Mr Anthony Wing
General Manager
Transport and General Prices Oversight
ACCC
GPO Box 520
MELBOURNE VIC 3001

Dear Anthony,

Please find following my submission in relation to the **Issues Paper in relation to GrainCorp Operations Limited's proposed Port Terminal Services Access Undertaking** dated **7 October 2010**

My submission does not address directly the queries raised in relation to the seven matters listed by the ACCC as I am not a direct stakeholder in the port terminal access undertakings. Having however been actively involved in the earlier stages of the export grain supply chain I hope my insights are helpful to your deliberations.

The Productivity Commission Wheat Export Marketing Arrangements, (WEMA) Inquiry Report No. 51, released on October 28, 2010, is I believe a very comprehensive document & the team at the Productivity Commission are to be congratulated on their work. Their thorough, scientific & methodical work has presented industry data desperately needed to be a basis for sound policy debate & subsequently decisions.

Regards,

Timothy Bush

Contents

The GrainCorp Submission to the Australian Competition & Consumer Commission 2011 Port Terminal Services Undertaking (2011 PTSU), dated 22 September 2010 states;

> The purpose of this submission is to provide the ACCC with information on GrainCorp's Proposed Undertaking in the broader context of the eastern Australian grain market and the Current Undertaking period. (p.1)....
>
> This submission does not seek to repeat the information provided to the Commission previously. The purpose of this submission is to update the Commission on GrainCorp's operations and changes to the eastern Australian grain market since the commencement of the Current Undertaking on 1 October 2009. (p. 3)

1. Competitive export grain market- Eastern States

Before commenting on the proposed 2011 PTSU I will comment on the eastern Australian grain market as presented by GrainCorp, page references quoted are therefore directly from this GrainCorp document dated 22 September 2010.

> On average eastern Australia produces 17 million tonnes (mmt) of grain crop annually. Of that, 10 mmt is consumed domestically. The domestic market is attractive for growers as net returns are higher as a result of lower transaction costs (cost of freight from grower / storage to consumer) when compared to exports (where the cost of freight to port, port elevation and sea freight is considerably higher).
>
> The export market consumes 'residual' grain that is not consumed domestically. In an average year, eastern Australia exports an average of seven mmt of grain, five million bulk and two million in containers.
>
> 2.2 Competitive export grain market characterised by increasing export capacity
> Of the seven mmt of grain exported annually from eastern Australian in an average crop year, four mmt is exported via GrainCorp's bulk elevators (representing approximately one quarter of GrainCorp's total annual elevator capacity), 2 to 2.5 mmt is exported in containers and 0.5 - 1 mmt is exported from the Melbourne Port Terminal. (p.4)

It is hard to reconcile this September 2010 'update' from GrainCorp with 'GrainCorp Operations Limited Submission to the Productivity Commission Review of Wheat Export Marketing Regulations November 2009' in submission 43[1] quoted below. The above GrainCorp 'update' has 2 to 2.5 / 7 (mmt) = 28 to 36 % of average eastern Australia grain exports in containers (& presumably bags i.e. non bulk).

> **Has deregulation altered trends in the share of wheat exported in bulk and in bags and containers? If so, will the trend continue to change if current arrangements remain in place?**
>
> The tonnage of grain exported from year to year varies significantly in line with production, as in eastern states export grain is generally that which is not consumed locally. The tonnage of grain exported in containers has increased in recent years, driven partly by the excess supply of empty containers that needed to be returned to Asia, and increases in bulk freight rates.
>
> In GrainCorp's experience the trend in share of wheat exported in containers vs. bulk has had more to do with the deregulation of wheat in containers since August 2007. This coupled with excellent summer and winter crops in central and southern Queensland, and competitive container freight rates, grew the market rapidly to August 2008.
>
> After this time, bulk freight rates came down, making it more economical to ship in bulk. Containerisation is expected to decline due to;
> • Removal of the bulk wheat export monopoly
> • More market participants seeking to export in bulk
> • Decrease in bulk freight rates and the narrowing of the spread between bulk and container rates
>
> Container packing is still expected to play a role in grain exports more due to:

[1] http://www.pc.gov.au/__data/assets/pdf_file/0008/92555/sub043.pdf (Accessed Oct 30, 2010)

- Customers requiring less working capital
- Containers reducing price exposure and risk (the value of each consignment is less)
- Infrastructure investment (sub 43, p.39)

Quoting GrainCorp above '*Containerisation is expected to decline*'.... '*has had more to do with the deregulation of wheat in containers*' – it has been the major alternate export grain supply chain which has developed dynamically in the last five years, particularly in the eastern states, as a structural change response to constraints & sometimes monopoly price gouging behaviour by elements in the bulk export grain supply chain.

Thankfully the Productivity Commission Wheat Export Marketing Arrangements, (WEMA) Inquiry Report No. 51[2], presented to the Australian Government on 1 July 2010 & with the final report released to the public on October 28, 2010 has researched this issue thoroughly & reports.

> *Export wheat supply and disposal*
> The majority of Australia's wheat exports are in bulk, however, the composition of total exports by mode varies across states. Over the five year period to 2008-09, non-bulk exports accounted for about 35 per cent of Victoria's exports, 30 per cent of Queensland's and 20 per cent of New South Wales'. In the same period, non-bulk exports accounted for only 6–7 per cent of exports from Western Australia and South Australia (figure 2.5). p.58

Finally - substantive data indicating how important the container/non bulk sector has become particularly in the eastern states with its large domestic grain/wheat market which only increases the variability of the size of the export grain task with consequent 'stop - start' demand for particularly bulk grain rail freight in transporting export grain from up country storage to port elevators.

This is vital information for all levels of government & the grain's industry in the planning of transport & port infrastructure, particularly in the eastern states, to cope with the increasing volatility of the export wheat task & accommodate 'surge' capacity for large harvest years such as the 2010-11 grains year is shaping up to be.

Now that the significance of the 'container' (please read this from now on as all non bulk exports i.e. including bags) export grain trade has been indicated, presented, researched by a credible independent body GrainCorp are now quoting this data; despite depicting the container trade as *expected to decline* in their own November 2009 submission to the Productivity Commission.

The importance of the 'container' export grain supply chain, as presented in its true light by the Productivity Commission WEMA Inquiry Report No. 51 was not evident in the $3 million 'New South Wales Grain Freight Review (NSWGFR), September 2009'[3] released on Wednesday 21 October 2009 by the Federal Minister for Infrastructure, Transport, Regional Development and Local Government.

> Estimates of current and forecast containerised grain exports were provided by ACF. These estimates indicate that current containerised grain exports through Port Botany represent only a small proportion (approximately 6.8 per cent) of NSW bulk grain exports in a normal year and are not expected to rise substantially in the next 15 years. Consequently, the containerised sector is unlikely to have a significant impact on the bulk export sector, as a whole, in the medium to long term. (p.26)

The 'Estimates of current and forecast containerised grain exports' were not provided as an annexure to the 92 page NSWGFR 2009 report – how can one comment or dispute information not provided to the public? The only discussion relating to 'Containers' (& the non bulk industry) was the paragraph above concluding *is unlikely to have a significant impact on the bulk export sector.*

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[2] http://www.pc.gov.au/__data/assets/pdf_file/0005/99554/wheat-export-report.pdf (Both accessed October 30, 2010)

[3] http://www.nationbuildingprogram.gov.au/publications/reports/pdf/NSW_Grain_Freight_Review_Final_report.pdf

So the estimated 'containerised' data, as provided to the 2009 NSWGF Review (for NSW) '*(approximately 6.8 per cent) of NSW bulk grain exports in a normal year*' was incorrect & understated the non bulk export grain supply chain threefold (WEMA 2010: NSW about 20%).

The 'Joint Media Statement' 20 October 2008 from 'The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government & Tony Burke Minister for Agriculture, Fisheries and Forestry' [4] establishing the NSW Grain Freight Review stated;

> A high-level review looking for ways to rebuild an efficient grain transport network in NSW will begin this month, following the appointment of the review taskforce.....
>
> The review will examine grain freight supply chains and identify the most sustainable, long-term solution for moving grain efficiently from farmer to customer.

I have previously expressed my dissatisfaction with the dismissal of the 'container' export grain supply chain by the 2009 NSWGF Review in my submission (DR 77)[5] to the Productivity Commission WEMA Inquiry.

> For a Review whose " purpose of the NSW Grain Freight Review is to examine the grain freight supply chains considering institutional, governance and accountability arrangements (both public and private); and competition, pricing and asset management aspects of the NSW grain freight task. "
> there is a distinct lack of figures.
>
> As we are now aware the scope of the NSW Grain Freight Review – indeed its PRIMARY FOCUS is basically costing branch railway lines vs. truck transport to grain sub terminals. (sub DR77 p.10)

2. Increasing Export Capacity – Eastern States

Again quoting from GrainCorp's 22 September 2010 proposed 2011 PTSU;

> GrainCorp's supply chain improvements have culminated in the ability to increase export elevation capacity for the 2010/2011 shipping stem period. GrainCorp also voluntarily made improvements to rail, road and shipping accumulation planning and execution.
>
> - GrainCorp increased **total terminal capacity** from 12.24 mmt pa to 15.12 mmt pa
> (a total increase of 2.7 mmt pa) p. 9

The above discussed 'supply chain improvements' to increase GrainCorp's 'export elevation capacity' are to be commended. Terming these 'supply chain improvements' as 'voluntarily made improvements' brings to my mind community volunteer or charity work. Clearly GrainCorp as a listed company is making these supply chain improvements to improve its profits. If it can work cooperatively with bulk grain exporters to produce savings for both parties & ultimately the Australian community, as has occurred, that is to be encouraged – it is hardly a voluntary activity!

Opening the GrainCorp website on November 2, 2010 [6]

"GrainCorp Bulk Grain Shipping Stem

The information contained on this page and the shipping stem details provided comply with Section 24 of the *Wheat Export Marketing Act 2008*. For a list of accredited exporters, click **here**.

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[4] http://www.minister.infrastructure.gov.au/aa/releases/2008/october/AA156_2008.htm (accessed October 30, 2010)

[5] http://www.pc.gov.au/__data/assets/pdf_file/0003/97347/subdr077.pdf (accessed October 30, 2010)

[6] http://www.graincorp.com.au/prodserv/Ports/Pages/ShippingStem1.aspx (accessed November 2, 2010)

Monthly Estimate of Grain Elevation Capacity per Terminal - 2010/11

Terminal	Monthly Estimate of Elevation Capacity (kt)
Mackay	70
Gladstone	70
Fisherman Islands	240
Carrington	240
Port Kembla	270
Geelong	270
Portland	100

NOTE

Monthly estimates of terminal elevation capacity **do not constitute a guarantee of monthly terminal elevation throughput** and cannot be relied on as a representation, an offer capable of acceptance or an invitation to treat. The monthly elevation estimates **do not constitute a 'benchmark' against which terminal elevation 'performance'** is measured. The publication of these estimates of port terminal capacity will allow exporters considering the nomination of a cargo to make better-informed judgements about the availability of elevation capacity at GrainCorp terminals.

Special Notice

The GrainCorp Geelong export elevator has the capacity to receive and store large quantities of grain directly from the local growing region.

High demand for direct ex-farm deliveries can reduce the amount of storage capacity available for export cargo accumulation at Geelong.

We expect the forthcoming harvest in the Geelong region to be large. Consequently, grain storage at the Geelong elevator during December and January will be required for local harvest deliveries.

As a result of the anticipated storage demands, GrainCorp is reducing the total export elevation capacity available for booking at the Geelong elevator in the manner shown in the following table.

Month	Current Elevation Capacity	Revised Elevation Capacity	Elevation Capacity Booked	Elevation Capacity Available	Comments
December 2010	270,000	150,000	Nil	**150,000**	120,000 t storage allocated to ex-farm receival
January 2011	270,000	150,000	140,000	**10,000**	120,000 t storage allocated to ex-farm receival
February 2011	270,000		220,000	**50,000**	No change to capacity
March 2011	270,000		240,000	**30,000**	No change to capacity

NOTE: February 2011 export elevation capacity will remain at 270,000. Stock from direct ex-farm local harvest receivals is likely to be utilised during the January / February export program (where sold to exporters).

What if this situation changes?

Should the circumstances outlined above change, and additional export elevation capacity become available, GrainCorp will undertake to a) Notify customers of the change of circumstances,

b) Provide a date from which any additional export elevation capacity can be booked, and

c) Open the Geelong shipping stem from that date for CNA's.

Any questions about the matters mentioned above should be directed to Craig Cochrane on 03 52471122."

Multiplying the '**Monthly Estimate of Elevation Capacity (kt)**' for each GrainCorp (Port) '**Terminal**' in the top table on this page (i.e. by 12) & then summing for the seven Terminals calculates to '15.12 mmt pa' quoted in the proposed 2011 PTSU as 'GrainCorp increased total terminal capacity' on the previous page.

Apparently the Victorian 2010-2011 grain harvest is shaping up to be a bumper crop, this 'Special Notice' has only appeared on the GrainCorp website in the last few days & has the effect of reducing (nominal) elevation capacity at Geelong terminal by 120,000 tonne in both December & January 2011 i.e. 240, 000 t in total. To be fair to GrainCorp they do state earlier in the proposed 2011 PTSU p.5;

> This increased level of export capacity (together with GrainCorp's existing excess capacity (other than at peak times)) provides a significant competitive constraint on GrainCorp.

