

17 February 2012



## **Australasian Railway Association submission to the Senate Committee on the Rural Affairs and Transport**

**Operational issues arising in the export grain storage, transport, handling and shipping network**

***Risk of natural, virtual or other monopolies discouraging or impeding competition in the export grain storage, transport, handling and shipping network, and any implications for open and fair access to essential grain infrastructure***

The grain export supply chain is characterised by dominant grain handling organisations, generally along state lines, which have virtual control of the entire supply chain. This control extends over grain handling facilities, port access, and the engagement of freight transport service providers.

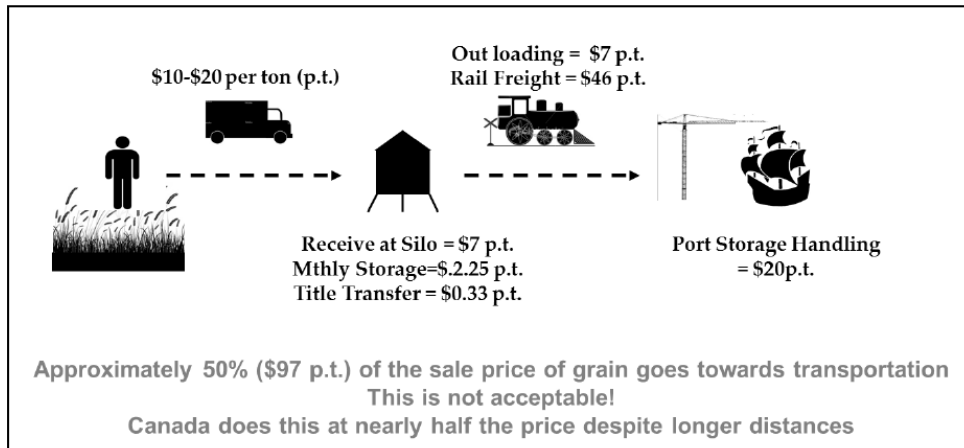
This control over the grain export supply chain and the lack of competition has severely restricted the sector's ability to innovate and to increase productivity. Australian grain handling facilities and processes (silos, elevators etc.) are antiquated and severely restrict the efficiency of the grain supply chain.

Given the lack of competition, there is little incentive for grain handler's to improve their facilities or processes. Improvements in loading and unloading would be expensive and the benefits (shorter loading and unloading times) would largely fall to the transport operator.

Combined with the substandard nature of rural transport infrastructure, and the marginal nature of grain haulage, Australian farmers are paying extremely high prices to get their produce to market. As highlighted in the diagram below, nearly 50% of the final market price for grain goes towards the shipment and handling of grain.

### **Media Contact**

Emma Woods  
+61 2 6270 4512  
+61 4 3820 9588  
ewoods@ara.net.au  
www.ara.net.au



## ***Equitable access to the lowest cost route to market, including transport options***

There are significant issues with providing viable low cost alternate transport routes to market for grain across the whole supply chain. These issues include landside transport constraints, port access constraints and unfavourable ownership structures within the sector.

### Landside transport infrastructure

Rural transport infrastructure by its nature requires significant subsidisation. This holds true for both road and rail infrastructure. With respect to rail infrastructure, there has been a significant neglect in investment to maintain and upgrade lines. Recent state based parliamentary inquiries in rationalising grain lines have resulted in the closure of many underutilised lines but there has not been any significant investment in maintaining and upgrading the remaining lines.

The quality of grain line infrastructure is extremely low. Grain line axle loads cannot handle loads of more than 18 tonnes, while main line track can handle up to 22-30 tonnes. Grain lines are the equivalent of a dirt track on the road network.

The poor quality of track also translates into the use of old and substandard rollingstock. Grain lines are not capable of accommodating new locomotives.

### **Media Contact**

Emma Woods  
+61 2 6270 4512  
+61 4 3820 9588  
ewoods@ara.net.au  
www.ara.net.au

These factors severely restrict the rail industry's ability to provide adequate rail services for grain.

The increasing use of heavy road vehicles will require significant increases in road expenditure, especially by already financially constrained rural and regional local governments.

There will be no significant improvements in grain freight services until the quality of grain lines are improved.

#### Port Access

Australia's east coast ports are increasingly becoming capacity constrained through the lack of adequate land side access. This will have severe impacts on the ability of farmers in getting their produce to market.

This issue has yet to fully materialise due to recent weather events moderating what would otherwise have been a historically large grain harvest. However, ARA members have intimated the increasing difficulty of obtaining rail paths to bulk port for their grain services on the east coast.

Road congestion around ports equally affects road freight operators in moving efficiently grain to port.

Given the increasing size and importance of mining bulk, and the de-prioritisation of grain, at bulk ports, the ARA recommends the increased utilisation of containerised freight for grain transportation.

#### **Media Contact**

Emma Woods  
+61 2 6270 4512  
+61 4 3820 9588  
ewoods@ara.net.au  
www.ara.net.au

## Ownership issues

Ownership structures within the grain export supply chain leads to inefficiencies in the provision of adequate grain transport and handling services.

