Rural and Regional Affairs and Transport References Committee Inquiry into Australian Grain Networks

August 2014

NSW Farmers' Association
35 Chandos St
St Leonards NSW 2065

NSW Farmers' Association Background
The NSW Farmers' Association (the Association) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, Livestock, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.

TABLE OF CONTENTS

Introduction

NSW Farmers is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

NSW Farmers has welcomed the Government's commitment to agriculture as one of the five pillars of the modern Australian economy and its commitment to reinvigorating the sector to enable it to fully contribute to the wellbeing of the nation.

In terms of farm gate value, the grain and oilseeds commodity provides the largest contribution to Australia's agriculture industry. In 2011-12 grains and oilseed exports valued at over $10.1 billion dollars which accounted for approximately one third of Australia's agricultural exports.[1]

While this economic activity is an important contributor to the overall health of Australia's economy, it importantly plays a vital role in upholding vibrant communities in rural Australia. As such it is crucial that policy impacting on the grains market not only focuses on ensuring that appropriate market signals to sustainably increase Australia's annual crop reach farmers; but also focuses upon facilitating competitive markets that ensure supply chain efficiencies and increased bidding for farmers' grain to ensure the benefit of the grains industry flows back into rural Australia.

As the peak representative body of grain farmers in NSW, NSW Farmers welcomes the opportunity to make a submission to Rural and Regional Affairs and Transport Committee's inquiry into Australia's grain networks in reference to the following terms of reference:

> *Grain export networks, including the on- and off-farm storage, transport, handling and export of Australian grain, with particular reference to:*
>
> a. *the principles and practices underpinning an efficient grain supply chain from farm-gate to port;*
> b. *grain marketing and export arrangements and their impact on farm-gate returns;*
> c. *competition constraints on grain transport, storage and handling services;*
> d. *the extent to which transport, storage and handling arrangements are transparent and accountable; and*
> e. *any other related matter.*

[1] ABARES. (2012). Agricultural Commodity Statistics 2012, Australian Government Department of Agriculture, Fisheries and Forestry, p. 3, 27, 166, 212.

For the purposes of this submission, the terms of reference have been allocated an identifying letter.

Term of Reference – a.

Principles and practices underpinning an efficient grain supply chain from farm-gate to port

It is the belief of NSW Farmers that the key to achieving greater efficiencies across the supply chain lie in:

- Policy that delivers greater competition to the Australian grains market that places upward pressure on farm gate grain prices and competitive pricing on supply chain costs faced by grain farmers. This policy should be based on:
    - Seeking greater competition between storage and logistics providers to the grain market and between exporters.
    - Maintaining open access regimes in monopolistic or almost essential facilities, such as ports, until sufficient competition within the storage and logistics and the grain marketing sector can be objectively demonstrated to have emerged to protect the competitiveness and profitability of Australian farmers.
    - Ensuring a level playing field between marketers by reducing asymmetry of information through enhanced disclosure of grain inventories held by bulk handling companies.
    - Ensuring that grain marketers can compete for grain on quality by enabling greater control over the integrity of the stock that they have purchased and hold within the bulk handling system.
- The development of a logistics strategy that optimises the use of existing infrastructure and allocates investment in logistics infrastructure to increase supply chain efficiency. This strategy should facilitate extracting greater efficiencies in logistics through:
    - Improving coordination between supply chain participants to ensure that logistics capacity is maximised.
    - Investment in the supply chain and the development of appropriate rules that will:
        - Improve the ability to direct grain from one port zone to another to maximise competition between port terminal service providers. This includes the development of the inland rail.
        - Improve the efficiencies of road haulage between farm gate and bulk handling receival sites.
        - Facilitate the development of bulk handling network configurations that present a net benefit to farmers compared to present structures.

Term of Reference – b.

Grain marketing and export arrangements and their impact on farm-gate returns

Market concentration in NSW export market

NSW Farmers believe that farmers require strong competition in the market for storage and logistics to bring down the high supply chain costs that they face; as well as strong competition between grain marketers to bring down the margin that they seek to take within a trade to ensure as much of the world price for grain flows back to the farm gate.

Conversely however, the Free on Board (FOB) price of Australian grain is largely established as a result of global supply and demand, with approximately 80 percent of all grain produced in Australia exported.[2] Farm gate pricing is then determined by this global price less the sum of storage and logistics costs and margins taken (including risk premiums) by grain marketers.[3]

However, NSW Farmers remains concerned that the market concentration of export shippers remains high more than 7 years after the implementation of the multi exporter regime for wheat. Figure 1 and Figure 2 (page 7) respectively display the market share of bulk grain and bulk wheat exporters from the two port zones located within NSW from the commencement of the 2010/11 marketing year though to January 2014. This shows both the high market share of the incumbent bulk handler GrainCorp (42 percent) and that the three top exporters combined hold a share of 83 percent of bulk grain exported out of NSW during this period.

Another means of considering the market concentration in the export of bulk grains is to derive the Herfindahl-Hirschman Index (HHI) of the market. The ACCC uses the HHI when it seeks to objectively measure market concentration.[4] The HHI is a measure of market concentration that is weighted to appropriately estimate the impact of market share exercised by larger market participants. The ACCC's merger guideline indicates that in the overall assessment of a merger, the HHI serves as a preliminary indicator to excessive market concentration, with concerns warranting further investigation when a merger would result in a market concentration with a HHI of over 2000.

Shipping stem data taken from 2010 to the commencement of 2014 (see Table 1 indicates that the concentration in the NSW bulk export market results in a HHI number that exceeds 2000.