Excess Elevation Capacity is really not much use if it isn't available to be used in 'peak times'.

It appears that the three key functions of Geelong export grain port terminal facilities [7]being *Receival, Storage (long and short term) & Outloading* can not all proceed at the same time without nearly halving the Elevation Capacity i.e. *Outloading* of the Terminal.

The 'Special Notice' states;

> High demand for direct ex-farm deliveries can reduce the amount of storage capacity available for export cargo accumulation at Geelong.

So trucks can't accumulate wheat - 'export cargo' (as fast as trains) or as the Geelong facility can normally *Outload* grain onto ships. This action allows GrainCorp to capture grain from Victorian farmers through the harvest period who possess some on farm storage but are happy to sell wheat immediately & will no doubt have as many farm & local contractor's trucks running 24 hours 'ex farm' directly into Geelong Terminal as they can muster. Graincorp state this in their submission to the Productivity Commission WEMA Inquiry[8]:

> A shift towards greater road use can impact on other parts of the supply chain, and adjustment will sometimes be difficult. For example, many port terminals were not designed to handle wheat delivered from trucks. Therefore, it can be more costly to unload grain from trucks to ports than it is for rail. GrainCorp stated:
>
> > For GrainCorp, the cost of unloading trucks is approximately three times that of unloading rail, due to the combination of additional staff required at sample stands and unloading grids, and the tonnes per man hour that results from the lower intake rates. If forced to increase the truck receival capacity at its port terminals, GrainCorp would have to spend up to $3 million per port terminal (times 7 terminals). This would translate into the need to impose higher service fees. (sub. 43, p 29)

This is a balancing operation by GrainCorp – they can capture wheat from farmers wishing to sell immediately (maybe even forward contracted to) & utilise the cheaper Terminal bulk freight *Outloading*, provided by GrainCorp, & subsequent sea freight rates. The plus for GrainCorp is that it may mean they get to make some margin on this export grain which otherwise may be exported through a competitor's alternate 'container' export supply chain remembering that WEMA reports an average of 35% of Victorian export grain over the last five years utilizing this supply chain.

Only down side for GrainCorp is that the Geelong Terminal bulk wheat export shipping program is pushed back one month. (& the Victorian public over the Christmas New Year period with streams of semi trailers & B-Doubles with grain from the countryside headed to Geelong GrainCorp terminal) Relating to this public road safety issue (continuing from below the GrainCorp quote on p.285) in their submission[9]to the Productivity Commission WEMA Inquiry the RBTU (Rail, Train & Bus Union) state;

> The RTBU (sub DR59) questioned whether adapting port terminals to accommodate road was a better outcome than investing in rail infrastructure — for which ports are designed

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[7] as defined by the Essential Services Commission (ESC) 2009, *Review of Victorian Grain Handling and Storage Access Regime: Final Report*, courtesy WEMA Inquiry Report No. 51 p. 175

[8] http://www.pc.gov.au/__data/assets/pdf_file/0005/99554/wheat-export-report.pdf p.285

[9] http://www.pc.gov.au/__data/assets/pdf_file/0003/97005/subdr059.pdf

Analysis of the GrainCorp shipping stem indicates[10] that this 'Special Notice' was prepared around October 19, 2010.

3. GrainCorp total nominal terminal capacity

The total nominal terminal capacity of GrainCorp's eastern state sea board is an interesting concept given how often GrainCorp have raised the issue of their 'excess terminal capacity' in the formation of the 2009 PTSU, then throughout the PC WEMA Inquiry process & again in the proposed 2011 PTSU.

An excellent starting reference point is 'GRAINCORP PORT TERMINALS Nigel Hart, General Manager Ports Leon Maguire Port Terminal Manager –Fisherman Islands 22 May, 2009'

This document has been updated now titled 'GrainCorp Ports' - a copy of the above May 2009 document is provided as Appendix I.

Table 1
'High Variability of Export Task'

(Mill Tonnes)	FY04	FY05	FY06	FY07	FY08	FY09E (2)	Average	Variability (1)
Mackay	0.2	0.1	0.1	0.2	0.2	0.3	0.2	50%
Gladstone	0.2	0.1	0.1	0.1	0.1	0.3	0.1	55%
Fisherman Islands	0.7	0.7	0.5	0.1	0.3	1.5	0.6	76%
Carrington	1.1	1.8	1.2	0.2	0.0	1.0	0.9	75%
Port Kembla	1.2	1.1	1.6	0.1	0.0	0.7	0.8	83%
Geelong	1.7	0.5	1.1	0.3	0.1	0.2	0.6	97%
Portland	0.9	0.5	0.6	0.1	0.0	0.0	0.3	111%
Total	**5.9**	**4.7**	**5.2**	**1.0**	**0.8**	**4.0**	**3.6**	**61%**

(1) StDev/Average
(2) Highside estimate

(The above Table 1 is a copy from p. 5 of GRAINCORP PORT TERMINALS, (GNC PT) May 2009)

Table 2
'Port Capacity and Berth Utilisation'
•A consequence of the highly variable export task is low asset utilisation
•Average terminal capacity utilisation is 23% and berth capacity utilisation is 10%

Port	Exports		Nominal	Maximum Utilisation			Average Utilisation		
(mmt)	Maxm	Avg	Capacity	Capacity	Berth	Storage	Capacity	Berth	Storage
Mackay	0.30	0.16	0.90	33%	15%	8.8x	18%	8%	4.9x
Gladstone	0.30	0.15	1.00	30%	14%	7.5x	15%	7%	3.7x
Fisherman islands	1.50	0.63	1.50	100%	32%	25x	42%	13%	10.6x
Carrington	1.84	0.90	2.70	68%	21%	11.5x	33%	10%	5.6x
Port Kembla	1.64	0.78	3.80	43%	15%	6.3x	21%	7%	3x
Geelong	1.64	0.64	2.70	61%	30%	10.9x	24%	12%	4.3x
Portland	0.83	0.32	1.50	55%	27%	13.8x	21%	11%	5.4x
TOTAL	8.05	3.58	15.80	51%	22%	10.5x	23%	10%	4.7x
Nominal Capacity Column TOTAL			= 14.10						

Capacity – Exports over Nominal Capacity
Berth – Exports over nominal ship loading capacity@ 12 hrs loading per day
Storage – Exports over Storage capacity

[10] http://www.graincorp.com.au/prodserv/Ports/Pages/ShippingStem1.aspx (accessed October 19, 2010)

I recreated p.6 (Table 2) of GRAINCORP PORT TERMINALS, May 2009 as the image was blurred particularly the green highlighted definitions at the base of the table.

Having recreated Table 2 as a spreadsheet the Nominal Capacity Column doesn't sum correctly should be 14.10 mmt.

Column 1 Table 2 '**Exports** Maxm' is sourced from Table 1 i.e. Maximum Bulk Outloading of each Terminal in the last five years eg FY09 for Mackay, Gladstone & Fisherman Islands
FY05 Carrington FY06 Port Kembla FY04 Geelong & Portland

I can not make a number (about half) of the calculations work for the Maximum Berth Utilisation calculations – it appears the source spreadsheet is not working per the definitions.

The relevance of all this – this appears to be the source of the quotation from (the author of this document Nigel Hart) General Manager Ports in the WEMA Inquiry Report No. 51 p.200

> Box 5.6 **Port terminal operator views about constraints on their market power**
> Bulk handlers suggest competition concerns about port operations have been overstated.
>
> For example, CBH said:.....
>
> GrainCorp made similar statements:
> No credible evidence has ever been presented to indicate the company has ever sought to extract monopoly rents or to form a 'regional monopoly'. The structure of the grains industry in eastern Australia militates against the formation of a regional monopoly, and as such there is no requirement for regulation to prevent the formation of what the market will never allow to form.
>
> • Grain growers enjoy a competitive market where only 30% of grain produced in the eastern states is exported from GrainCorp port terminals. Over 50% of grain produced is consumed by the domestic market.
>
> • A significant portion (up to 25%) of grain is exported from competing facilities, including the containerisation of grain.
>
> • GrainCorp has no incentive to hinder access given that its terminals average shipping utilisation is only 15% and only 24% usage in a maximum year. Our business model requires us to maximise throughput as demonstrated by GrainCorp's track record of providing public access rates to others without the need for regulation.
>
> • GrainCorp's business model is based on open access. GrainCorp has no history of refusing access or of acting in an anti-competitive manner in respect of grain export terminals. For example, GrainCorp voluntarily engaged with the NSW Government to allow multiple licences for export barley and canola when it acquired the NSW Grain Board export rights in 2003. (sub. 43, p. 16)

So the 'average utilisation' of GrainCorp 'nominal port terminal capacity' i.e. 23-24% is calculated over the last 6 years; the period of the longest running, most widespread drought in the eastern Australian states! Surely GrainCorp hope as every grain grower in the eastern states does that this period will be the worst drought in a lifetime (unless you were alive through the big drought through the WW 2 years).

Look no further than the excellent presentation on p.4 of GRAINCORP PORT TERMINALS, May 2009 for an excellent diagrammatic with ten years of historic data of wheat /grain exports to see three bumper years in a row 1999, 2000, 2001.

Now it becomes clear why the 'Special Notice' relating to Geelong Terminal has suddenly occurred – the Victorian grain season is shaping up to be similar to the last reasonably good year 'FY04'(Table 1) Geelong 1.7 mmt & Portland 0.9 mmt

It is just so good to have a new face at the helm of GrainCorp…

'**Alison Watkins** – Managing Director and Chief Executive Officer

RBS MORGANS CONFERENCE 15th September 2010[11]

... With established market share

Grain >>>>> Ports

- **Elevate ~85%** of eastern Australian bulk export grain
- **~15% share** of the **containerised** grain export market'

Still looks like a dominant established position to me (& I think Alison).

The GrainCorp Portland export grain terminal has had a remarkable renaissance since March 2010;

7TH ANNUAL AUSTOCK 'SUSTAINABLE PRODUCTIVITY' CONFERENCE
11TH MARCH 2010 [12]

> '4 - Diversify ports earnings...
> GrainCorp has achieved targeted $5 m PA extra non-grain EBITDA
>
> To further increase non-grain EBITDA we are...Investing ~$9 million to increase woodchip tonnage capacity at Portland
>
> By mid 2010, handling additional woodchip related products at Portland'

Portland's certainly back as a grain exporting terminal – with the shipping stem already booked out for several months @ 100,000 t per month.

4. Multinationals & Internationalisation

One highlight in 2010 that the authors of the proposed 2011 PTSU missed noting was the GrainCorp AWB merger- takeover action in July & August 2010!

Likewise they do not note that GrainCorp is now the world's fourth largest malt producer having made substantial overseas purchases; this is a two way phenomena.

5. Overview of 2009/10 Season

The various interplay between GrainCorp as bulk elevator & Glencore Grain as bulk wheat exporter in the submissions on the draft WEMA Inquiry Report make interesting reading.

Not mentioned was the stoush between GrainCorp & the AWB as represented in GrainCorp submission 54[13] to the WEMA Inquiry. The mentioned AWB allegations seem to have disappeared? This GrainCorp response discussed a wide range of issues;

> 'port lockouts...AWB experiencing difficulties accessing GNC up country storage facilities.... using rail capacity to move grain to port for potential but not nominated shipping (p.1)'

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[11] http://www.graincorp.com.au/media/2010%20Media/RBS%20Morgans%20Conference%20Presentation%2015%20September%202010.pdf p.6

[12] http://www.graincorp.com.au/media/Presentations/2010%20Austock%20Conference%20Presentation%2011%20March.pdf p.14

[13] http://www.pc.gov.au/__data/assets/pdf_file/0006/93885/sub054.pdf

6. Rail Haulage & the Shipping Stem

The proposed 2011 PTSU raises the on selling of train capacity but deems the % [Confidential]

> However, importantly, over the last two years, GrainCorp sold approximately [Confidential] of its rail capacity to third parties. The fact that GrainCorp did sell export rail capacity should not be taken as an indication that the company will continue to do so at the cost of its own export operations, particularly in instances where exporters are not willing to share commercial risk over multiple years. (p.16)

For reference from the NSW Grain Freight Review submission of GrainCorp the on selling of rail capacity for mainline trains was around 50% in March 2009[14]

> GrainCorp contracting 8 'take or pay' main line trains from Pacific National in NSW and Victoria GrainCorp allocated 6 of these trains to NSW and in turn has on-sold around 50% of its rail capacity to other grain owners on a forward contract and spot basis (p.7)

7. The Future

GrainCorp & their customers have no doubt worked together in the most part & have resolved differences & improved processes as they have progressed. I agree with the WEMA Inquiry Report No. 51 that accreditation is not required into the future.

I disagree with the recommendation that after 2014 the access tests should be removed for reasons alluded to above – for far too long not enough data & statistical information has been available. Have the Productivity Commission reconsider the situation in 2013 picking up from the excellent work done in the last 12 months.

Sorting out whom is to collect accurate data & information particularly that collated for the first time by the Productivity Commission in the WEMA Report is an issue for elsewhere. For the grain industry & indeed the broader community, is another issue for another time.

Particularly anywhere I saw in the WEMA Inquiry Report No. 51 'ABS (Unpublished International Merchandise Trade data)' I wondered who is going to collate this information next year – on a timely basis?

Regards,

Timothy Bush

[14] Attached in Appendix I

Australian
Competition &
Consumer
Commission

It has been agreed between the ACCC and Mr Bush that the following is not to be considered confidential or withheld from publication as part of the submission on the ACCC website.