As previously mentioned, the virtual monopolies enjoyed by grain handlers create a significant barrier to significant investments in improving grain facilities.

The vertical separation of rail operations has diminished the commercial viability of maintaining grain line track standards or the business case to upgrade the quality of suitable grain lines. The poor quality of grain lines acts as a disincentive for rail operators to significantly invest in improving their locomotive fleet on those lines.

These factors all culminate in creating a substandard grain export supply chain. The ARA recommends greater participation of grain producers and local governments within the grain supply chain. Producers and local governments will be the ultimate beneficiaries in any improvements to the supply chain and should therefore play a more active role in ensuring a functioning grain export supply chain.

## ***A New South Wales example***

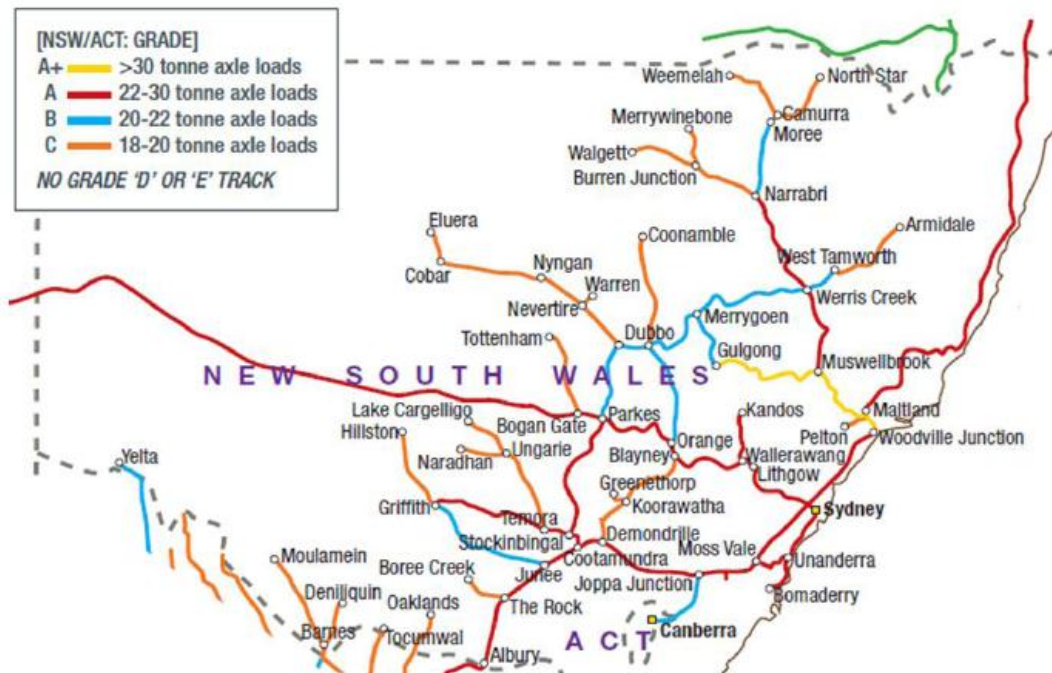
A good example of the state of some regional rail lines can found in New South Wales. The New South Wales rail network services grain movements and consists of 1,217 km of track on 20 lines (on Figure 1). The condition of grain lines has been gradually deteriorating, and investment is required for these lines to remain operational. 9 grain lines with low axle load ratings have been identified that could potentially be upgraded in New South Wales. In their current state, the closure of these lines would be the most viable business option.

The closure of these lines would force 750,000 tonnes of grain onto road which is equivalent to 30,000 truck movements per annum. The current fix-when-fail maintenance strategy cannot sustain these lines in a fit-for-purpose condition. To remain in service they must be restored by more intensive works, and adoption of a periodic preventive maintenance regime going forward.

## **Media Contact**

Emma Woods  
+61 2 6270 4512  
+61 4 3820 9588  
ewoods@ara.net.au  
www.ara.net.au

Figure 1: New South Wales grain rail network



Source: ARA

Upgrading class D (18 tonne axle loads) lines to class A or B (20-30 tonne axle loads) would allow faster operating speeds on these lines, and make it possible to operate to and from some additional silos on a 36- or 48-hour cycle time. It would also allow greater flexibility in the deployment of locomotives. The economic evaluation by NSW Grain Freight Review 2009 reveals a number of instances where it appears desirable to improve the quality of the branch line network to a 20-30 tonne axle load standard.

The benefits of moving to a higher service standard will flow almost entirely to grain producers—higher track service standards will increase the reliability and productivity of grain freight services. However, given the current ownership structures, none of these benefits will flow to the infrastructure owners, who would be responsible for the investments in the upgrades, and hence it is unlikely that such upgrades will eventuate without government intervention.

**Media Contact**

Emma Woods  
 +61 2 6270 4512  
 +61 4 3820 9588  
 ewoods@ara.net.au  
 www.ara.net.au