investors.

Not only is that far more capital than is required for the total of the acquisitions and plans confirmed yesterday but the company is also sitting on un-drawn facilities and cash reserves totalling $355 million and a balance sheet that could, given the nature of its business, carry a considerably heavier debt toll yet.

Certainly Qube boss Maurice Brand did not shy away from the idea that Quattro is but the latest expression of his ambitions, telling investors lining up to support his capital raising that a "number of acquisitions, capital expenditure opportunities and major projects" are in the making.

While carbon tax didn't kill the Ravensworth coal mine and the 130 jobs it supports, it hasn't helped as rising costs and falling prices closed their jaws around the first Glencore victim of coal's great retreat.

It is true that Glencore closed another of its mines last year. But Collinsville was shut in after the company internalised the operation but was unable to secure union support for a slate of new work practices. Work at Collinsville has started again and production will ramp up over coming quarters.

So Ravensworth really is the first Glencore mine to be closed by coal's rapidly changed economics.

Ravensworth is an underground mine in the Hunter Valley that produces about 1.4mt of saleable semi-soft coking coal annually.

It also produces a lot of what they call "fugitive emissions". In other words, it is a gassy sort of mine. As a result it carries an comparatively high carbon-tax burden.

While Glencore will not discuss the financial details of Ravensworth's gas problem, we understand that the mine's carbon tax bill topped out at about $13 million annually.

As it is explained to us, the final tax bill comes in at under $9 million after accounting for carbon tax relief. The back of my envelope says that at $13 million this tax is eating something not far from 10 per cent of mine's income.Costly diesel

And that is, of course, before we account for cost of the shadow carbon tax on diesel. A secondary feature of the carbon tax we were not going to have was a 6¢-a-litre reduction in the industry's diesel rebate.

That might not sound like a whole lot but you can't mine things without using big trucks and even bigger diggers and they tend to chew through a whole lot of diesel fuel.

It is estimated that the reduced rebate costs the industry about $350 **million** annually.

And the miserably irony here is that there remains a fair chance that by the time Ravensworth finally does close in September, the carbon tax will be no more. That amplifies my opening point, that its cash-flow issues are deeper than the carbon tax and, like at least five other mines that have closed since last April, it is a victim of the misalignment of lower **coal** prices, embedded high costs and a remarkably resilient Australian currency.

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