1. Proposed 2011 PTSU (p. 15)

> "On 7 June 2010 GrainCorp opened the 2010/2011 shipping stem, following a media statement and notification to customers on 31 May 2010. On 10 September 2010, GrainCorp published on its website its rail capacity available for supply under spot contracts on a take or pay basis."

I can not locate on the website GrainCorp's 'rail capacity available for supply under spot contracts' or was the information only there for a short period & then removed because the contracts had been fulfilled? In a (hopefully) bumper harvest year rail capacity up country to port is going to be very strongly sort after. Is there any compulsion on GNC to disclose this information publicly?

2. Proposed 2011 PTSU (p. 12)

> '4.3 Transparency of the shipping stem
> In accordance with the Current Undertaking GrainCorp is required to publish key performance indicators including:
> - Vessels failing survey;
> - Average daily road receival rate;'

The 'Average daily road receival rate' is not included in Figure 3 of the Proposed 2011 PTSU (p. 13)

The only disclosure I could find is '**GrainCorp Shipping Statistics 1 October 2009 to 31 March 2010**' [15] with '**Daily Road Receival Rate □ Ave on days of receival (Mt/ day)**' by Terminal at the base of the main table. If you don't know how many days of grain receival there were in the month this information means nothing?? Is it supposed to achieve some end?

3. **'ELEVATION CAPACITY AVAILABLE**
As At Tuesday, 2 November 2010'

At months ends the top line of this daily report holds the October line open because there are two overdue i.e. October 2010 ships due into Gladstone & Fisherman Islands. The linking of the spreadsheets then defaults to the maximum Nominal Shipping Capacity at all the other Ports … when we are in November.

4. Is there a time specification on how soon the "End of Month Stock Report "is supposed to be delivered? The August Report is dated at the bottom RH corner [16] 'Sept 2 2010' which is the time lag one would expect for putting together the report – I believe it was posted much later in the month.

Note that the September Report is dated October 18, 2010 – which I can confirm is the day it appeared on the web. You (& I) will watch to see what date the October 10 Report is posted.

I note Viterra have a column to record the date on which this information is posted to their website.

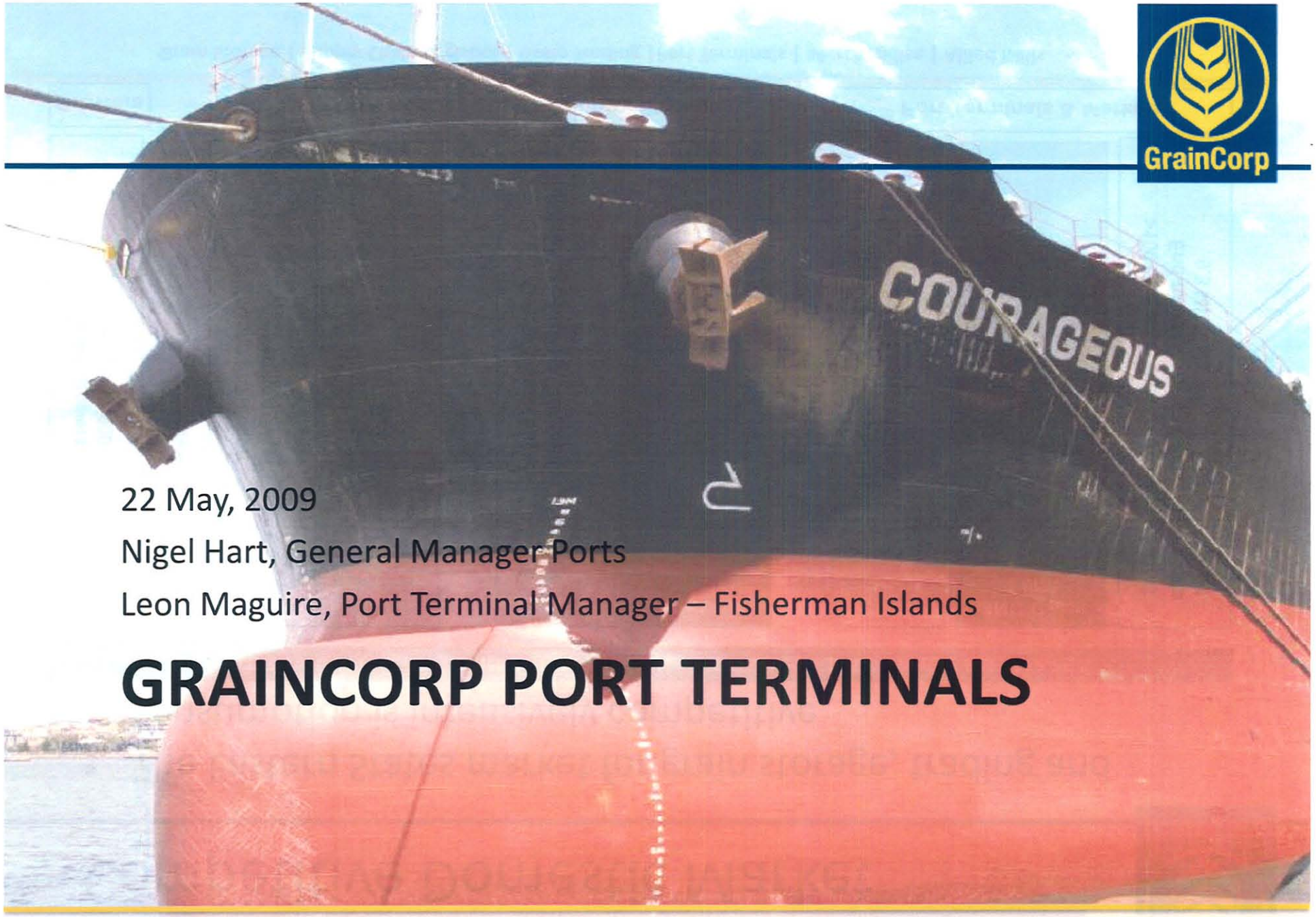
[15] http://www.graincorp.com.au/prodserv/Ports/ACCC%20Compliance%20Reporting/Shipping%20Stats%20March%2031.pdf
[16] http://www.graincorp.com.au/prodserv/Ports/Monthly%20Grain%20Stocks%20at%20Port/EOM%20STOCK%20AT%20PORT%20AUG10.pdf

4. Proposed 2011 PTSU **"PUBLIC VERSION"**

When one "Copy"(s) then "Pastes" to a Word document the following is the result with the paragraph at the top of this page. As you can note 0 (numeric) are transposed to O (alphabetic), 1 turned into L etc

> Rail haulage and shipping stem capacity for the2OtOl2O1.1.
> On 7 June 2010 GrainCorp opened the 2010/20LL shipping stem, following a media statement and notification to customers on 3L May 20L0. On 10 September àOLO, GrainCorp published on its website its rail capacity available for supply under spot contracts on a take or pay basis.

Makes quoting the Proposed 2011 PTSU very slow … I have done this with hundreds of PDF's to Word & never struck this previously – is it meant to frustrate people wishing to quote the document ??
I could have scanned with recognition software but that often requires correction as well. Just meant I had to proofread as I transferred the document.



22 May, 2009

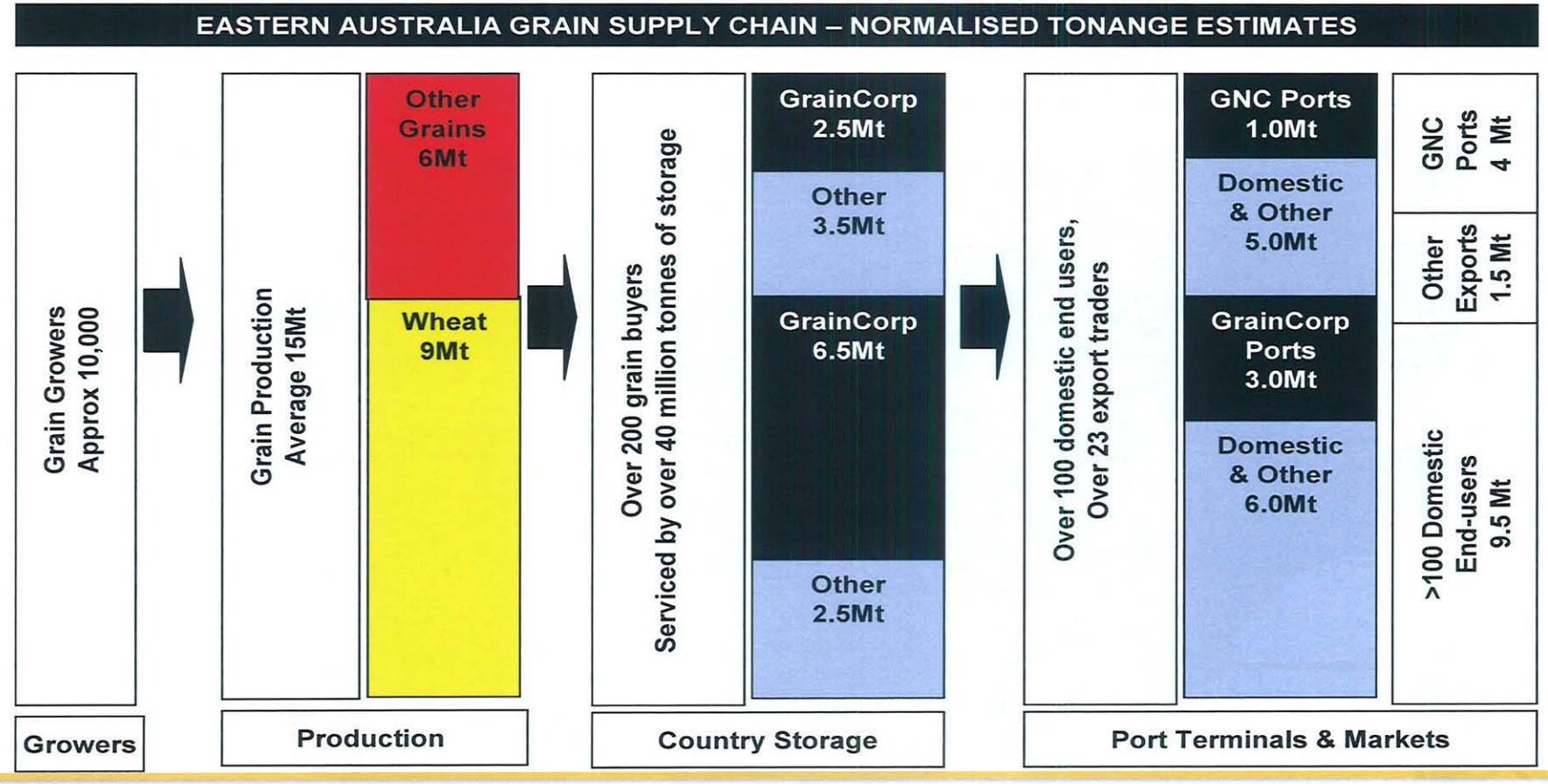
Nigel Hart, General Manager Ports

Leon Maguire, Port Terminal Manager – Fisherman Islands

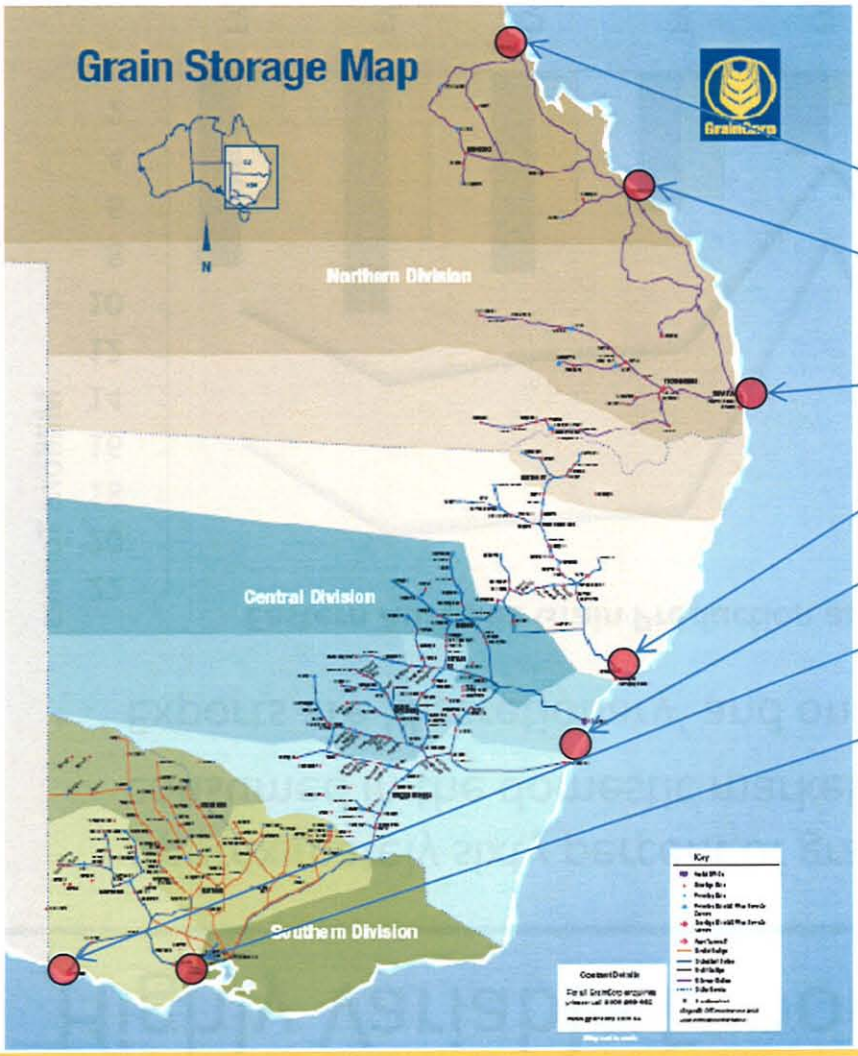
GRAINCORP PORT TERMINALS

Competitive Domestic Market

- The Eastern States market for grain storage, trading and consumption is intensively competitive



