

SE **Business**

HD **Deregulation rules set up Carrington to fail**

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The future looks patchy for the Newcastle facility

ON the wall of the staff tearoom at the Carrington port terminal in Newcastle, above boxes of charity sweets, a poster charts the feast-and-famine trade history of GrainCorp's northern NSW export effort.

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In 1974-75 and again in 1996-77 the terminal shipped a record 2.75 **million** tonnes of grain.

Australian prime hard wheat grown in northern NSW that is prized by Egyptians to make flat **bread**, and durum wheat grown a little further south and used by Italians to make pasta, pushed the towering concrete silos near the limit of their capacity.

The graph, charting the 79-year history of the export terminal tucked in a basin within sight of the mouth of the Hunter River, dips and soars wildly in between those boom years.

In 2008, it managed just 18,000 tonnes and none in 2009, the result of drought conditions that briefly saw the facility doubling as an import terminal for wheat from Western Australia and Queensland. Last year, it shipped 1.25 **million** tonnes.

Mark Farnham, who joined Carrington as an apprentice stevedore 20 years ago and is now general manager, says the terminal is operating at about 30 per cent capacity this year.

A combination of the drought-affected harvest and competition from other terminals means it is busy four months of the year rather than an average 10 months previously, Farnham says.

It's fair to say the terminal's best days are behind it. Just a few hundred metres away, a gleaming new stainless-steel Newcastle Agri Terminal, owned by Olam International, WA's CBH and Glencore Xstrata, began shipping grain in February, midway through the peak harvest season.

It took in 62,000 tonnes and is expected to reach full capacity — and make a serious dent in Carrington's volumes — from December when the next harvest gets underway.

Even if there is a booming harvest in the years ahead, it's unlikely Carrington will see those peak volumes again because of the competition from NAT and the Louis Dreyfus facility on Kooragang **Island** a little upriver.

The shiny new NAT facility, and others like it being opened at ports along the east coast, are the logical end of the competitive forces unleashed by grain-market deregulation in the aftermath of the AWB **oil**-for-wheat scandal of 2005. But the paradox is regulations put in place to protect growers' interests when exports were deregulated has made Carrington a sitting duck for a host of global competitors to GrainCorp.

Undertakings to ensure fair access for farmers to overseas markets oblige Carrington to treat all customers equally.

It's elevation capacity is flagged to the market up to a year before it is available. GrainCorp is compelled to publish reference rates and operating data for Carrington and its other six ports Continued on Page 16 Continued from Page 15 along the east coast, from Mackay in Queensland to Portland in western Victoria. It must charge exporters the same price, whether it's the peak season, from December through to April, or the post-harvest lull. GrainCorp's marketing arm must compete with more than 20 other exporters for capacity at its own facility.

Those regulations don't apply to the Newcastle Agri Terminal just across the water. The NAT is free to take grain from whoever it likes, whenever it likes and price according to demand.

Down the coast — at Wollongong, south of Sydney — the Quattro consortium led by Qube Logistics plans to spend \$75m building an unregulated facility to compete with the established GrainCorp **site**.

Global giants Cargill, the Sumitomo-owned Emerald Grain and Noble **Group** — which has just tipped its global soft commodities **business** into a joint venture with CofCo of **China** — own or have an option over a **stake** in the planned facility, which will operate in the same unregulated fashion.

"This was really designed to give the growers security of access for their grain to the export markets," says Don Taylor, the chairman of GrainCorp, of the access code deployed in 2008.

"Well that is there in spades, in my view. That is a competitive market already. I would question why we need any regulation at all." Taylor says the current regulation is hindering his **company's** ability to compete with five new terminals either opened or being built along the east coast and that it needs to be scrapped.

What's more, plans to introduce a code of conduct governing the industry across Australia from October should be abandoned, Taylor says, because it risks distorting the new market.

Taylor's frustration with the existing system is echoed in comments from Qube managing director Maurice James in explaining the reasons for setting up at Port Kembla.

"This has come about because the partners that we have, have been looking for opportunities to have more influence and control over the supply chains for ports," he told The Australian last month.

"There is a degree of frustration with the existing arrangements. That is what drove this. Noble, Emerald and Cargill are all looking at how they develop and grow their markets and it was really a coming together of like minds to do this project." Under the old centralised market, the wheat **board**, as the only exporter, carried security stock for the customers. The cost was carried by growers through the pool arrangements under which farmers were paid.

Farmers and the AWB were indifferent when it was shipped, but the old system made for good relations with customers because there was always stock on hand.

Now that the grain is owned independently, storing it is a working-capital cost for exporters. They have bought and paid for grain and they all want to ship it at the same time so that they can get paid as soon as possible.

A host of marketers now compete to **buy** the grain and get it out to their customers, and to beat the limits of peak capacity, a mini boom in grain-port construction is under way, similar to the race to build **coal** ports that attended the **mining** boom.

In farming's version of the just-in-time manufacturing supply creed, big commodity players need to supply customers year-round and take grain from different countries according to the seasonal harvest.

GrainCorp estimates that the existing and planned competition is enough to complete the annual 9 **million**- to 10 **million**- tonne annual export task without using its facility. There is Brisbane (owned by Gavilon Wilmar); two terminals at Newcastle; a Sumitomo facility at the Port of Melbourne; the planned Quattro terminal; and another rumoured for Portland in western Victoria; as well as 2.5 **million** tonnes exported in shipping containers.

If it goes to plan, the access undertakings will expire on September 30. In its place, a new system incorporating a code of conduct to be overseen by the Department of Agriculture and competition law has been proposed. But there is no certainty about how it would operate or if it would be mandatory. Taylor says it would be better if regulation were scrapped. "We can only compete if we are able to compete on the same set of rules. And we are going to compete. We are not going to sit back and let them eat our lunch."

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