---

[2] Free on Board meaning grain loaded on a bulk vessel free of costs to the buyer.- Incoterms 2010.

[3] Tamara Stretch, Chris Carter and Ross Kingwell 'The cost of Australia's bulk grain export supply chains' (Information Paper, Australian Export Grains Innovation Centre, January 2014) 8; see also Productivity Commission, *Wheat Export Marketing Arrangements*, (1 July 2010, Report no. 51) 92-95. Canberra.

[4] Australian Competition and Consumer Commission, 'Merger Guidelines' (November 2008) 36-38.

Table 1: Market Concentration Grain Exports [5]

Port Zone		Bulk Grain Exports (HHI)
Port Kembla	Bulk wheat	**3125**
	All Grain	**2995**
Newcastle	Bulk Wheat	**2807**
	All Grains	**2805**
Total	Bulk Wheat	**2753**
	All Grains	**2714**

While alternative markets for grain grown in NSW exist, namely domestic use and the export container trade, NSW Farmers' note that these markets are effectively priced against the bulk export market. This means that if competition is retarded in this market, any downwards pressure on price is reflected across all grain sold at farm gate.[6]

Finding:

The market for export grain is highly concentrated. This is likely to impact on competition for farmers' grain.

[5] Australian Crop Forecasters Shipping Stem Information 2010 – January 2014; GrainCorp Shipping Stem, Port of Newcastle Trade Statistics.

[6] See Productivity Commission, *Wheat Export Marketing Arrangements*, (Final Inquiry Report, No 51 1 July 2010 Canberra) 94-95.

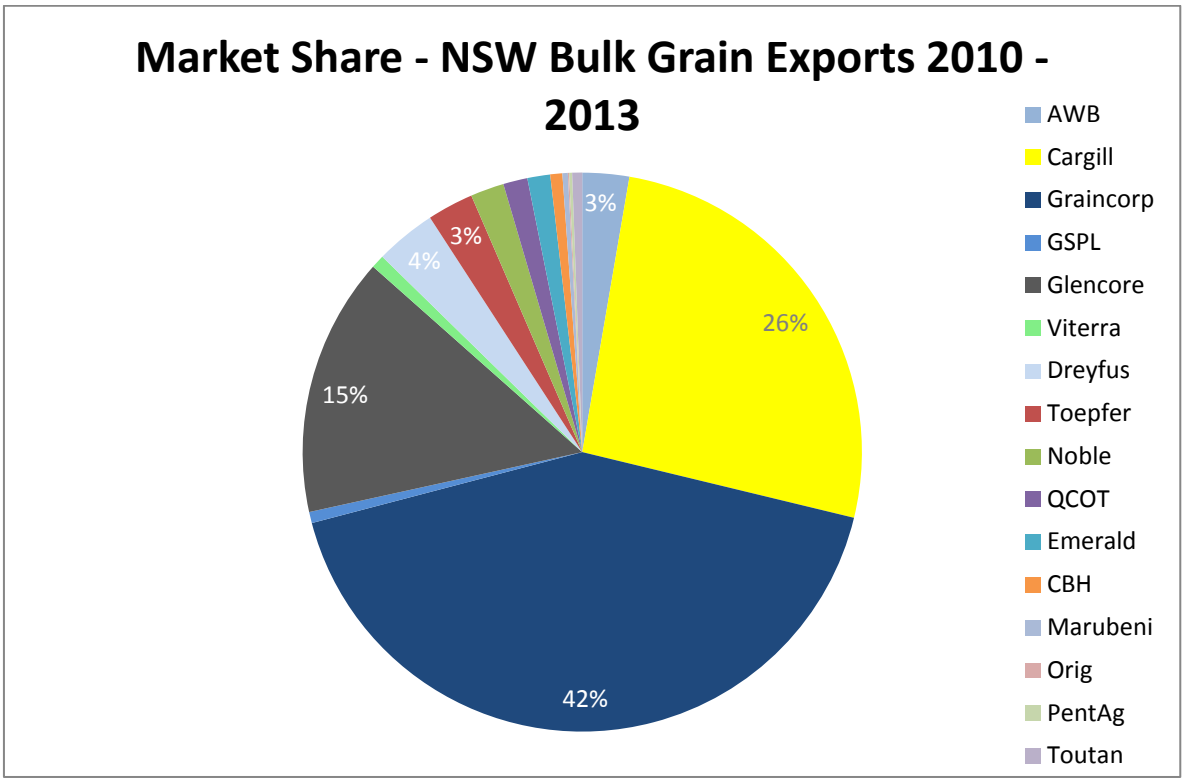

Figure 1 Source Australian Crop Forecasters Shipping Stem Information 2010 – January 2014; GrainCorp Shipping Stem, Port of Newcastle Trade Statistics.