GrainCorp Footprint

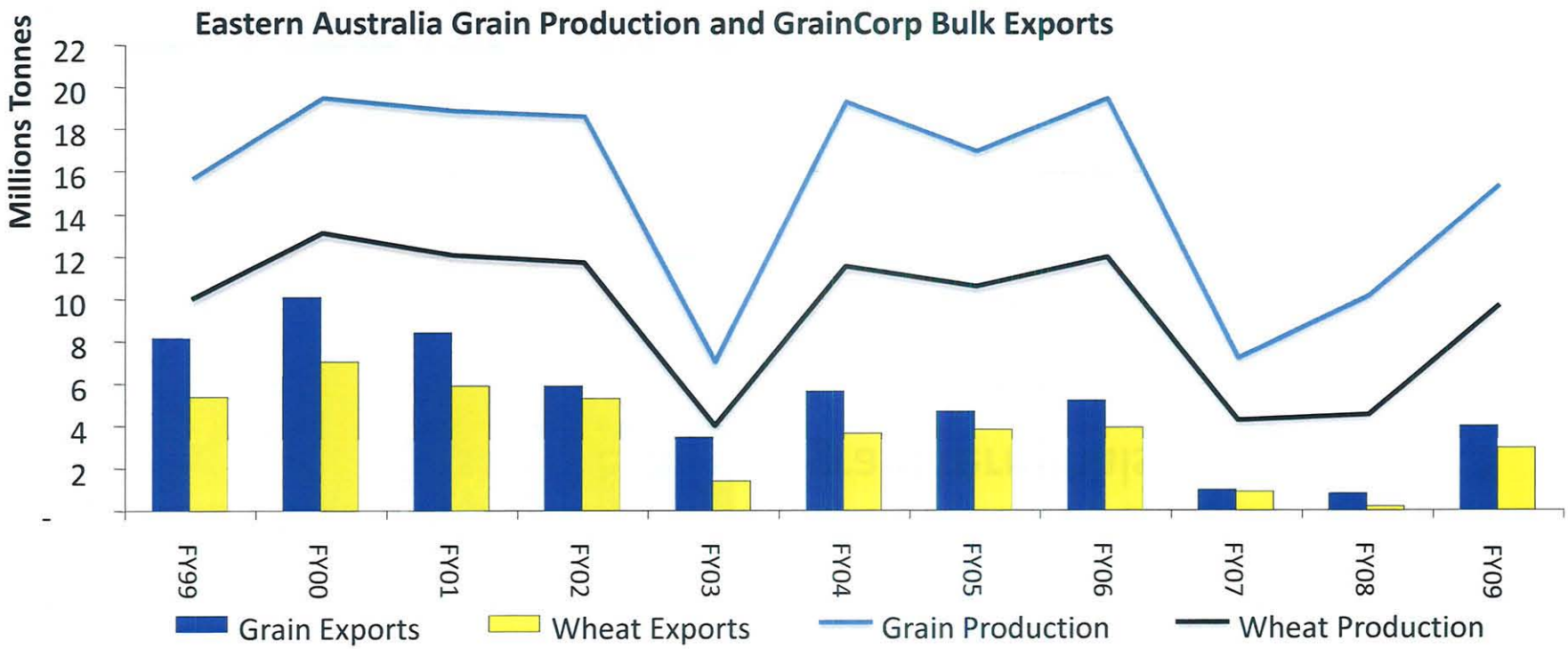


GrainCorp operates 7 bulk grain terminals

- Mackay
- Gladstone
- Fisherman Islands (Brisbane)
- Carrington (Newcastle)
- Port Kembla
- Portland
- Geelong
- Annual maximum shipping capacity up to 20 mmt
- Annual exports avg. 4 mmt

Highly Variable Export Task

- Approximately sixty percent of grain produced in eastern states is consumed in the domestic market
- Exports are 'discretionary' and only occur once domestic demand is filled



Source: ABARE & GrainCorp

High Variability of Export Task

- GrainCorp has to staff and maintain terminals and carry significant fixed costs
- High variability of export task makes port operations financially risky
- Base cost of terminal operations - $40 million PA

(Mill Tonnes)	FY04	FY05	FY06	FY07	FY08	FY09E (2)	Average	Variability (1)
Mackay	0.2	0.1	0.1	0.2	0.2	0.3	0.2	50%
Gladstone	0.2	0.1	0.1	0.1	0.1	0.3	0.1	55%
Fisherman Islands	0.7	0.7	0.5	0.1	0.3	1.5	0.6	76%
Carrington	1.1	1.8	1.2	0.2	0.0	1.0	0.9	75%
Port Kembla	1.2	1.1	1.6	0.1	0.0	0.7	0.8	83%
Geelong	1.7	0.5	1.1	0.3	0.1	0.2	0.6	97%
Portland	0.9	0.5	0.6	0.1	0.0	0.0	0.3	1.1%
Total	**5.9**	**4.7**	**5.2**	**1.0**	**0.8**	**4.0**	**3.6**	**61%**

(1) StDev/Average
(2) Highside estimate

Port Capacity and Berth Utilisation

- A consequence of the highly variable export task is low asset utilisation
- Average terminal capacity utilisation is 23% and berth capacity utilisation is 10%

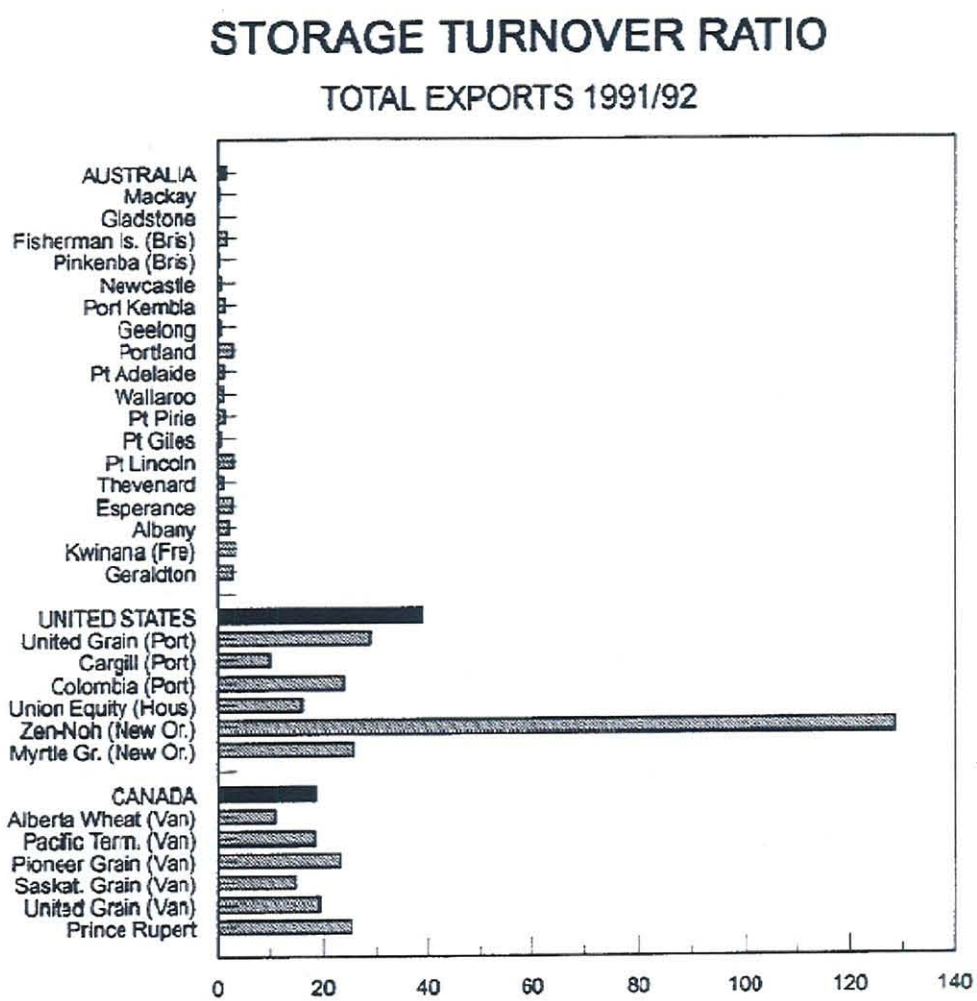
	Exports		Nominal	Maximum utilisation			Average utilisation		
Port (All Terminals)	Max	Avg	Capacity	Capacity (1)	Berth (2)	Storage (3)	Capacity	Berth	Storage
Weipa	1.30	0.16	0.9	36%	16%	8.8x	19%	5%	4.9x
Gladstone	0.30	0.15	1.0	31%	14%	7.5x	15%	7%	3.7x
Fisherman Islands	1.50	0.63	1.5	100%	32%	25.0x	42%	13%	10.5x
Carrington	1.84	0.90	2.7	68%	21%	11.5x	33%	10%	5.6x
Port Kembla	1.64	0.78	3.8	43%	16%	6.3x	20%	7%	3.0x
Geelong	1.64	0.64	2.7	61%	30%	10.9x	24%	12%	4.3x
Portland	0.83	0.32	1.5	56%	27%	13.8x	21%	11%	5.4x
TOTAL	8.05	3.59	15.3	51%	22%	10.5x	23%	10%	4.7x

(1) Exports over nominal capacity

(2) Exports over 60% nominal berthing capacity @ 12 hours per day

(3) Exports over storage capacity

Terminal Capacity Comparison



- International benchmark for measuring terminal efficiency is "storage turnover ratio"
  - Storage tonnes times tonnes shipped
- Best practice is 15 to 20 times PA
- GrainCorp terminal average is 4 times PA

Terminal Profitability

There is no incentive to deny access to port terminals

- Low margins make terminal profitability reliant on throughput
- Any reduction in tonnage handled reduces profitability
- Average written down asset value of GrainCorp port terminals is $196 m
- Replacement cost of assets 'like for like' is estimated at more than $1 bn (7 terminal times at $150 m[1] each)
- Average EBIT represents annual return of approx. 1.6% PA on replacement value
- Average 8% return on written down value is not 'market competitive' given quantum of capital employed

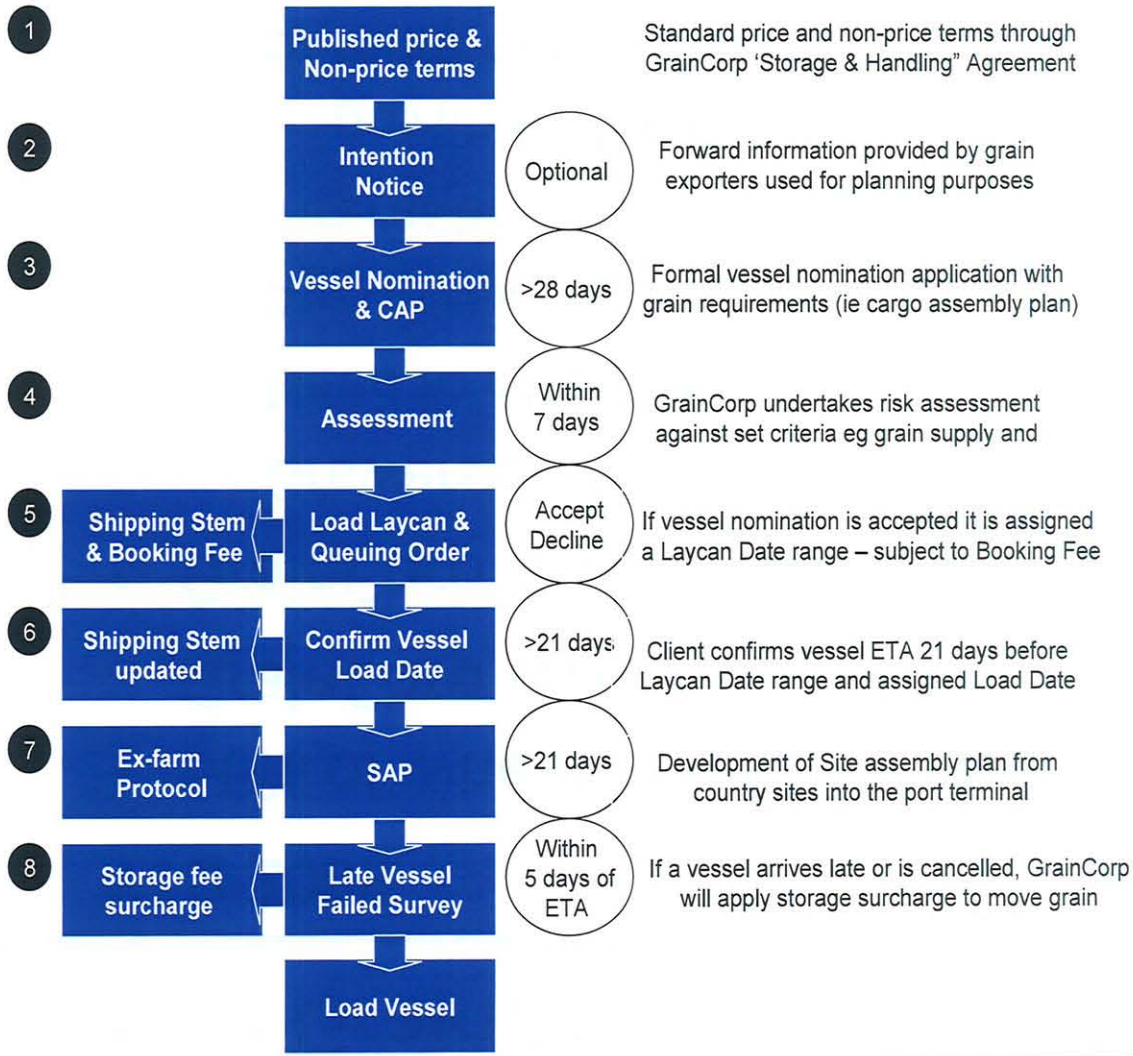
1. This is an estimate only. To replicate terminals to their current capability would require multiples of this level of investment. For example, to replicate the Port Kembla, Carrington and Geelong terminal, the estimated cost would exceed $600 million, per terminal.

