31 January 2024

Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Professor Menezes,

QUEENSLAND RAIL'S DRAFT ACCESS UNDERTAKING 3 (DAU3)

Centrex Limited ("Centrex") thanks the Chair of the QCA for inviting submissions on DAU3. We consider AU3 a crucial facilitator for the Mt Isa rail corridor, which has encountered diminishing volumes, escalating costs, and operational stagnation in recent years.

Centrex is an Australian publicly listed modern resource company that explores and develops phosphate, potash, base metals, and other resources. Its flagship project is the Ardmore Mine, located 120km south of Mount Isa. The Ardmore mine produces high-quality phosphate rock concentrate, a key ingredient in the production of fertilizers. The Ardmore mine is Australia's only high-grade phosphate rock mine. Its operation significantly improves Australian food security by providing a domestic source of high-grade phosphate. The Ardmore operation has created significant employment opportunities in regional Queensland, currently employing over 50 people and is expected to increase to nearly 145 people as production increases.

Ardmore commenced operations using a trial beneficiation plant in June 2022, with the initial export trials conducted in September 2022. We are executing a ramp up (referred to as Phase 1.5 in Centrex's ASX announcements) of production from ~150,000 tonnes achieved in 2023 to 625,000tpa. A key bottleneck that prevents us from reaching these volumes is a costly supply chain from site to port. Current logistical costs for Ardmore are fixed costs per ton, ~60% of the total cost base, and will escalate to ~70% of costs as mining and processing costs reduce with ramp up and these are unsustainable numbers. The long-term viability of the Ardmore Mine is dependent on establishing high volume and low-cost operations. Phosphate is a relatively low-value bulk commodity and economic sustainability depends on economies of scale.

There are five key areas that Centrex require addressing for the DAU3, in addition to the support and alignment that Centrex has with other submissions for the AU# that have been made by peers in the region.

1. **Failure to adhere to AU2 requirements allowing for price discrimination.**

We wish to highlight that there is a perceived lack of adherence by Queensland Rail to price discrimination requirements. In our view, both the QCA Act (1997) and AU2 are designed to facilitate price discrimination among various users and types of freight to stimulate rail volumes.

This concern is related to the provisions in the following key sections of the QCA Act 1997 and AU2:

- ***Section 100*(3)*, subsection 2a*** should not be interpreted as a restriction that prevents the access provider from treating access seekers differently. In essence, it allows for varied treatment of access seekers. The act states "Subsection (2) does not prevent the access provider treating access seekers differently to the extent the different treatment is— (a) reasonably justified because of the **different circumstances**, relating to access to the declared service, applicable to the access provider or any of the access seekers; or"

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- ***Section 138A*** permits access seekers to be treated differently in negotiating access agreements or amendments to access agreements. The legislation specify -"An approved access undertaking for a service may require or permit the owner or operator of the service to do the following, in the circumstances stated in the undertaking—**(a) treat access seekers differently in negotiating access agreements, or amendments to access agreements, relating to the service; or**
(b) treat users differently in providing access to the service.
- ***Section 168A(b)***: This section permits price discrimination when it can be demonstrated that such discrimination ultimately enhances operational efficiency. The legislation specify -
"The pricing principles in relation to the price of access to a service are that the price should—
(b) allow for multi-part pricing and price discrimination when it aids efficiency; and"

Refer AU2 and draft DAU3
Section 3.1.2a Network Utilisation clearly states that "Queensland Rail may establish different Access Charges for Train Services serving different markets to maximize the commercially viable use of Capacity while meeting, in aggregate, the Common Costs."

Refer AU2 Decision Minute
Page 107
Queensland Rail has acknowledged that it is to take into account a range of competing considerations when setting access charges, including:
• Competition with road transport and the objective of maximising rail freight volumes.
If access charges at the ceiling exceed customers' willingness to pay, it is likely to be in the interests of all parties to negotiate access charges below the ceiling. This may also encourage the efficient use of the network and promote competition in dependent markets, while providing an opportunity for Queensland Rail to limit the gap between revenue and costs.

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Similarly, the AU2 has stated 'Greater pricing flexibility may provide greater scope for Queensland Rail to increase the revenue it recovers from access charges and reduce the subsidy, while promoting the efficient use of the network (ss. 138(2)(a), (b), (g), 168A(a), (b)). Greater pricing flexibility promotes the efficient usage of rail infrastructure, by enabling Queensland Rail to adjust prices in response to competition from alternative modes of transport (particularly road for some types of freight) and expand the demand for its service by targeting customers that are more price-sensitive, potentially promoting competition in dependent markets (ss. 138(2)(a), (b), (d), (e), (g), 168A(b)).

Based on the above evidence, Centrex believes that there are valid reasons to consider price differentiation for junior mining companies or for those with a lower commodity value requiring bulk and economies of scale, in order for them to be competitive. The argument that all miners are direct competitors and therefore price discrimination is not appropriate is incorrect and detrimental. The key users of the Mount Isa line rail concentrate that are of significantly higher worth per ton. Furthermore, our supply chain requires numerous touchpoints, which inevitably leads to increased costs.

Centrex's phosphate mineral plays a vital role in safeguarding the food security of the Australian economy. Supporting Australian fertilizer manufacturing is challenging due to our high logistics costs for moving product to the port, rendering us less competitive compared to imported cargoes. Despite our commodity prices being lower than those of other access users, any price increase would directly impact the rise in food prices in the country.