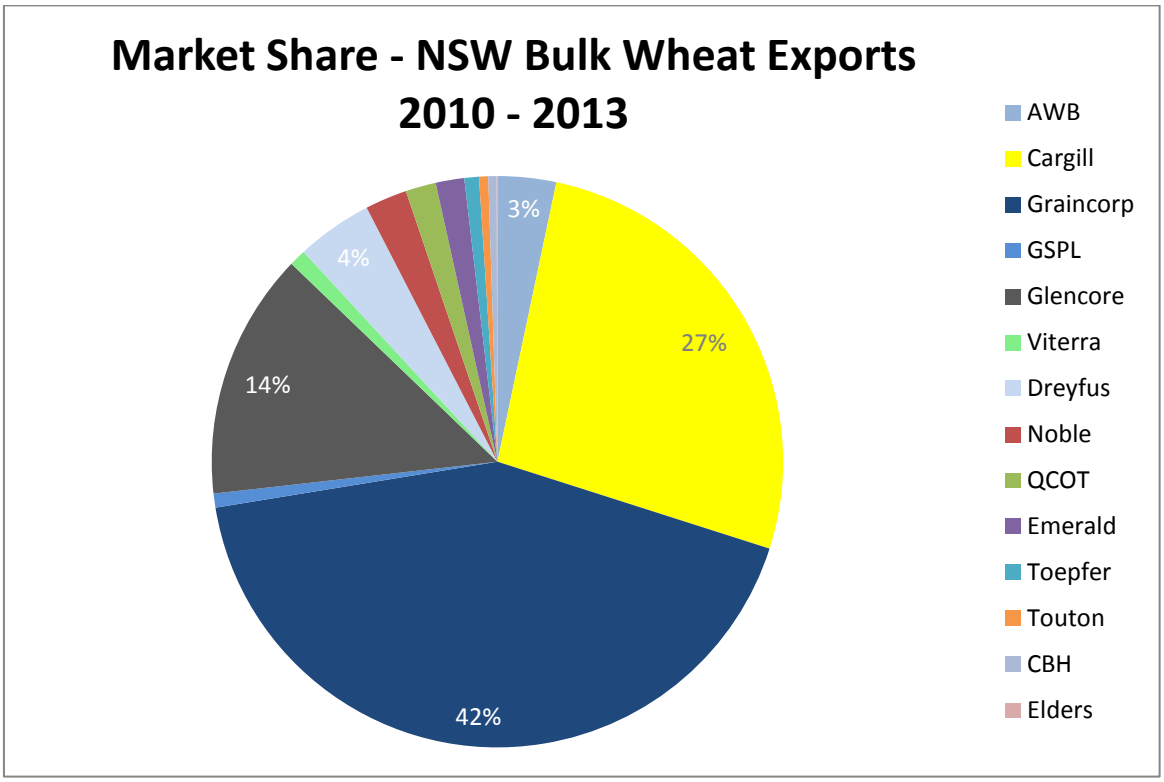

Figure 2 Source Australian Crop Forecasters Shipping Stem Information 2010 – January 2014; GrainCorp Shipping Stem, Port of Newcastle Trade Statistics.

Australian grain supply chain costs are too high

Recent reports by the Australian Export Grains Innovation Centre (AEGIC) and Rabobank have indicated that Australia's export grain supply chains are not only expensive; but also as a result of low global shipping freight rates have reduced the freight advantage that Australian grain has traditionally held into southern Asia.[7] With a forecast increase in production and exports of wheat from the Black Sea in the short to medium term, there is an imperative for the participants within the Australian grain value chain to improve supply chain efficiency to remain competitive in these export markets.

Table 2 outlines the cost of the supply chain for the five major grain growing regions across Australia as calculated by AEGIC. This calculation is based on 200 km rail freight from up country storage to port.

While the use of a 200 km freight passage enables a comparison of the supply chain costs across the regions on a like for like basis; export grain originating in eastern Australia is in general subject to longer freight distances. For example the median freight distance of grain destined for export in NSW is over 400 km.[8]

Table 3 uses the assumptions within the AEGIC report to derive the supply chain costs, post delivery into a bulk handling receival site, borne by farmers from selected locations across NSW.[9] With the average price of Australian wheat over the past 10 years being $255.40, it can be seen that for much of NSW the supply chain costs associated with the export grain market can be as high as a third of a farmer's grain income.[10]

Finding
Australia's export grain supply chain costs are too high to ensure the sustainability and competitiveness of Australian grain farmers.

[7] Tamara Stretch, Chris Carter and Ross Kingwell 'The cost of Australia's bulk grain export supply chains' (Information Paper, Australian Export Grains Innovation Centre, January 2014). Graydon Chong 'Australian Grains – Competitive Strains' (Rabobank Agriculture in Focus Report, November 2013).

[8] Tamara Stretch, Chris Carter and Ross Kingwell 'The cost of Australia's bulk grain export supply chains' (Information Paper, Australian Export Grains Innovation Centre, January 2014) 17.

[9] Calculations based on GTA location differentials and exported from the natural terminal port for each receival site. Assumed the site and port are GrainCorp, excluding Boree Creek, Oaklands and Henty West which are delivered to Melbourne Port Terminal and Boree Creek Emerald site.

[10] Average value of supply chain cost of locations in Table 2 - $83.76. Average value of the price of wheat 2002-03/2012-13 - $242.00. Australian Bureau of Agriculture and Resource Economics *Australian Commodity Statistics* (2013) Table 195.

Table 2: Post Farm Gate Costs by State

2013/14	WA CBH	NSW GrainCorp	SA Viterra	Qld GrainCorp	Vic Emerald
Port Charges	$ 21.90	$ 20.99	$ 21.78	$ 24.11	$ 21.11
Upcountry receival and shrinkage	$ 11.49	$ 15.18	$ 13.64	$ 15.39	$ 15.85
Storage (3 months)	-	$ 4.50	$ 3.30	$ 4.50	$ 4.80
Rail freight (200 km)	$ 19.00	$ 23.00	$ 27.20	$ 23.00	$ 23.40
Total	$ 52.39	$ 63.67	$ 65.92	$ 67.00	$ 65.16

Adapted from AEGIC 'The cost of Australia's bulk grain export supply chains', 33.