Non GrainCorp Exports & Supply Chain

YTD 2009

- 66% of wheat and 95% other grains handled at GrainCorp terminals was on behalf of other exporters
- GrainCorp market share of exports effectively 'capped'
  - Growers determining market share through sales behaviour
  - Need to offer 'best price on day' to 'capture' markets
  - Aggressive buying needs to be supported by equivalent international sales program
  - Impossible to achieve since removal of monopoly and entry of multi national traders into bulk wheat exports
  - Limited capability of GrainCorp to fund grain accumulation beyond current levels

Vessel Nomination Protocols



- Shipping protocols aim to provide a transparent and fair process for booking vessels
- Greater certainty for exporters with new protocols
  - Exporters can now nominate vessels up to 364 days ahead
  - GrainCorp now must respond to nominations within 7 days
- Same vessel nomination rules and charges apply to GrainCorp Trading

Managing Exports Post Monopoly

GrainCorp

Behaviours by grain exporters that reduce port efficiency

- Phantom vessel nominations
  - Occupies capacity on the shipping stem that could be allocated to a bona fide cargo nomination
- Slow grain accumulation
  - Creates a knock-on effect for other exporters as terminal storage space is not used efficiently, delays shipping and increases demurrage
- Late vessels and vessels failing survey
  - Booking of poor quality ships reduces exporters shipping costs and increases trading flexibility, leads to dramatic increase in risk of major disruption to other vessels, regularly causes terminals to 'block out' (fill to storage capacity)
- Ex-farm or 'non bulk handler' direct cargo accumulation to terminal
  - High risk of slow grain accumulation increasing storage costs
  - High risk of failing quality, chemical residue and insect free status
  - High risk of grain failing AQIS inspection, failing importing country requirements

Ex-farm Cargo Accumulation

- Older grain terminals designed to receive by rail and out load to vessel large quantities of similar grade commodities
- Road receival is intended to be a supplement to rail receival
  - More road receival = lower efficiency and higher risk / cost to exporters
- Agreeing to all requests to accumulate cargos ex-farm during 2009 would have dramatically increased inefficiency, particularly at Fisherman Islands and Carrington
  - Increased truck queues and delivery delays
  - Loads being rejected for insects and failure to meet quality standards
  - Increased presence of grain fumigant residues at dangerous / illegal levels and other chemical residues failing 'Pesticide Residue Free' standards or importing country Maximum Residue Levels
  - Wide variability of grades ex-farm leads to inefficient use of vertical bin space and disruption to other exporters

Ex-farm Cargo Accumulation Case Study

GrainCorp

Fisherman Islands

- Decision to suspend ex-farm cargo accumulation this year was **due to reduced train capacity and resultant increased road receival**
- Average deliveries to FI ex-farm = 3.6% of tonnes shipped PA
- Harristown (Toowoomba) 'pre delivery' quality and insect testing introduced to streamline cargo accumulation from 'non approved' storage significantly reduces the risk of loads being rejected
  - Port of Brisbane may restrict the number of trucks allowed within the port zone

Carrington

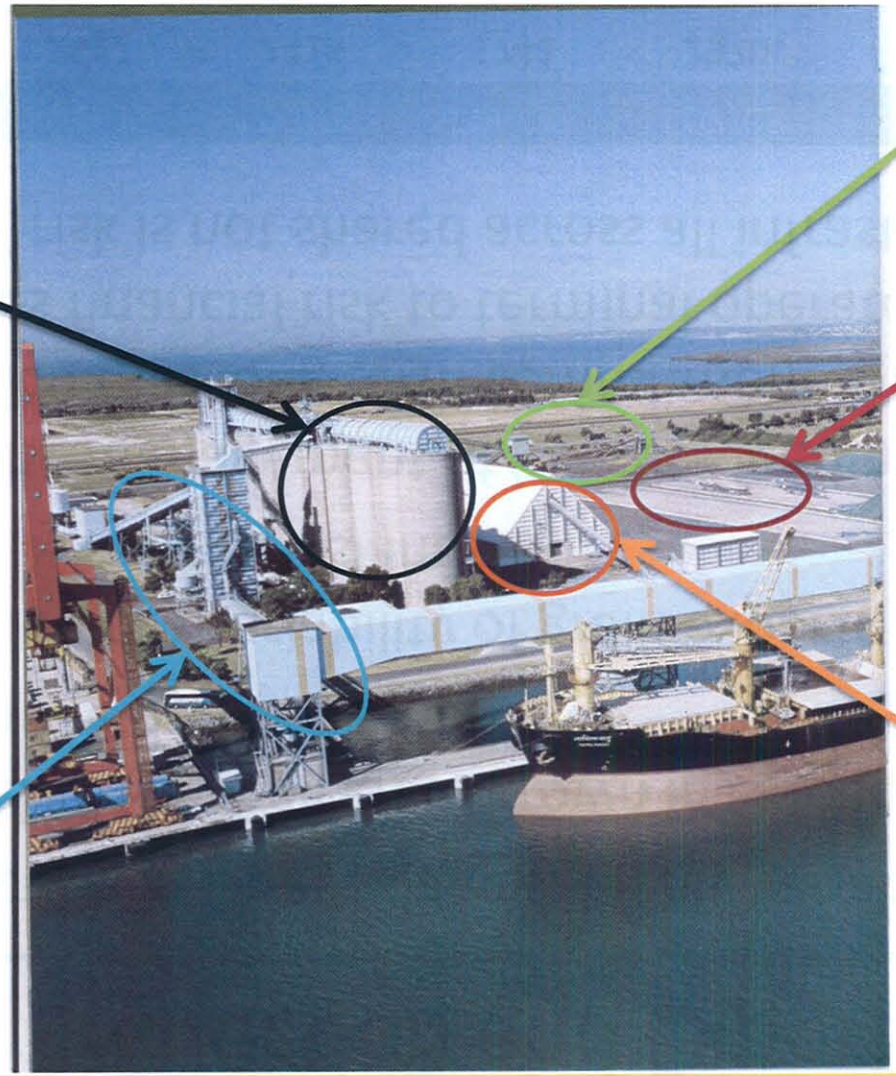
- Direct ex-farm accumulation Jan / April caused significant problems
  - High incidence of loads infested with insects
  - High incidence of grain fumigant detection above safe / legal limits
  - Well publicised truck queues caused by arrival prior to scheduled unloading time
  - Terminal 'blocked out' due to fumigation requirements, vessel survey failure

FISHERMAN ISLANDS GRAIN EXPORT TERMINAL

Fisherman Islands Terminal

Grain Operations

- Vertical grain storage capacity of 62,000 tonnes in 12 bins
  - Average 650 kt PA exports
  - Average storage – shipping turnover ratio of 10 times
- Multi commodity conveyor path to vessel



Non Grain Operations

- Woodchip operations
- Cottonseed bunker storage not part of port terminal
  - Bunkers only being used due to shed damage
- Shed storage used for sugar - other commodities
  - Used to manage grain receival surges

Qld. Grain Production and Exports

- Grain production in Queensland is highly variable
- Approximately 55% of all grain grown in Queensland is consumed in the domestic market
- This impacts on the variability of grain exports and the shipping task through Fisherman Islands
- This makes the management of logistics feeding into the port terminal difficult, as long term commitment to base logistical load increases financial risk to terminal operator if this 'commercial' risk is not shared across all infrastructure users

	04/05	05/06	06/07	07/08	08/09	**Avg.**
Total Qld. Grain Production (kt)	2512	2415	1741	2970	3397	**2607**
Exported	45%	40%	33%	44%	64%	**45%**

Grain Supply Chain

There has been a significant reduction of rail capacity servicing FI

- Queensland Rail reduced the number of grain train paths
  - From - 3 trains a day = 5700 mt
  - To - 1 train a day = 1900 mt
- Total rail capacity reduced from 1 mmt to 0.5 mmt PA
- **Result** – Exporters have been forced to rely on road transport into Fisherman Islands
- Current daily grain receival task is split
  - 2/3 road – up to 7500 T/day or 250 trucks
  - 1/3 rail – one 1900 T train
- To reduce the reliance on road transport, the number of rail paths would have to be increased

NSW GRAIN FREIGHT REVIEW

Submission by
GrainCorp Operations Limited
(ABN 52 003 875 401)

17 March 2009

Mr Des Powell
Chair of the NSW Grain Freight Review
Department of Infrastructure, Transport, Regional Development & Local Government
GPO Box 594, Canberra, ACT, 2601
nswgrainfreightreive@infrastructure.gov.au

Dear Mr Powell

GrainCorp Submission to the NSW Grain Freight Review

GrainCorp welcomes the opportunity to lodge this submission to the NSW Grain Freight Review in response the questions raised in the 'Call for Submissions' paper.

The NSW grain industry is dependent on rail transport, given the relatively long distance of the grain belt from the port terminals and domestic end-users on the coast and the intervening Great Dividing Range. Accordingly this submission focuses on rail transport and in particular the role of the 'grain only' branchlines in the NSW grain supply chain.

GrainCorp has a significant investment in the NSW grain supply chain that services both the export and domestic grain markets. This investment includes country silos, sub-terminals, port terminals and contracted rail transport for grain owned by GrainCorp and its customers.

Today an average of 60% of NSW grain production is hauled by rail to both the export and domestic markets, where 40% of this grain is hauled from the 'grain only' rail lines. Subject to supporting Government policies, the volume and share of grain production hauled by rail should increase in the long term on the back of increased (and variable) grain production and a number of planned investments in rail based facilities.

GrainCorp believes a sustainable rail transport solution can be developed for grain in NSW. This would involve keeping the 'grain only' lines open at a low maintenance 'fit for purpose' standard. This would give NSW the best long term economic outcome taking into account:

- The cost of road maintenance;
- Higher grain prices to growers from access to lower cost transport with sufficient capacity;
- A viable export grain industry with job creation in supporting industries; and
- Externalities such as carbon emissions and road safety benefits.

We look forward in working with the NSW Grain Freight Review and if required provide further information to the NSW Grain Freight Review in support of this submission.

Yours sincerely,

Mark Irwin
Managing Director

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1. Introduction

1.1 GrainCorp Operations Limited

GrainCorp operates 180 country silos in NSW, of which 150 have rail access, to receive and store grain for over 5,000 grain growers and 100 grain buyers. This network is supported by 6 country sub-terminals and 2 port terminals at Newcastle and Port Kembla that provide shipping services to over 10 grain exporters.

GrainCorp also is a 60% joint venture partner in Allied Mills that operate NSW flour mills at Picton and Tamworth.

GrainCorp has net assets of $440 million. An overview of GrainCorp's financial position, which is dependent on grain production, is summarised below.

$M	FY04	FY05	FY06	FY07	FY08	FY09 F
Receivals	12.0 Mt	10.2 Mt	12.1 Mt	3.0 Mt	6.5 Mt	8.5-9.5 Mt
Revenue	964.1	702.9	832.9	832.1	1534.2	
EBITDA	114.7	92.2	120.9	31.9	51.3	
Net Profit	25.7	13.5	31.7	(19.8)	(19.9)	23-28
Net Assets	398.6	396.7	412.4	399.0	436.1	

1.2 GrainCorp's involvement in NSW transport logistics

GrainCorp's core business is managing the supply chain for export and domestic grain through its country silos, sub-terminals and port terminals.

In NSW GrainCorp receives on average 5Mt of grain and out loads on average 2.5Mt pa of grain to its port terminals, predominately by rail, and the remaining 2.5Mt of grain to container export and domestic markets by a mixture or rail and road transport. GrainCorp also handles around 0.5Mt of grain from rail at its port terminals from other bulk handlers.

GrainCorp's involvement and experience in grain transport logistics in NSW is demonstrated by the following:

- GrainCorp employs specialised staff to program GrainCorp contracted and other party's trains and trucks against orders from our silos to our sub-terminals, port terminals and domestic end-users;
- GrainCorp contracts in excess of 0.5Mt of road freight in NSW supported by a small fleet of company owned trucks;
- GrainCorp contracts 7 x 40 wagon 'take or pay' main line trains in NSW from Pacific National, with a capacity of around 1.8Mt pa, to service export grain and domestic grain for Allied Mills;
- GrainCorp re-sells both rail and road freight to its Grain Marketing business and other grain customers; and
- GrainCorp has submitted an 'Expression of Interest' to the NSW Government to operate the 4 branchline trains into its sub-terminals.

