

Attention: Price Monitoring and Regulation Division – Transport
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 300



By email to: transport@esc.vic.gov.au

Thursday, October 24, 2019

To whom it may concern,

Port of Melbourne Market rent enquiry 2020

On behalf of the Victorian Farmers Federation (VFF) I would like to thank you for the opportunity to make a submission to the Port of Melbourne - Market Rent Inquiry.

Background

The VFF represents 5,500 Victorian farming businesses in a wide range of agricultural commodities, including grain farmers who have a direct interest in the Port of Melbourne through which a substantial amount of their grain is exported.

Victoria produces an average of 7 Mmt of grain (cereals, pulse and oilseeds) per annum, weather permitting.

The domestic market – human consumption and stockfeed – consumes about 3 Mmt pa with the balance of up to 4 Mmt pa exported, generating up to \$1.5B pa in export revenue for the state.

Bulk grains are exported through facilities located in Melbourne, Geelong and Portland ports and in containers through Melbourne.

Emerald Grain Australia (EGA), a Sumitomo company, owns and operates the Melbourne Grain terminal (MGT) which loads grain into bulk vessels and has a capacity of 1.5 Mmt pa.

Grain is also exported in containers. Subject to annual grain production up to 2.2 Mmt pa of grains have been exported in containers through the Port of Melbourne (PoM) making it Australia's largest containerized grain export port.

PoM is critical infrastructure in the export of Victoria's grain. Therefore the cost structure of its tenants and their pricing are also critical to exporting Victoria's grain.

VFF members are also the beneficiaries of substantial imports of fertilizers and like products which improve fertility and productivity of their land. Currently over 1Mmt pa of bulk fertilizers are imported through PoM with a growth rate of approximately 3% pa (PoM website).

Lease terms & conditions

PoM has the head lease for all land in the port precinct. Operating facilities within this precinct confers significant advantages on businesses in the export supply chain.

The VFF can confirm the negotiate arbitrate rental review process and understands rents are reviewed at least bi-annually. PoM has negotiated leases on different terms with different tenants so that rental reviews fall due at different times.

PoM leases generally have strict confidentiality clauses banning tenants from openly discussing and comparing terms . This makes it difficult for an open transparent market to operate.

VFF is aware of a historical rental dispute regarding the Melbourne grain terminal. In that matter the terminal's valuer opinioned that PoM exerted market power through two mechanisms:

- 1. PoM was the sole landlord of PoM land thus operating a closed market**
- 2. Lease agreement confidentiality clauses made it extremely difficult to obtain transparent information on comparable rents paid by tenants.**

Please refer to Emerald Grain for documentation relating to this matter.

Lease term

Some current and potential tenants have been restricted to a maximum of 20 year terms even though the infrastructure they construct on the leasehold may have an economic life of up to 50 years.

By way of example, VFF understands the original term for Emerald's Melbourne bulk grain terminal determined in 1999/2000 was 20 years and has since been extended to 2030. As mentioned earlier the economic life of some leasehold improvements exceeds the rental term. The Melbourne grain terminal is an examples where the economic life of the silos and supporting infrastructure is up to 50 years.

The VFF contends certainty of the continued operation of the Melbourne grain terminal is essential for Victoria's bulk grain exports. We wish to see the term of lease extended beyond 2030 for a significant period of time. PoM should not hinder such an extension through internal policy.



Lease cost

Costs of getting grain from farm to a FOB position is a significant burden to the Victorian grains industry. On average handling, storage, freight and FOB costs total in excess of \$70/MT (refer AEGIC report “The cost of getting grain from farm to ship”) for grains that return \$200-250/mt for cereals to famers.

Costs of receiving and loading either bulk grain or containers are a significant component of this cost. The rental costs of export facilities such as the Melbourne grain terminal and Stevedore’s container storage and handling equipment are a significant part of their total costs.

PoM rail infrastructure is also lagging behind its competition at Geelong. With a rail loop enabling grain trains to be unloaded within 2.5 hours Geelong’s export grain operations are more efficient than PoM’s outdated rail access where grain trains need to be split into smaller rakes for discharge taking 4 or more hours to complete unloading. These inefficiencies in the supply chain adversely impact the value of exports.

All these costs are eventually passed back to famers. Farmers are characterized as price takers in a grain export market dominated by few, generally less than 10, multi-national trading companies whose balance sheets and global reach enable them to exert significant market power.

Thus, Victorian grain famers bear the significant costs in moving grain from the farm to a FOB position without any ability or power to negotiate better terms.

If you wish to discuss our comments please contact VFF Grains Manager Simon McNair on (03) 9207 5534.

Yours sincerely,

A handwritten signature in black ink, appearing to read "David Jochinke".

David Jochinke
President, Victorian Farmers Federation

References

PoM trade statistics, https://www.portofmelbourne.com/wp-content/uploads/historical-trade-data_FY19.pdf

The cost of getting grain from farm to ship, AEGIC 2014, <https://www.aegic.org.au/wp-content/uploads/2016/04/At-a-glimpse-the-cost-of-getting-farm-to-ship.pdf>