Table 3: Supply chain costs and farm gate prices – selected NSW sites

Receival site	Rail Freight NTP	Port Receival Supply Chain Cost Total
North Star[11]	$ 52.75	$ 93.42
Moree[12]	$ 47.75	$ 88.42
Walgett	$ 56.00	$ 96.67
Narrabri	$ 39.50	$ 80.17
Premer	$ 32.00	$ 72.67
Werris Creek	$ 27.00	$ 67.67
Coonamble	$ 45.75	$ 86.42
Gilgandra	$ 38.00	$ 78.67
Nyngan	$ 52.00	$ 92.67
Trangie	$ 43.75	$ 84.42
Tottenham	$ 50.75	$ 91.42
Condobolin	$ 50.75	$ 91.42
Parkes	$ 39.75	$ 80.42
Lake Cargelligo	$ 51.75	$ 92.42
Barellan	$ 44.25	$ 84.92
Grong Grong	$ 44.75	$ 85.42
Temora	$ 36.25	$ 76.92
Junee	$ 37.75	$ 78.42
Boree Ck	$ 40.75	$ 82.51
Henty West	$ 38.50	$ 79.29
Oaklands	$ 33.75	$ 74.54

Adapted from *AEGIC 'The cost of Australia's bulk grain export supply chains'; GTA Location Differentials.*

[11] Delivered road to Brisbane $83.00.

[12] Delivered road to Brisbane $89.75.

Term of Reference – c.

Competition constraints on grain transport, storage and handling services

Competition in the market for storage and handling

NSW Farmers believe that farmers require strong competition in the market for storage and handling to bring down the high supply chain costs that they face; as well as strong competition between grain marketers to bring down the margin that they seek to take within a trade to ensure as much of the world price for grain flows back to the farm gate.

However, the concentrated nature of the storage and logistics supply chain that services the grains market inhibits both of these factors.[13] In each of the export grain supply chains there is a dominant market participant in the form of the incumbent bulk hander. Table 4 outlines the market position of the major bulk handlers.

Impact of market concentration on storage and handling costs

As outlined above, supply chain costs are 'generally the single largest cost item for a grain producer in a typical year' accounting for as much 30% of a farmers' grain income. Of the supply chain costs associated with grain exports, AEGIC has warned that port costs are growing at a rate that is faster than other supply chain costs.[14] These costs are then passed onto farmers, either in the form of increased FOB deductions, a lower FOB price, or both.

The lack of competition in the market for storage and logistics, while varied across the three regions, leads to the ability for the dominant bulk handler to increase prices in a manner that would not be possible if they were operating in a competitive market. These profits are taken as economic rents which are in direct competition with returns that would otherwise flow through the grain value chain to the farm gate in a properly functioning competitive market.

[13] Port Jackson Partners 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand' (ANZ Insights Report, Issue 3, October 2012) 48-49.

[α] GrainCorp is also a major domestic end user of grain through its interests in malting barley, crushing oilseeds and flour milling. It also reports that it accounts for 25% of all domestic sales across Easter Australia.

[14] Tamara Stretch, Chris Carter and Ross Kingwell 'The cost of Australia's bulk grain export supply chains' (Information Paper, Australian Export Grains Innovation Centre, January 2014) 2, 5.

Table 4: Selected Indicators of major Australian Bulk Handlers

	CBH (WA)	GrainCorp (QLD, NSW, VIC)	Viterra/Glencore (SA)
Average annual harvest (MMT)	10.3	20.0	6.0
% of harvest exported	92	50	90
Upcountry Market Share (%)	90%	Handles 75% of east coast grain	80% share of SA upcountry sites
Port Terminals	4	7	8 (6 operating)
Market Share Port Throughput (%)	100	80-90	100
Market Share Export Tonnage (%)	48	35[α]	46

Source *Adopted from AEGIC 'The cost of Australia's bulk grain export supply chains' 11 and GrainCorp 2012 Annual Report*

Impact of vertical integration of dominant bulk handlers

As a result of the vertical integration of grain marketing business segments to existing grain bulk handling systems, which exist as a legacy of investment by government prior to being privatised, the incumbent bulk handlers have an economic incentive to preference their own grain marketing divisions. While it is acknowledged that port terminal service providers have a market an incentive to optimise throughput of grain through its storage and logistics assets;[15] this incentive is not mutually exclusive to behaviour that can impede competition for farmers' grain by increasing the costs and the risks faced by third party competitors. These types of behaviour have been noted by the Senate's Rural and Regional Affairs and Transport Committee which quoted the following types of behaviour that detract from competition for farmers' grain:[16]

- Charging a higher fee for deliveries to port from an upcountry storage not belonging to the port storage owner;
- Charging growers an extra fee for direct delivery to port.
- Using information systems to the benefit of their trading arm;

[15] Productivity Commission, *Wheat Export Marketing Arrangements*, (1 July 2010, Report no. 51) 181; 200-203.

[16] See Senate Rural and Regional Affairs and Transport Committee, Parliament of Australia, *Inquiry into operational issues in export grain networks* (2012) 26-28.

- Locking up rail capacity on over-burdened lines, requiring competitors to use road, usually at a higher cost;
- Leaning on port authorities to make it hard for competitors to find suitable alternative arrangements. This occurs as a result of the port authority not wanting to upset a major customer, and deals on volume;
- Reducing competition by keeping up-country fees lower, but then overcharging where they have the monopoly at the port; and
- Offering a rebate of about $2/T to buyers who allow the handler to ship from any site rather than the grain specifically bought by the buyer.
- Booking out sections of the shipping stem.