Furthermore GrainCorp is an accredited Rail Owner and Operator in NSW and has crewed branchline trains on behalf of FreightCorp and operated trains in its own right to Port Kembla.

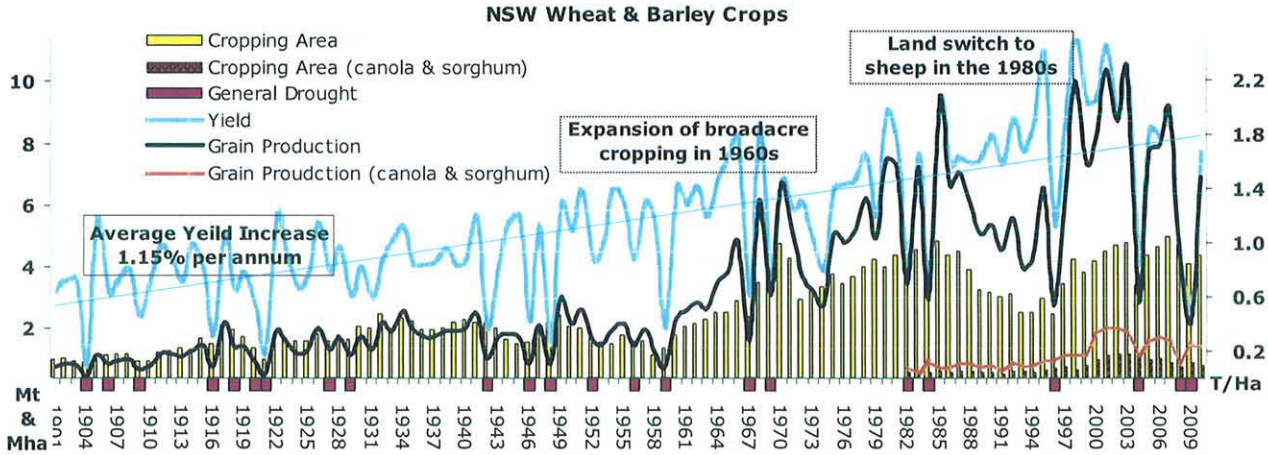
2. Changes in grain production patterns and markets

On average 60% of NSW grain production is transported by rail. GrainCorp holds the view, subject to the retention of the NSW grain rail network, that the underlying demand for rail transport into both domestic and export markets will be maintained.

2.1 What significant factors are likely to impact on the supply and / or demand for grain in the medium term

2.1.1 NSW Grain Supply

Average NSW grain production is around 8.5 million tonnes and is dependent on underlying cropping area and yields. NSW wheat and barley production from 1900 (canola and sorghum from 1980) is shown in the graph below.



GrainCorp has the view that underlying NSW cropping area should be maintained in the medium term given the investment made in cropping and relative margins from grain compared to other land use, where:

- Underlying NSW cropping area for grain is stable at around 6 million ha. Cropping area in the past 10 years has increased by 50% over the previous 10 years given the (i) switch from sheep to grain; and (ii) westward movement of grain belt in response to improved wheat varieties; and
- There is potential upside in cropping area from the switch in land use from irrigated crops (such as cotton seed and rice) to grain and potential eastward movement of grain belt into the higher rainfall areas.

While cropping area is relatively consistent, crop yield is variable from year to year and region to region. However as shown in the graph above the 3 poor seasons in the past 6 years is not without precedent, a similar run of poor seasons also occurred in the 1900's and 1940's. GrainCorp has the view that the underlying grain yields should continue to grow, although subject to continued variability, where:

- NSW crop yields should continue to increase with improved varieties and farming practices, where underlying NSW crop yields is increasing by over 1% pa;
- The introduction of Genetically Modified seed varieties in the longer term would create as stepwise change in yields; and
- There is potential year by year additional yield increase from increased use of inputs (fertiliser and agchemicals) in response to higher grain prices.

2.1.1 NSW Grain Demand

NSW grain production is consumed by the domestic market first with surplus grain exported or carried over into the next season for use by the domestic market.

The NSW domestic market consumes around 50-60% of grain production, 4.8Mt of grain. The volume of domestic grain consumed in NSW can vary from year to year in response to feedlot cattle numbers and net interstate movements of grain into and from NSW. This has increased by 50% in the past 10 years with expanding export beef feedlot capacity and industrial flour production. Most of this increased domestic consumption has been met by increased grain production.

An overview of average NSW grain demand by segment is summarised below:

Estimated Average NSW Grain Supply & Demand

Grain	10 Yr Avg Production	Human Domestic	Feed Domestic	Container Export	Bulk Export
Wheat	6,050,000	1,600,000	1,000,000	400,000	3,050,000
Barley/Sorghum	2,050,000	180,000	1,700,000	50,000	120,000
Canola	400,000	300,000			100,000
Total	**8,500,000**	**2,080,000**	**2,700,000**	**450,000**	**3,270,000**

GrainCorp has the view that the demand for domestic grain in NSW in the medium term should be relatively stable, with consumption increasing with population growth and expansion of bio-fuel production. Any increase in domestic grain consumption should be matched by increase in grain production.

The 'surplus' grain not consumed domestically is exported, where the level of NSW grain exports are variable in response to grain production and the level of carry-in and carry-out grain inventory.

Grain can be exported in either containers or bulk. The mix between these two modes is driven by overseas customer preference and relative ocean freight. The portion of grain exported in containers peaked in 2008 in response to deregulation of containerised wheat exports (but not bulk wheat exports) and high bulk ocean freight rates.

2.2 How will these factors change the future demand for the transportation and storage of grain

2.2.1 Current demand for rail

The underlying demand for rail for the haulage of NSW grain is on average around 5Mt with a stable base domestic demand of around 2Mt. This represents around 60% of average production.

Estimated Average NSW Grain Rail Share

Grain	Average Rail Movements	Human Domestic	Feed Domestic	Container Export	Bulk Export
Wheat	4,350,000	1,300,000		200,000	2,850,000
Barley/Sorghum	430,000	180,000	150,000		100,000
Canola	220,000	120,000			100,000
Total	**5,000,000**	**1,600,000**	**150,000**	**200,000**	**3,050,000**
Rail Share	**59%**	**77%**	**6%**	**44%**	**93%**

An overview of estimated average rail usage for grain by segment is summarised above. Rail holds a dominant, and potentially could have an increased, share of the export and human consumption domestic markets where:

- In excess of 90% of export bulk grain is hauled by rail to the port terminals at Port Kembla and Newcastle (and from southern NSW to Melbourne Port Terminal);
- Up to 75% of grain for human (and industrial) production can be hauled by rail to the following end users: Manildra, Allied Mills, Westons, Cargill Oilseeds, Joe White Malting and Barrett Burston Malting;
- Around 40% of grain exported in containers is hauled by rail using flat deck wagons direct to the port terminal;
- A small portion of grain used in feed production can be hauled by rail to following end users; Inghams, Steggles and Friskies; and
- GrainCorp in drought years use rail to transport grain over long hauls to stockfeed end-users in grain deficit areas. For example GrainCorp in 2008 moved in excess of 200,000 tonnes of sorghum and other feed grains from north NSW to south NSW sub-terminals and Melbourne for transfer to stockfeed customers.

2.2.2 Planned investment in rail based grain facilities

NSW grain industry support for rail transport is demonstrated by the following recent and planned initiatives by a range of grain based agribusinesses. Combined, these initiatives could handle an additional 500,000 tonnes of NSW grain by rail:

- New Allied Mill's flour mill at Picton, handling 40 wagon unit trains at one time;
- Expanded Manildra Mill's facility at Nowra for ethanol production will receive additional grain by rail;
- Planned Joe White Malting malt house at Minto will receive grain by rail; and
- Portion of containerised grain hauled by rail could increase with planned rail based container packing facilities at Cooks River, Minto and Dubbo.

2.2.3 Ongoing support for rail transport

While the volume of export grain hauled by rail will of course be variable from year to year and depend of the level of grain production, the underlying demand of rail for the haulage of both domestic and export grain will continue to be strong.

A customer that has access to rail (ie a rail siding) has a strong preference to use rail over road for the haulage of their grain. This preference is not only driven by the lower cost of rail transport compared to road transport but other operational benefits that reduce the total supply chain cost, such as:

- Ability to aggregate large volumes of export grain quickly to meet shipping requirements and minimise demurrage (with 2,000 tonne vs 25 tonne lots);
- Convenience and reduced cost in co-ordinating grain movement logistics (with 1 train vs 40 trucks);
- Flexibility and more control in the timing of outloading and receiving grain with no queues (as trains are programmed against forward schedules); and
- Reduced cost in the loading and tipping grain (ie up to 1,000 tonnes per hour of grain at the ports and up to 400 tonnes per hour of grain at domestic facilities).

3 Deregulation of the bulk wheat export market

The removal of AWB Limited's monopoly for the export of wheat and the issue of permits by Wheat Exports Australia to exporters of bulk wheat ('deregulation') will create a more competitive market for wheat exports from Australia and in turn allow the development of an efficient grain supply chain in NSW for export grain.

3.1 As a grower, grain handler, transport operator or exporter, what changes to the transport and storage of grain do you expect to emerge from the introduction of the Wheat Export Marketing Act 2008

3.1.1 AWB's management of grain supply chain was inefficient

AWB's legislative monopoly in wheat exports gave it an effective monopoly in the management of the supply chain for export grain, as 90% of grain exported from NSW is wheat. This led to a structurally flawed supply chain given:

- Lack of integration and coordinated decision making between the different participants in the grain supply chain, that is grain trading, storage and transport activities; and
- Lack of market based price signals to the different participants in the grain supply chain to drive an efficient (i) interface between storage, transport and shipping, (ii) transport utilisation, and (iii) allocation over a season.

While AWB's monopoly enabled it to secure lower supply chain costs in the short term, its inability to manage a cost efficient and sustainable supply chain in the long term is evidenced by the following:

- AWB retained most supply chain savings, leaving limited financial incentives for other supply chain participants (including grain handlers and rail providers) to invest in capital and operating expenditure to generate supply chain efficiencies;
- AWB front ended the export program in the first half of the season to secure potentially higher wheat prices. This resulted in excess and underutilised rail and port capacity in the second half of the season;
- AWB did not manage its (profitable) chartered ships to maximise port terminal utilisation, resulting in regular port block outs and poor utilisation of rail services; and
- AWB negotiated rail rates that favoured its facilities. This included negotiating favourable rail rates at its country Grainflow silos and directing wheat into its 50% owned MPT port terminal.

In aggregate this led to sub-optimal supply chain outcomes; a view was supported by Stephen Bartos (quoting from an economist Terence Farrell) in his book:

> *'The Wheat Marketing Act makes provision for AWB International to set the grade standards for export pools. AWB International makes use of this clause to impose a requirement for 'ticket by ticket' delivery to pools. This business rule effectively blocks competitors to AWB International from delivering grain to port... ... The rule as it currently stands restricts investment by AWB Limited's competitors in grain handling and rail infrastructure for export related services.'*[1]

[1] Stephen Bartos, Against the Grain, NSW University Press, 2006, p70

3.1.2 Recent structural changes in the NSW export grain supply chain

The NSW grain supply chain in 2008 saw the introduction of the most significant changes in its history; deregulation of bulk wheat exports, new commercial rail arrangements and resolution of the NSW Government 'Broadacre' grain rail contract.

(a) Deregulation of bulk wheat exports

The new Wheat Export Marketing Act enables grain owners to seek accreditation from Wheat Export Australia to export bulk wheat. To date approximately 22 permits have been issued. This in turn has opened up the contracting and management of supply chain services to other parties.

The Wheat Export Marketing Act also introduced a requirement for GrainCorp to provide port terminal services to all accredited bulk wheat exporters and to provide details of terms and conditions of its port terminal services (on its web site) that include:

- Process for nominating and acceptance of vessels at a port terminal;
- Receival of wheat at a port terminal;
- Storage and handling of wheat at a port terminal;
- Ship loading services from a port terminal; and
- Continuous disclosure of its shipping stem for wheat and all other grains.

From 1 October 2009 GrainCorp will be required to enter into a voluntary access undertaking with ACCC for its port terminals under Division 6 of Part IIIA of the *Trade Practices Act 1974*.

(b) 'Take or Pay' trains

Pacific National when it acquired the freight rail business from the NSW Government in 2002 entered into a contractual obligation to provide public and capped rail rates for the movement of export grain. This contract ended on 14 November 2007. On 11 December 2007 Asciano (the holding company of Pacific National) announced its decision to scale back its involvement in NSW grain:

"Rural services are underperforming:

- *Ongoing drought conditions mean poor outlook*
- *The volatility does not fit our strategy*

Main business unit impacted:

- *NSW and VIC grain rail network (PN grain)*

Action plan:

- *Downsize NSW PN grain operations to bare minimum*
- *Sell/close PN gain business"*

This provided the impetus for Pacific National (and other rail operators) to only sell rail freight under long term contracts with a 'take or pay' fixed cost. Under this arrangement the risk and cost of poor rail utilisation is transferred from the rail provider to the grain owner, providing the financial incentive to minimise excess rail capacity and maximise to rail utilisation.