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Our firsthand experience indicates that the current pricing structure is hindering the accessibility of rail transport for small to mid-sized companies, impeding economic activities and development in the region. The existing pricing strategy disproportionately affects junior miners, particularly those with elastic demand. Furthermore, our internal benchmarking of the costs to utilise the Mt Isa to Townsville corridor demonstrates that the line charges are up to 50% more per ton that all equivalent rail corridors nationwide charge customers.

If Queensland Rail does not implement price discrimination, there is potential to create market distortions by favoring specific users or industries over others, resulting in an uneven playing field and undermining fair competition. The current pricing approach does not align with economic efficiency, as its primary focus is on maximizing revenue rather than optimizing overall societal welfare.

The imposition of higher fees acts as a deterrent to innovation, especially for mines like ours that heavily rely on rail transport due to geographic location. We currently experience reduced global competitiveness, resulting in higher overall costs and impacting our export capability. It is Centrex's opinion that this can send a negative message to other investors interested in developing the region.

2. Community Service (Not Being Considered Regarding State's Mineral Wealth)

The aspect of community service is currently not being adequately considered in relation to the state's mineral wealth. The primary objectives of the Mineral Resources Act 1989 are as follows:

- To encourage and facilitate the activities of prospecting, exploring, and mining for minerals.
- To enhance knowledge about the mineral resources within the State.
- To minimize conflicts related to land use in the context of prospecting, exploration, and mining activities.
- To promote environmental responsibility in all phases of prospecting, exploration, and mining.
- To ensure that the State receives a fair and appropriate financial return from mining activities.
- To establish an administrative framework that expedites and regulates prospecting, exploration, and mining.
- To encourage responsible land care management throughout the processes of prospecting, exploration, and mining.

Mining and petroleum royalty payments are made to the owner of the resources, which, in this case, are the people of Queensland. Presently, the below-the-line access fees associated with mining operations are not effectively optimizing the financial returns from the extraction of mineral resources for both the state and the people of Queensland.

By eliminating the under-rail costs specifically for low grade and low value products, it would allow significantly higher volumes to become economic. In the case of Centrex, this would allow it to sell low-grade products not currently economic, increasing the volumes transported by 30%. This strategic move would result in an increase in state royalty payments, enhance mineral resource utilization efficiency, and contribute positively to the State Gross Domestic Product (GDP).

3. Operational and Productivity Improvements

AU2 (and now DAU3) required Queensland Rail to improve productivity, as specified in Section 4.4 of AU2, which stated that Queensland Rail under Section 4.4(a) (c) provide resources to (ii) provide analysis of the root causes of ongoing or systematic issues being experienced; (iii) identify resolutions to such issues and other productivity or efficiency initiatives; and (iv) provide evaluation and modelling of the outcomes of potential

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supply chain operational changes that the Regional Network User Group are supportive of investigating. Despite this requirement, the Mt Isa Below Rail Access Costs have increased ~16% since AU2's commencement.

Similarly, there has been a lack of improvements to the Mt Isa Line. Funding of A$50 million was announced in 2020 to fund line improvement and provide double stacking of containers has not eventuated and the project has not commenced.

Agriflex would like to see user groups established to drive operational and capital improvements.

4. **Fixed Charges**

The current system of path charges is a disincentive to using the rail service. The fixed "take or pay" path charges (which account for ~60% of the rail charges), is a significant risk to all operators but in particular smaller junior mining operations in a start up situation. These types of operations can encounter irregular production issues while starting operations producing an intermittent production profile which in turn introduces a risk of filling regular train services. Given the declining volumes being inexperienced by the Mt Isa rail line, it seems that there is sufficient excess capacity for all potential users without the use of fixed path charges. Many customers are opting for 6 month access agreements to remedy this situation providing Queensland Rail with short term contracts underpinning their long life assets.

Agriflex would like to see alternative contractual arrangements that incentivise new entrants, therefore increasing volumes and driving down unit rates.

5. **Price Transparency**

There is currently no visible evidence that Queensland Rail provide floor and ceiling pricing to users along with the methodology in calculating these prices. Agriflex believes that these should be provided to improve transparency which will aid the price differentiation process. AU2Decision (page 107) provides that the proposed ceiling revenue limit sets an appropriate upper bound for price negotiations - being the efficient costs of providing access - while also providing flexibility to accommodate changes in the market conditions of each rail system over time. Further, if access charges at the ceiling exceed customers' willingness to pay, it is likely to be in the interests of all parties to negotiate access charges below the ceiling. This may also encourage the efficient use of the network and promote competition, while providing an opportunity for Queensland Rail to limit the gap between revenue and costs.

Conclusion

Centrex strongly believes that Queensland Rail has not adequately demonstrated that its DAU3 aligns appropriately with the QCA's approval criteria outlined in section 100, 138(2) and 168A(b) of the QCA Act. The primary goal of Part 5 of the QCA Act emphasizes the importance of fostering competition in both upstream and downstream markets (section 69E). Queensland Rail has formulated DAU3 focusing solely on the pricing principles in section 168A to maximize its commercial outcomes, neglecting to consider the broader considerations encompassed in the QCA's approval criteria.

We propose the implementation of differential pricing practices, emphasizing that without such measures, smaller miners like Centrex may be compelled to explore road transport options to remain competitive. Centrex is open to further discussions regarding its DAU3 submission with the QCA and Queensland Rail. Stakeholders

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should have the opportunity to participate in a direct forum to establish an Access Undertaking that is balanced, practical for both Queensland Rail and its users, and aligns with the objectives of the QCA.

We appreciate the chance to present this proposal and kindly request that the QCA thoroughly review it when making its final decision.

Yours Sincerely
Centrex Limited

Robert Mencel
Managing Director

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