Evidence of this incentive to self preference can be seen in the change in key financial indicators of GrainCorp. The single desk was dismantled in 2008 and is represented by the vertical dashed line in Figure 1. Prior to this point GrainCorp's grain marketing activities were limited to the domestic market and in the export of non-regulated grains and its major business activity was operating as a participant in the service industry of grain storage and logistics. Since deregulation, GrainCorp has steadily increased its marketing and export marketing volumes. In both its 2012 and 2013 financial years, GrainCorp announced that it had shipped over four million metric tonnes, up from 600,000 tonnes in 2008. Over this period of time it has increased its grain marketing earnings (EBITDA) from $28 million to $54 million.

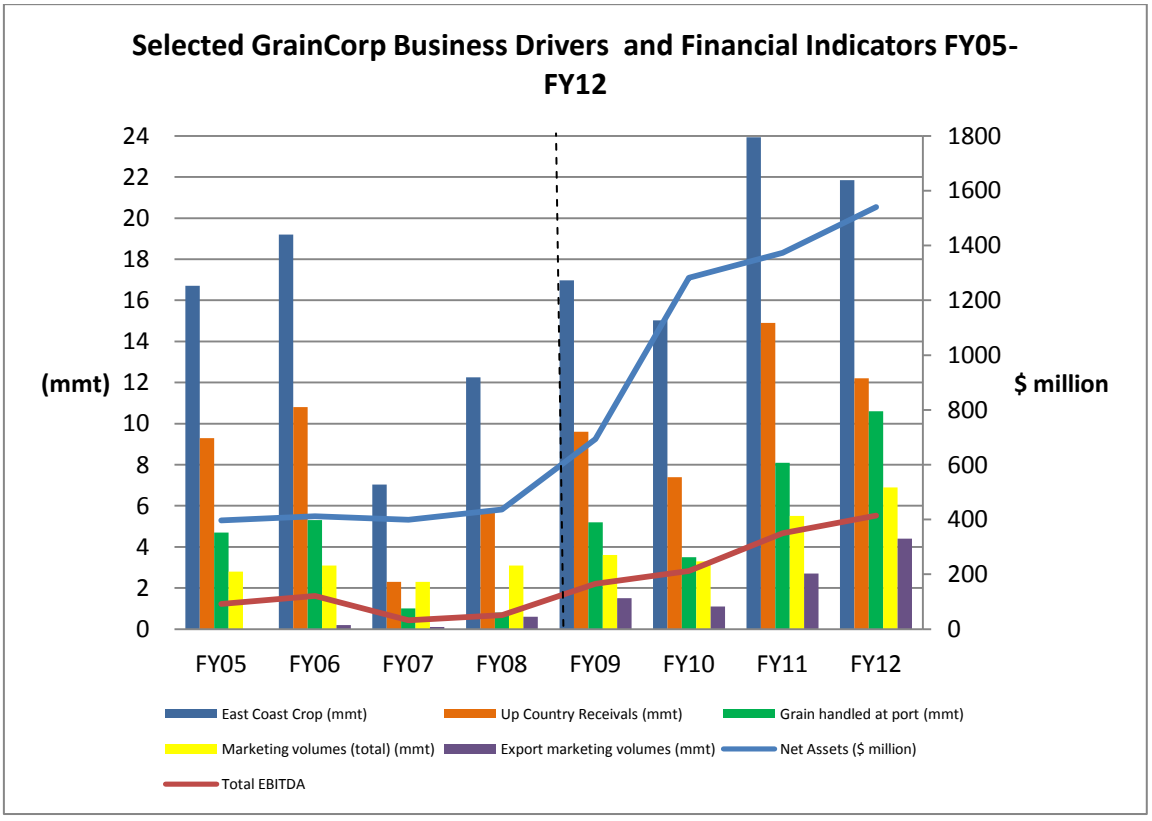

Figure 3 Source ABARES Australian Commodity Statistics 2011; 2012; GrainCorp Annual Reports FY2005-2012 and various investor presentations

Where self preferential behaviours exist, they result in a retarding of competitive forces in the accumulation of grain for export and domestic markets, with marketing segments of the vertically integrated bulk handlers only required to match or better the bids of those grain exporters reliant on its network to accumulate and load export cargo; that is those who are subject to the impacts of self preferential treatment.

The Government is presently finalising the development of a port access code that seeks to ensure contestability of port terminals to protect competition for farmers' grain. If the code is gazetted prior to 1 October 2014 the *Wheat Marketing Export Act 2008* (Cth) will repeal, removing the requirement of a vertically integrated port terminal operator/wheat marketer to hold an access undertaking with the ACCC.

NSW Farmers has joined with other farming organisations to develop a combined position supporting the development of the code and proposing the principles upon which the code should be based. This submission is available from the Department of Agriculture's website.

The importance of such a code to farmers can be seen in the fact that for every dollar added to the price of wheat in the export market as a result of competition that is underpinned by an open access regime, $43 million dollars of benefit is created for Australia's grain farmers.

Recommendation:

That the Port Access Code be supported to ensure contestability in the export grain supply chain.

NSW Farmers does not support the proposition that the general misuse of market power provisions (s 46) within the *Competition and Consumer Act 2010* (Cth) are satisfactory to protect competition for farmers' grain from the market power of integrated bulk handlers. The National Farmers' Federation's submission to the Federal Government's Competition Policy Review, supported by legal analysis provided by Minter Ellison, outlined concerns over the inapplicability of s 46 to the actions of vertically integrated companies upon the supply chain, particularly impacts upon an upstream farmer who is a price taker.