(c) Resolution of the 'Broadacre Contract'

Pacific National had an obligation to the NSW Government under the 2002 'Broadacre Contract' to construct 2 Grain Consolidation Facilities at Werris Creek and Stockinbingal, for the purpose of transferring grain from branchline trains to high payload mainline trains to the port terminals.

Pacific National entered into a new deal ('New Works Deed') with the NSW Government that relieved its obligation to build the Grain Consolidation Facilities and it would (amongst other obligations):

- Transfer 4 branchline trains (comprising 18 x '48 class' branchline locomotives and 180 x wagons) to a party nominated by the NSW Government to service silos on the NSW branchlines to a sub-terminal; and
- Operate these trains as part of a transition arrangement up to 30 June 2009.

3.2 What is any changes or impacts did you observe over the last season (the first season under the new arrangements)

GrainCorp believes the grain industry in NSW has quickly adapted to the new marketing environment and will be stronger and more flexible. The new arrangements has enabled growers to take control of their own destiny, as demonstrated in the recent harvest where most growers (in response to falling international grain prices) used warehousing, rather than pools, to market their grain over a longer period of time.

An overview of emerging supply chain for export grain and resultant efficiencies is provided below.

3.2.1. New rail transport arrangements for export grain

The transport arrangements for export grain in NSW for the recent harvest involved the operation of up to 12 trains, namely:

- GrainCorp contracting 8 'take or pay' main line trains from Pacific National in NSW and Victoria. GrainCorp allocated 6 of these trains to NSW and in turn has on-sold around 50% of its rail capacity to other grain owners on a forward contract and spot basis;
- AWB contracting up to 2 trains in NSW from El Zorro; and
- Pacific National, under contract with the NSW Government, providing 4 branchline trains into its sub-terminals for all grain owners.

3.2.3 Supply chain efficiencies achieved

The above train arrangements in a 'deregulated' export wheat market has led to a significant improvement in the grain supply chain for export grain in the first 4 to 5 months of this season, for example:

- Increase in average train utilisation; with annualised rate of 250-300,000 tonnes per train compared to 150-200,000 per train in the past;
- Consolidation of a record 500,000 tonnes to date from the branchline and 'take or pay' trains into GrainCorp sub-terminals; and

- Return to profitability for above rail operations, with Asciano announcing a turnaround in grain profitability on 25 February 2009.

A summary of the new operating drivers that have underpinned the improvement in the rail transport of export grain in NSW are outlined below.

Past Rail Operating Drivers	New Rail Operating Drivers
Uneven spread of transport Grain shipping and demand for transport was front ended in the first 6 months	**Even spread of transport** The fixed take or pay transport fees has provided a financial incentive for an even spread of grain shipping and demand for transport
Limited shipping /rail integration Ports were regularly blocked out due to ships failing survey or change in order. This led to cessation of train services and loss of rail capacity	**Shipping / rail integration** The introduction of fees for late ships and stranded grain inventory at the ports has provided a financial incentive for grain owners to swap grain or ships to reduce the occurrence of port being blocked
Limited storage / rail integration No financial compensation to operate country silos and port terminals in a flexible manner to quickly turnaround the train	**Storage / rail integration** The fixed take or pay transport fees and out of hours fees has provided a financial incentive for the provision of flexible loading and tipping of trains
Limited use of sub-terminals When there is no demand for rail transport (ie no ships or ports are blocked), trains were stood down	**Use of sub-terminals** The fixed take or pay transport fee has provided a financial incentive for excess rail transport to be used to consolidate grain into the sub-terminals. This grain is closer to the port to meet future shipping demand
No branchline trains Branchline silos were serviced by mainline trains involving longer hauls with poor use of rail capacity	**Branchline trains into the sub-terminals** Access to dedicated branchline trains to the sub-terminals has increased rail capacity
Traditional train configuration Train paths and cycles were determined by traditional rail practice, set years ago	**Improved train configuration** Reconfiguration of rail movements to reduce cycle time. For example redirection of Nyngan trains from Newcastle to Port Kembla on a 48 hour cycle, a dedicated high capacity train from Werris Creek to Newcastle on mandatory paths on a 24 hour cycle.

4 Enhancing efficiency of grain transport, storage & handling

The NSW grain supply chain in terms of rail transport has a number of deficiencies; the most critical issue is track security of the 'grain only' lines. If the NSW Government can ensure the future of the 'grain only' lines, GrainCorp is confident that a cost effective and sustainable above rail service will be provided to both grain growers and buyers.

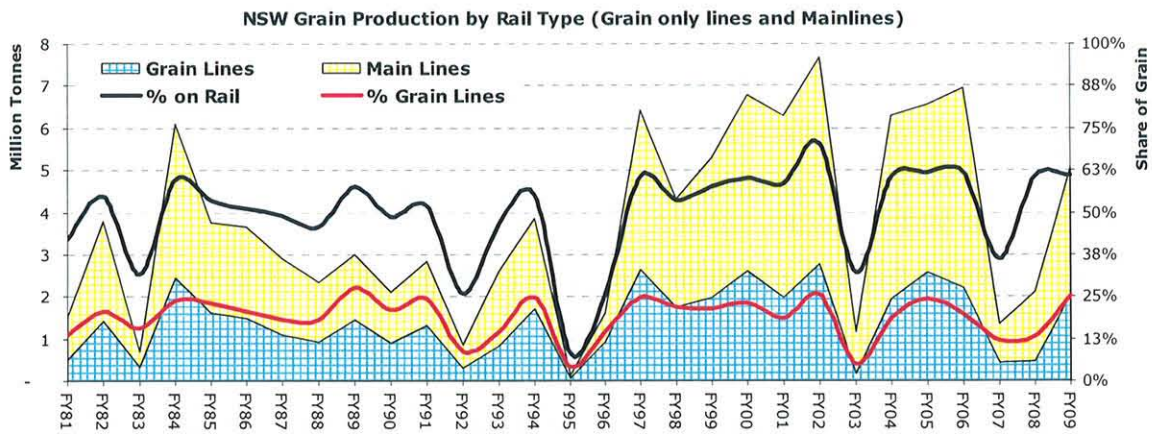
4.1 What are the current deficiencies in the grain logistics chain

4.1.1 Security of the 'grain only' branchlines

An average of 4.7Mt or 60% of NSW grain production is received into country silos located on rail lines, and of this tonnage an average of 1.7Mt or 40% is received into country silos on the 'grain only' rail lines. As shown in the graph below the portion of grain received into silos on the 'grain only' lines has remained relatively consistent over the past 25 years.

While the 'grain only' lines play a significant role in the transport of grain in NSW, the condition of the track is poor with:

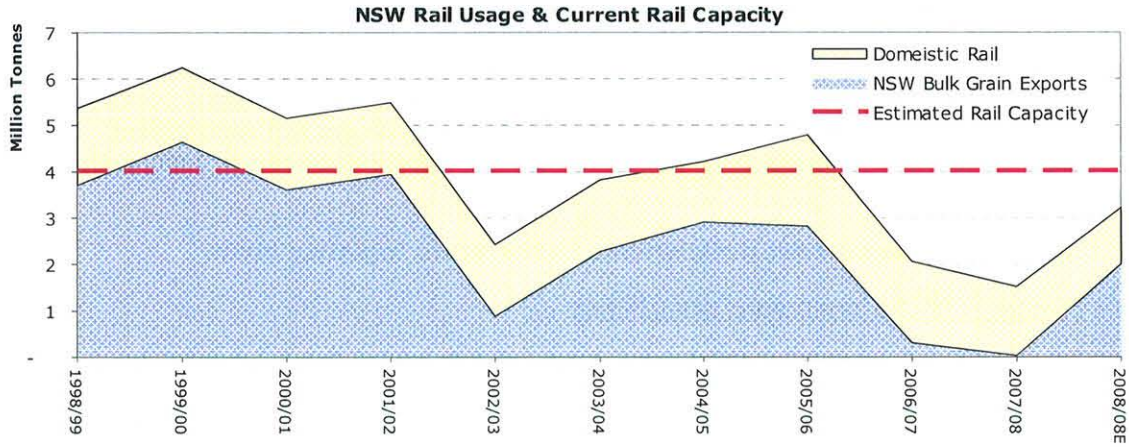
- Speed operating restrictions (of 20-50km vs 80km on the mainlines) and payload restrictions (of 76 tonne vs 82 tonne gross on the mainlines), leading to higher operating costs; and
- An uncertain future in terms of ongoing maintenance, leading to under investment in above rail and storage facilities for these lines.



4.1.2 Insufficient rail capacity in peak grain production years

All mainline trains in NSW are now contracted on a 'take or pay' basis. Given the fixed cost of carrying excess rail capacity the core number of trains broadly matches the average export grain task. It is estimated that NSW now has an estimated annual core rail capacity of up to 4 million tonnes from 19 export and domestic trains in NSW.

While there is sufficient above rail capacity to service an average season, there would be a shortage of rail capacity of up to 2 million tonnes in peak grain production years with a large export grain task (such as those around 2000), as shown in the graph below.



4.1.3 Lack of a north-south rail link

The radial rail lines from the coast to regional areas have developed around the needs of the export and Sydney area domestic markets. However the expansion of the domestic stockfeed market has led to increased volumes of NSW and interstate grain moving north-south primarily by road transport.

An inland north-south rail corridor from Brisbane to Melbourne, through the grain belt, would give the NSW grain industry access to the domestic consumptive markets of 3 capital cities and access to 5 export grain port terminals.

GrainCorp estimates that an inland north-south rail corridor forces could capture up to 0.5 million tonnes of additional grain away from road transport by:

- Servicing interstate domestic grain markets for grain that moves from:
  - NSW into the Brisbane area (milling wheat and malt barley);
  - Southern Queensland into Newcastle, Sydney and Melbourne areas (feed grains such as sorghum); and
  - NSW into Geelong and Melbourne areas (milling wheat, malt barley and feed grains).
- Servicing the export grain market with alternative ports:
  - Giving NSW grain growers access to both Newcastle and Port Kembla port terminals and access to Victorian and Brisbane grain terminals for their export grain; and
  - Enabling trains and port capacity to be more efficiently managed to meet the variable grain task. Currently if a port terminal is not available trains into that port can not be redeployed to consign grain to an alternative interstate port.

4.2 What changes to infrastructure, operations and / or management arrangements would overcome these deficiencies

4.2.2 Implementation of the proposed Branchline Train EoI to Sub-terminals

The branchline trains (operated by Pacific National under contract to the NSW Government) currently provide a viable and competitive rail service from silos on most of the branchlines into the sub-terminals as shown in the Appendix.

GrainCorp supports the NSW Government 'Expression of Interest' process to transfer 4 branchline trains to a (to be announced) operator from 1 July 2009, and believes this operation will continue to provide a viable and competitive service.

GrainCorp's existing sub-terminals would be used as 'hubs' for the efficient discharge of grain from the branchline trains. This grain would then be stored and reloaded onto mainline trains to the port terminals at a later date. These sub-terminals, with 1.5 million tonnes of capacity, are at Werris Creek, Parkes, Temora and Junee.

Sub- terminal	Vertical bins	Vertical capacity	Shed Capacity	Bunker capacity	Intake rate	Loading rate
Werris Creek	5	12,000	150,000	170,000	350	1,000
Parkes	11	129,000	N/A	275,000	500	1,000
Temora	3	6,000	140,000	270,000	450	1,000
Junee	4	12,000	140,000	184,000	800	800

While this rail operation will incur additional costs in double handling the grain at the sub-terminal, the one off contribution of 4 branchline trains by the NSW Government would enable a competitive rail service to be provided that will not require future above rail subsidies from the NSW Government.

The use of sub-terminals would generate the following operating and cost benefits that would off-set some of the cost of double handling grain at the sub-terminals, namely:

- By working with the sub-terminals these branchline trains will provide sufficient capacity to handle most of the grain on the branchlines in most years. This will also enable grain in a peak year to be consolidated at the sub-terminals and carried-over for the next season;
- Increase rail capacity in NSW, as branchline trains will position export grain closer to the port terminals. This will enable the mainline rail trains to operate on short train cycles (of 24-36 hours) on dedicated paths from the sub-terminals to the port terminals with annual capacity of in excess of 500,000 tonnes; and
- Reduce rail costs, with grain being reloaded from higher cost first journey trains with low payload wagons into lower cost second journey trains with higher payload wagons of 92T gross vs 76T gross.

4.2.3 Continuation of 'grain only' lines at a 'fit for purpose' standard

GrainCorp believes the 'grain only' branchlines are operationally viable at the current 'fit for purpose' standard and do not have to be upgraded to mainline standard. Given the variable volumes of grain produced in NSW and in turn handled on these lines, GrainCorp believes the most cost effective grain supply model to maximise the volume of grain hauled by rail is for most of these lines to remain open, whereby:

- Capital for rail track can be conserved by maintaining the 'grain only' lines at a 'fit for purpose' standard; rather than upgrading only some of these lines to an improved heavy rail standard and closing the remaining lines; and

- Put in place a dual operation where grain is moved from the feeder branchlines to a transfer point, with the transfer of the branchline locomotives or grain.