Further, NSW Farmers is aware of behaviours in the supply chain where a vertically integrated bulk handler is alleged to have discriminated against the cargo of another shipper. However when a complaint was made to the ACCC, it was unable to take action because the cargo in question was not wheat and therefore outside of the scope of the bulk handler's port access undertaking. The historical difficulties of enforcing an action against an alleged breach of misuse of market power under s 46 was an impediment to using the mis-use of market power provisions to seek redress. As a result the shipper incurred substantial costs, including demurrage costs.

Events, such as that described, though not occurring in the market for export wheat impact on the ability of the third party exporters to compete against integrated bulk handlers.

As a result, NSW Farmers recommends that the Port Access Code be extended to port terminal services involving all grain cargos.

Recommendation:

That the Port Access Code be extended to all grains.

New investments in the supply chain

NSW Farmers welcomes the incipient introduction of competition within export supply chains in NSW, particularly the recently commissioned Newcastle AgriTerminal and the recently commenced development of the Quattro grain terminal at Port Kembla. It is expected that when these two additional ports are operational they will provide significant additional capacity to export grain at times when there is high worldwide demand for Australian grain; in particular at the marketing window. This period is the time in the early part of the Australian marketing year (commencing 1 October) in which Australian grain exporters are able to take advantage of the off seasonal nature of the Australian harvest due to 'diminishing supply from the northern hemisphere'.[17]

However, the question of whether these new facilities will drive the competition in the supply chain required to see a reduction in supply chain costs passed down to farmers, and increased competition among export shippers in the accumulation of grain is yet to be determined. This is because of the following factors:

- The impact of these investments will be to raise the number of port terminals in each of the Newcastle and Port Kembla port zones to two. This may lead to the development of a market characterised by duopoly behaviour. In this circumstance it is likely that the levels of fees and charges for the ports in each port zone will reach a stable equilibrium on price determined by strategies of GrainCorp and its competitor.
- The ownership structure of these new facilities is comprised primarily of existing participants in the export trade. As such it is unknown whether there will be contestable capacity at the new port terminals available to third party exporters.[18] Such an outcome was acknowledged by the ACCC in considering GrainCorp's application to remove its Carrington terminal from the enforceable obligations of its port access undertaking, where it stated that it was unlikely NAT's equity holders were likely to have preferential access to capacity. If this is the case, it is conceivable that exporters who do not hold equity in a port terminal may be excluded from the market window; lowering the floor in the market.
- The need to accumulate grain cargos up country continues to act as a constraint against greater competition, with the majority of grain receival sites being owned

[17] Tamara Stretch, Chris Carter and Ross Kingwell 'The cost of Australia's bulk grain export supply chains' (Information Paper, Australian Export Grains Innovation Centre, January 2014) 23.

[18] Australian Competition and Consumer Commission 'Decision to Accept: GrainCorp Operations Limited's Application to Vary the 2011 Port Terminal Services Access Undertaking' (18 June 2014) 31.

by GrainCorp, or alternatively new equity holders of port infrastructure (Cargill and Emerald). This means that third party exporters are highly reliant on utilising infrastructure of the vertically integrated asset owners they are competing against.

NSW Farmers supports the following propositions regarding the port access code as a result of considering the benefits that greater competition will bring, alongside the risks identified above that new port infrastructure by itself may not realise a level of competition that will protect farmers' interests:

- Should contain a tiered regulatory framework that reduces the obligations placed upon a port terminal operator where competition between competing supply chains will protect farmers' interests.
- That initially vertically integrated port terminal service providers should be subject to obligations to allocate capacity under the open access regime established by the code. The definition of a vertically integrated port terminal service provider should be based on a wide interpretation of the term *Associated Entity*.
- That objective competition measures, such as the Herfindahl Hirschmann Index, are used in any decision to remove obligations upon a vertically integrated port terminal service provider.

Recommendation:

That regulation for bottleneck infrastructure, such as port terminals, should be based on reducing obligations where a level of competition that protects farmers' interests can be objectively measured.

Improved ability to move grain between port zones in an economic manner

One way to facilitate greater competition between grain transport, storage and handling services would be investment in rail that facilitates the movement of grain between port zones in a manner that provides for economically efficient export arrangements.

This would reduce the ability for port terminal operators act in a market characterised by duopoly, with exporters having enhanced capacity to move grain from one port zone to another in order to reduce supply chain costs. Some arbitrage already occurs in areas on the edge of port zones. For example in southern NSW there is the ability for grain accumulated in southern NSW to be economically delivered by rail to Port Kembla and into the Melbourne Port. In Northern NSW, GTA's Location Differentials suggest that it costs less to move grain from a number sites within the Newcastle Port Zone (Moree to the north east) by road to Brisbane than by rail to Newcastle.

The realisation of these economies would be facilitated by the development of the Inland Rail, which would provide mainline rail services that would run through the grain belt of NSW. This would enable grain to be freighted to either Brisbane or Melbourne; or alternatively to the Natural Terminal Port.

NSW Farmers' welcomes the Federal Government's commitment to build the Inland Rail within 10 years and will continue to liaise with the Government as the railway is built with the aim of having an intergenerational asset built in the quickest timeframe possible.

Recommendation:

The Federal Government should work with industry and other stakeholders to complete the Inland Rail in the quickest timeframe possible.