This approach will enable the NSW Government to put in place a cost effective and sustainable track maintenance program for all the 'grain only' lines. GrainCorp's assessment of the relative importance of the 'grain only' lines is summarised below:

- The Walgett, Merrywinebone, Coonamble, Weemelah and Ungarie lines are high volume lines with over 1,000 tonnes of grain per km, representing around 60% of grain receivals on the 'grain only' lines;

- The Cowra lines are low volume lines with under 400 tonnes of grain per km, that have alternative road based domestic options; and

- The other lines are good volume lines with 600-900 tonnes of grain per km, where many of these lines are export focused with limited alternative road based domestic options.

Grain Only Line	Average Receivals	Track Km	% on Rail	Rail tonnes / Km	Adjusted (1) Rail tonnes / Km
Walgett - Narrabri	356,775	170	80%	1,679	**2,352**
Merrywinebone - Burren	115,125	53	80%	1,738	**1,738**
Coonamble - Dubbo	312,897	149	80%	1,680	**1,680**
Weemelah - Moree	163,406	86	70%	1,330	**1,330**
Ungarie - Temora	84,157	109	80%	618	**1,176**
Warren - Nevertire	25,176	20	90%	1,133	**1,133**
Tottenham - Bogan Gate	116,055	114	90%	916	**916**
Hillston - Griffith	138,522	108	70%	898	**898**
Boree Creek - The Rock	100,481	57	50%	881	**881**
Lake Cargelligo - Ungarie	55,078	72	90%	688	**688**
North Star - Moree	108,228	84	50%	644	**644**
Naradhan - Ungarie	47,780	60	80%	637	**637**
Cowra Lines	94,653	122	50%	388	**388**
Total	**1,718,332**	**1,204**	**74%**	**1,057**	

(1) Includes feeder lines for the Walgett and Ungarie Lines

4.2.4 Securing rail operating efficiencies on the 'grain only' lines

There are a range of initiatives to improve rail utilisation and rail capacity, and in turn reduce supply chain costs, on the 'fit for purpose' standard 'grain only' lines:

- Installation of fast rail outloading spouts at selected silos to reduce turnaround time. Given the low density traffic on these lines, these spouts should be permitted on the running line to eliminated train shunting in the sidings;

- Upgrade the intake speed at Werris Creek (and possibly Parkes and Junee) sub-terminals to reduce train tipping time from 6 hours to 3 hours;

- Convert the leading locomotive to enable the branchline trains to operate as a single person operation. GrainCorp silo staff would be the 'second person / observer' for shunting the branchline train at the silo; and

- Use GrainCorp staff for locomotive shunting at selected silos, thereby reducing the required number of train crew to operate the trains for grain loading.

4.3 Are there any access, institutional or regulatory changes required to improve efficiency

4.3.1 Certainty in track access fees

In addition to the need for 'grain only' line track security, the grain industry also requires security in the level of access fees to provide business confidence to:

- Contract rail capacity on a long term basis (either direct or through resale arrangements), as track access fees are a pass through cost; and
- Invest in above rail resources and supporting storage facilities on rail lines.

4.3.2 Certainty in train paths into Newcastle

While there are currently sufficient train paths into Newcastle to support the current grain task there is a threat that train paths in the future may be redeployed to service other commodities such as coal.

The grain industry requires the preservation of a minimum of 3 daily train paths for export grain into Newcastle to provide a total capacity of up to 2Mt pa for export grain. There is also a need to preserve 1 daily train path for domestic grain from north NSW into Newcastle and Sydney area.

There is a need to permanently preserve these train paths for grain to:

- Provide export and domestic grain rail certainty, noting that the number of paths required by the grain industry is only a small proportion of total paths used by the coal industry;
- The inability of the grain industry to permanently book these train paths under long term agreements given variable grain production and grain flows; and
- Inability for the grain industry to compete against the coal industry.

Case study from South Queensland

Demonstrates the impact from the loss of grain paths

QR Network over the past 3 years has, in response to reduced grain production, allocated additional train paths to coal. Today there are only 9 train paths for grain per week. This has limited train capacity to around 16,500 tonnes per week and is preventing ARG to increase its train capacity to service the current 40,000 tonne per week shipping demand at Brisbane.

4.3.3 Flexible regulatory requirements on branchlines

To facilitate a low cost train operation on the 'fit for purpose' grain only lines, rail safety regulations should adopt a more flexible approach that reflect the track and operating characteristics of these low density rail lines, for example:

- Maintenance standards that reflect the train operating restrictions;
- The ability to load trains on the running line; and
- Operating one person driver trains.

4.4 How should the costs of any proposed changes be met

GrainCorp believes it is the Government's responsibility to maintain the 'grain only' lines (as it does for regional roads) and for private companies to provide and manage above rail track resources without Government financial support.

Ongoing Government financial support for the 'grain only' rail lines can be justified on the following grounds:

- Equity, as the upgrading and maintenance of regional roads to support increased use of road transport will also require Government financial support;
- Externalities, as the closure of the 'grain only' branchlines will lead to negative externalities (such as road safety, community amenity and carbon emissions) from increased road traffic; and
- Lower grain prices to growers, as increased use of road transport would increase the cost of transport for export bound wheat and significantly reduce returns to growers for their (export and domestic) grain.

However the grain industry could consider the possibility of bearing an increased portion of the track cost through higher track access fees given the importance of rail transport (as outlined in section 5) and the value of having certainty of the continued availability of the 'grain only' lines.

These higher track access fees could be used as the grain industry's 'co-contribution' to the additional Government financial support for the 'grain only' lines.

5 Implications for growers and regional communities

Rail transport underpins grain exports and in turn grower's returns and the financial viability of the grain industry. The loss of rail lines would increase the cost of transport and reduce grower's return for both their export and domestic grain.

5.1 What implications would changes to grain transport and storage arrangements have for the economic wellbeing of growers

5.1.1 Importance of rail transport in grain prices

The country grain price received by growers is determined by the international price of grain at the port terminal, less transport and storage costs from the local country silo / farm to the port. Given the substitutability of grain, the export grain price sets the floor price for all grain including domestic grain the country silo / port.

In this way the transport cost of export grain to the port terminal determines the market price for all grain for all growers (so called 'export parity' price), where higher transport costs are passed onto grain growers through lower grain prices

In this way rail transport generates higher grain prices to growers, as it is the most efficient supply chain in moving large volumes of grain to the port terminal given:

- Lower cost of transport: Rail transport cost is around 8 cents per Net Tonne Kilometre (NTK) compared to around 10-12 cents per NTK for road;
- Lower handling cost: The cost of handling road transport at a grain facility for receival or outloading can be double that of rail transport;
- Capability in moving large volumes of grain: Rail can manage large volumes of grain in a timely manner. An average 40,000 tonne ship can be handled by 18 trains compared to 1,100 B-double trucks; and
- Reduced shipping costs: Road transport does not have sufficient capacity to handle the grain export task in a timely manner, especially for grain moved over longer distances. Without rail there would be increased ship delays and demurrage cost, significantly increasing logistics cost in servicing export grain.

5.1.2 The new grain supply chain if 'grain only' lines close

If a 'grain only' line is closed a new road based grain supply chain may emerge to replace rail. The form of new grain supply chain will take into account the following supply chain limitations:

- Grain from the western side of the grain belt (ie the 'grain only' lines) will continue to be export market dependent. It is likely that a large portion of this grain from these western areas will continue to be sold into the export market and transported to Newcastle or Port Kembla port terminals for the following reasons:
    - The domestic road based market secures most of its grain from the eastern side of the NSW grain belt given its closer proximity to this consumptive base; and
    - The western side of the NSW grain belt grows a larger portion of higher protein wheat grades that commands a premium from the export market.

- Road transport does not have the capacity to move substantial volumes of grain over long distances at harvest. The cost of road transport at harvest attracts a substantial premium and is therefore predominately used for short hauls during harvest.

- Most export grain has to be pre-accumulated at country silos, as it is not practical to mange the receival of large volumes of grain from on-farm storage direct to the port terminal given:

  - Grain quality assurance can not be managed. The receival of out of specification grain at the port terminal (for example in terms of quality, pesticide residues and insects) negatively impact:

    - Port capacity, as this grain has to be segregated to enable post receival pesticide analysis and quality certification reducing available bin space capacity. If this grain is found to be out of specification and cannot be shipped, available bin space capacity is further reduced with the port terminal being potentially blocked;

    - Shipping costs, from delays in shipping grain to allow for grain fumigation or if alternative make up grain needs to be accumulated. This in turn results in demurrage for the grain owner and a flow on delays to subsequent ships; and

    - Our AQIS licence, as a grain infestation at the port terminal could lead to a suspension in our license while the terminal is being cleaned down, resulting in further shipping delays.

  - Road scheduling can not be efficiently managed. The receival of grain from on-farm storage will negatively impact:

    - Speed of receival, as this grain has to be tested and graded;

    - Port congestion, as this grain is received in an un-coordinated manner creating truck queues and delays to trucks that has been scheduled from country silos; and

    - Capacity of road receivals, as the acceptance of a range of grains and grades at a port terminal reduce intake speed as the port terminals only have one receival hopper and limited intake grain segregation space.

Accordingly GrainCorp believes that the following two road based grain supply chain models would emerge if the 'grain only' rail lines were closed:

- *Local country silo delivery at harvest:* Delivery of grain to the local silo at harvest and subsequent road movement to either (i) a rail serviced silo after harvest for rail to the export market or domestic rail based market or (ii) road movement direct to the port terminal after harvest. The proportion of grain consigned to the port terminal direct by road will increase as the distance the country silo is located from the rail head increases, as the cost of the combined road and rail transport leg will exceed the cost of a direct to port terminal transport.

- *Delivery ex farm silo after harvest:* Growers retaining their grain in their on-farm storage at harvest and the delivery of this grain into (i) the domestic market after harvest or (ii) a rail serviced silo for export after harvest, if a domestic market cannot be secured.

5.1.3 Economic impact upon growers from new supply chain

The closure of 'grain only' lines and use of grain transport will increase the total grain supply cost to the port terminal by over $20 per tonne from the 'grain only' lines. This is illustrated in the table below showing estimated transport costs (inclusive of additional handling costs) from selected GrainCorp silos on the 'grain only' lines, by the 3 alternative modes of transport, to the port terminal:

(a) Branchline and rail transfer to mainline rail at the sub-terminal;

(b) Road transfer to rail at a country silo on mainline rail; and

(c) Direct one way road to the port terminal.

Southern Western Silos

Sending Silo	Rail	Road/Rail	Road
Tottenham	**$47**	**$63**	**$67**
Road Km	*N/A*	*160*	*575*
Hilston	**$49**	**$70**	**$71**
Road Km	*N/A*	*250*	*617*

North Western Silos

Sending Silo	Rail	Road/Rail	Road
Walgett	**$45**	**$69**	**$68**
Road Km	*N/A*	*185*	*590*
Coonamble	**$49**	**$71**	**$63**
Road Km	*N/A*	*203*	*480*

The road transport cost does not take into account the logistic risks involved in using road transport to move large volumes of grain and potentially higher road transport costs (given lack of truck drivers and trucks) to meet this increased demand for these one way road hauls to the port terminal.

The impact of the new road based road grain supply chain will the two fold:

- The higher cost of transport will translate into lower prices for export (and domestic) grain received by grain growers of in excess of $20 per tonne, based on current road transport costs. This in turn will:
  - Significantly reduce the grain gross margin for grain growers, negatively impact land values and the level of income to support regional industries and supply of farm services;
  - In years with low export market grain prices it will make the production of grain unprofitable, potentially resulting in land being set aside; and
  - Potentially reduce grain production and NSW export receipts from grain.
- Transfer on average 1.25 million tonnes of grain onto road transport if all the 'grain only' lines closed. As illustrated in the above table, given the higher cost of short road hauls and double handling cost, the cost of road direct to the port terminal is not significantly higher than the road / rail cost via a silo on a mainline. Accordingly the closure of a 'grain only' line would lead to a significant portion of grain produced around these lines being hauled by road transport direct to the port terminal or domestic rail based end-users.

Case study from South Queensland

Demonstrates the move to a road based grain supply chain model for export grain

The loss of train paths and record grain production in South QLD has forced export grain to use road transport from country silos direct to the port terminal at Brisbane at a rate of up to 6,000 tonnes per day. It is expected that around 50% of grain exported from Brisbane this year, over 600,000 tonnes, will be moved by road transport. Given quality and road scheduling issues only a small portion of grain can be accepted from on-farm storages.

5.2 What if any implications would there be for the health of the environment and regional communities

The increased of road transport will also have a significant negative impact on the environment and regional communities:

- Negative impact on carbon emissions: Rail transport is an environmentally sustainable means of moving grain, with the following benefits over road transport:
  - Diesel consumption to move a tonne of grain is around 75% less;
  - Carbon emissions to move a tonne of grain also around 75% less.
- Negative impact on communities: The increased use of road transport to move large volumes of grain on poor quality regional roads will have an adverse impact on regional and urban communities, such as Moree, Narrabri, Dubbo, Parkes, Cootamundra and areas around Newcastle, Wollongong and Manildra. The negative features of increased use of road transport include:
  - Damage to roads (and increased road maintenance costs);
  - Impact of quality of life with increase road traffic; and
  - Increased road safety issues.
- Negative impact on rural jobs: Reduced export grain prices (and domestic grain prices) would reduce farm incomes, particularly on the western side of the grain belt where most of the 'grain only' lines are located. This in turn would adversely support industries that service farms, supply farm inputs and service farm outputs, leading to a loss of jobs in regional communities.

Appendix:

Current NSW Branchline Trains from silos on restricted branchlines to the sub-terminals