Increase supply chain transport efficiencies

In analysing the components of supply chain cost where efficiencies can be gained, Rabobank estimates as much as $57 per tonne of additional cost incurred by Australian farmers as a result of 'slippages' within the storage and logistics. (See Figure 4)

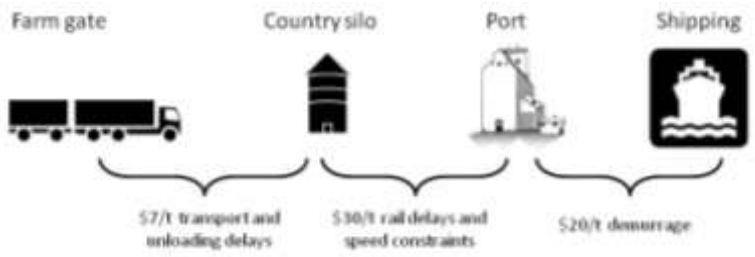

Figure 4 Supply Chain 'Slippages'
Adapted from: Rabobank Australian Grains – Competitive Strains

Improving upcountry outturn to rail

Of the $57/tonne of slippage identified by Rabobank $30 is directly linked to delays and speed constraints on rail with a further $20 incurred as demurrage as a result of difficulties accumulating the grain at port for elevation; the latter of which will often be caused by delays in outturn from upcountry storage sites to rail, as well as inability to access grain from the upcountry system.

NSW Farmers supports GrainCorp's efforts to improve the outloading capacity of its upcountry network as part of its "Project Regeneration". The capital works planned at its "Primary" sites are proposed to increase rail efficiency by reducing delays in loading trains, which in turn reduces train cycle times and cost. It has also sought support from Federal and State Governments to invest in longer rail sidings that will enable its primary sites to handle a "unit train" (ie a train made up of 40-48 wagons) which will further improve rail efficiencies.

GrainCorp has estimated that the implementation of its capital upgrades accompanied by co-investment in sidings by governments will result in a reduction of transport costs by around $5 a tonne. Based on an average east coast crop of 18 million tonnes, if this level of savings could be achieved the savings equate to $90 million for farmers and regional communities on the east coast per annum.

The proposed improved reliability of rail movements to port will also provide the opportunity for traders to reduce the risk premium that they absorb in their margin to deal with the risks associated with a failure to accumulate a full cargo at port prior to the shipping slot's commencement. If this was to occur it would result in further savings being passed back to farmers.

Recommendation:

That the Federal and NSW Governments co-invest in improving government owned sidings at upcountry storage sites to improve rail efficiency.

Improving the efficiency of road transport to receival site

While NSW Farmers supports GrainCorp's investment in its outloading capacity it presently reserves its position on the rationalisation of GrainCorp sites as part of Project Regeneration. This support is reserved on whether the change will be in the net benefit of growers.

While part of this net benefit equation will be savings that may be passed down from traders to growers as a result of rail efficiencies; the ability of the restructure of its network to provide a net benefit to growers will also depend on the ability of GrainCorp to handle the crop and reduce turnaround time to offset costs of increased road haulage from farm to receival site. As outlined above, the costs of delays at unloading are as high as $7 a tonne across the value chain.

In response to questions, NSW Farmers has been informed by GrainCorp that there is no capital investment in inturn capabilities as part of Project Regeneration. Rather GrainCorp argued that it has invested in improving inturn capacity over a number of seasons past and that the concentration of mobile stackers at sites that it opens will aid in dealing with the grain it receives.

An increase in distances from paddock to receival site also calls for policy and investments that will improve road efficiencies. These include:

- Bedding down arrangements of the NSW Grain Harvest Management Scheme which provides a tolerance on mass limits for most trucks to account for the difficulties in accurately loading a truck in the paddock during harvest.
- Investment programs like the NSW Government's "Fixing Country Roads" which target specific road investment to improve productivity. For example this project funded investment by the Forbes Shire which has enabled the movement of high productivity vehicles from the Newell Highway to Red Bend Silo. Enhanced coordination between State and Federal Government funding in these types of programs will facilitate enhanced productivity for the benefit of farmers.

Recommendation:

- Industry and local government should continue to work to develop a favourable Grain Harvest Management Scheme in NSW.
- State and Federal Governments should coordinate their funding opportunities that increase the productivity of strategic road pathways.

Finally with regard to Project Regeneration, NSW Farmers is disappointed that GrainCorp did not choose to sell sites that it has closed and instead is seeking to lease them.

It is the belief of NSW Farmers that a process through which GrainCorp sold these sites would be more favourable to industry. This is because such sales would not only unlock further liquidity to fund the capital infrastructure associated with Project Regeneration, but would also provide opportunities for other businesses to provide regional storage and handling services to farmers in areas that GrainCorp has withdrawn from.

Optimising available grain rail capacity

One of the key elements to creating an efficient export grain supply chain is ensuring that rail pathways are maximised. This is particularly crucial in funnelling grain to port at Newcastle and Port Kembla where there is heavy competition for pathways from coal. In making this observation, NSW Farmers notes that the access undertaking that the ARTC holds for the Hunter Valley provides specific terms of access for non-coal rail, which provides some certainty around access for grain rail paths.

The success of the Hunter Valley Coal Chain Coordinator (HVCCC), a company with membership of the coal companies and service providers, in continually improving the optimisation of the ARTC's Hunter Valley railway to meet the needs of the export coal market has been recognised by the NSW Government in its Freight and Ports Strategy. The HVCCC optimises the orderly transport of coal from 40 mines in the upper and lower hunter region through:[19]

- Developing long term capacity models that identify contractible capacity and constraints.
- Coordinates maintenance on the coal chain to minimise disruption on operations.
- Monthly planning and collaborative scheduling of train movements.
- Reporting and performance measurement.

As a result of the HVCCC's success the NSW Government has created the role of the Cargo Movement Coordinator, whose first role is to optimise the movement of containers into Port Botany from around the state.[20]

Likewise the NSW Grain Freight Review also proposed that a grain freight coordination forum should be convened by the NSW Government to improve optimisation of grain

[19] Transport for NSW 'NSW Freight and Ports Strategy' (November 2013) 89.

[20] Transport for NSW 'NSW Freight and Ports Strategy' (November 2013) 89.

freight movements.[21] The NSW Government's preliminary response to the Grain Freight Review agreed to adopt this recommendation.[22] NSW Farmers supports this concept and believes that if such a forum was initiated it should seek to work collaboratively with other stakeholders that share the supply chain infrastructure, such as the HVCCC.

Recommendation:

That a Grain Freight Coordination Forum be established by the NSW Government.

Term of Reference – d.

The extent to which transport, storage and handling arrangements are transparent and accountable

Market information: levelling the playing field

As outlined above, the Australian grain market is characterised by three major bulk handling networks across the three defined geographical growing regions (eastern Australia, South Australia and Western Australia) which are operated by vertically integrated companies who engaged in grain trading and to a lesser degree grain processing. By virtue of the majority of the wheat (and other grains) crop in each of these regions being delivered into these bulk handling networks, their marketing arms have access to detailed stocks information.

The visibility of this information to the bulk handler, but not other traders has been seen to create an unlevel playing field in favour of the vertically integrated bulk handler/marketer when competing for farmers' grain to accumulate export cargo.

This creates a transaction cost to the other traders, in terms of gathering available information and in accepting risk, which must then be borne by traders competing with these bulk handlers, impacting on their ability to effectively compete with the incumbent bulk handling company. The provision of stocks information by volume, by grade at location on a weekly basis was the level of information disclosure was proposed by Peter Reading in the report commissioned by DAFF into Information requirements for an effective bulk wheat export market 'to enable industry participants to start on a 'level playing field' in developing pricing and accumulation strategies.

If this information is not made available to traders other than vertically integrated bulk handlers, upwards competitive tension on farm gate prices is lost, as non-related entities are required to absorb a risk premium within their margin.

[21] Department of Infrastructure, Transport, Regional Development and Local Government, 'NSW Grain Freight Review' (Final Report, Australian Government, September 2009) 61, 78-79.

[22] NSW Government 'Commonwealth Review of the NSW Grain Network: Preliminary NSW Government Response' < http://www.transport.nsw.gov.au/sites/default/files/b2b/rail/Review-of-Grain-Network-Preliminary-NSW-Govt-Response.pdf>.

It is the view of NSW Farmers that upcountry stocks information aggregated by port zone and reported by grade in a timely fashion, weekly during harvest and monthly at other times, is important to creating competition at port, as the export task must begin with accumulation upcountry.

Further, because grain is not only sold on its functional varietal classification, but also on protein, moisture and screening, NSW Farmers recommends the publication of stack averages by site to ensure that the market signal for quality reaches farmers.

Recommendation:

- That the volume of stocks inventory held in bulk handling is published at least at the port zone level reported by grade in a timely fashion (no more than a week in arrears) weekly during harvest and monthly at other times.
- That bulk handlers publish quality data of stack averages by site.

Stocks integrity

In addition to the provision of improved data to the market about stocks inventory and quality, NSW Farmers believes that improved transparency and accountability within the grain market would arise through providing the title holder of grain with greater capacity to maintain the integrity of the grain they own.

Presently GrainCorp uses a one sided storage and port terminal services agreements on a take it or leave it basis which, among other things, unilaterally allows it to undertake grain swaps. While a reconciliation of sorts is made with the owner of the grain with regard to freight differentials of the swap, there is no prohibition on GrainCorp preventing them from swapping grain to an unfavourable location from which to execute a cargo. Further there is no reconciliation on quality, only an obligation to outturn at the minimum specification of the segregation owned.

NSW Farmers is concerned that this approach frustrates the ability of the market to send a market signal for quality. This is because there is little incentive for a third party exporter to compete for grain of specific quality (eg protein, low screenings, high test weight) at specific sites if they are not guaranteed to receive grain from that site, or alternatively be appropriately recompensed when they have been forced to take grain of a lower quality.

NSW Farmer is not opposed to a properly functioning swaps market which enhances market efficiency and allows traders to manage the assembly of cargos in a manner that facilitates execution of outturn for export or domestic end user. However NSW Farmers is of the view that there should be fairness to both parties engaged in the swap, including reconciliation on quality to mitigate the risks associated with at particular sites for niche parcels of grain.

This issue of stocks integrity is further impacted as an outcome of Project Regeneration in which GrainCorp are introducing a bundled storage, transport and port terminal service called ExportDirect. The model for ExportDirect proposed by GrainCorp relies on stock

swaps of grain from major sites into its rail focused primary sites to achieve rail efficiencies to port. ExportDirect necessarily requires those persons buying the service to allow the grain subject to the service to be swapped as part of the guarantee that their grain will be accumulated at port in time for the shipping slow.

However, in order for an exporter to take up the ExportDirect service, they are required to do so for their entire shipping program on a port by port basis. This denies flexibility to an exporter to also accumulate a niche cargo while at the same time running a bigger export program using ExportDirect to the detriment of farm gate prices for grain.

Recommendation:

- **That the owners of grain should have a right to either receive grain from the physical location that they have acquired it, or alternatively receive monetary recompense for freight differentials and quality.**

ENDS