



SUBMISSION FROM ABB GRAIN LTD TO THE HOUSE OF REPRESENTATIVES INQUIRY INTO INTEGRATION OF REGIONAL RAIL AND ROAD FREIGHT TRANSPORT AND THEIR INTERFACE WITH PORTS

ABB Grain Ltd Background

ABB is a publicly listed company with market capitalisation of around \$A1 billion on the Australian Stock Exchange. Its core business is the provision of storage, processing, logistic, marketing and trading services in agricultural commodities along an integrated supply chain. ABB Grain as it exists today was formed by the merger of three South Australian based grain companies, ABB Grain, AusBulk Ltd (formerly South Australian Co-operative Bulk Handling) and United Grower Holdings in late September 2004.

Based in South Australia, ABB accumulates grain from all the grain growing regions in Australia and New Zealand including barley, wheat, sorghum, canola, oats, field peas, faba beans, triticale, chickpeas, lupins, lentils, rye, safflower and maize. ABB exports these commodities to around 40 countries from storage facilities across Australia, but significantly from its own network in South Australia, which comprises 111 silos and 7 export shipping terminals. The company's storage network has a total capacity of about 10 million tonnes and is capable of handling the entire South Australian harvest. Individual country sites range in capacity from less than 10,000 tonnes to more than 440,000 tonnes.

Country sites are generally 'tributary' to an ABB grain export terminal. Port Lincoln serves most of the Eyre Peninsula, while Port Adelaide is the primary grain port for eastern South Australia. The company's seven terminals are located at Port Adelaide, Port Lincoln, Port Pirie, Thevenard, Wallaroo, Ardrossan and Port Giles. Port Adelaide is the largest grain storage facility in South Australia, capable of storing more than 650,000 tonnes.

In addition to its own network of storage and handling facilities, ABB has a 50% interest in Australian Bulk Alliance, which it operates. ABA's network covers 7 country silos in Victoria and New South Wales. Through ABA, ABB has a 25% interest in the grain terminal at the Port of Melbourne.

ABB also operates the largest maltings network in Australia producing over 420,000 tonnes of malt annually, principally for export destinations although it has significant long-term contracts with leading Australian brewers.

Although grain is the core of the storage and handling business the company handles a considerable amount (more than 2 million tonnes) of non-grain commodities such as dolomite, salt and gypsum through its terminal facilities.

Statements Addressing the Inquiry Terms of Reference

The role of Australia's regional arterial road and rail network in the national freight transport task.

ABB recognises that both road and rail play an important role in the bulk movement of grain commodities to port. The company realises both modes of transport are inter-reliant on each other and there is a balance which must be met between the two modes to gain the greatest efficiency. Historically, ABB has generally supported the movement of grain via rail where economically competitive. Looking forward, ABB sees no reason to change this approach.

ABB believes there is a strong case to continue to support the use of regional rail branch lines for grain movements to port, given competitive freight rates, based on a number of arguments:

- Rail provides greater accumulation capability at port for loading of vessels. This is especially true at harvest time when trucking resources are most limited.
- Rail provides the ability to *overflow* large parcels of grain from up-country sites during harvest to country accumulation or buffer sites.
- ABB has invested significant rail loading and unloading capital along the rail lines over the past 10 years.
- Outloading to rail from strategic sites provides operational efficiency compared to road.
- Regarding public relations, ABB understands that from a community safety, environmental and aesthetic viewpoint, rail transport through built-up areas while on transit to port (such as Pt Lincoln) is more favourable than road transport.
- There is community pressure to keep the level of grain trucks on the road to a minimum. This too improves ABB's public relations.

Road transport supplements rail transport by providing a quick and dynamic service that can be utilised to provide additional accumulation capacity. This provides a valuable service in the event of an accumulation emergency where demurrage is being incurred. Road transport more efficiently moves smaller parcels of grain; this is especially important at sites that are near empty, or at sites that have small amounts of many grades. Also, not all ABB storage and handling sites are located next to rail, thus there is a consistent need for trucking recourses for these sites.

Policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to: - land transport access to ports.

ABB is currently involved in developing a panamax capable port terminal at Outer Harbor. The terminal will have a total storage capacity of 65,000 tonnes, a 3.5 km standard gauge rail loop capable of receiving grain at 2,400 TPH, and a shipping conveyor rated at 2,000 TPH.

The success of the new development will be greatly increased if the Port River Expressway including its associated works and the proposed Sturt Highway Extension, as flagged by the South Australian Freight Council, are carried out as planned by the State Government. These projects will contribute to the efficient running of the terminal through improved access and transport operational costs. The social benefits arising from the expressway are high with freight traffic being diverted away from local communities and the historically significant Port Adelaide centre. The improved access will also have a positive environmental impact.

At Port Lincoln, ABB has concerns at the growing number of trucks delivering grain to the port terminal via the main street. Grain trucks approaching Port Lincoln from the north via the Lincoln Highway use Liverpool Street (the main street of Pt Lincoln) to approach the grain terminal. With Pt Lincoln fast growing and becoming a popular holiday destination, ABB believes that the current practice of driving grain trucks, often A-Doubles, down the main street of the town is becoming increasingly dangerous and impractical. ABB feels that a better more practical solution needs to be found.

A ring route around the back of Port Lincoln connecting the Lincoln Highway to the Flinders Highway's western approach has been suggested. This needs to be considered in greater detail, as the problem will only grow, especially given the possible demise (or truncation) of the Eyre Peninsula grain rail network.

Policies and measures required to assist in achieving greater efficiency in the Australian transport network, with particular reference to: - opportunities to achieve greater efficiency in the use of existing infrastructure.

In South Australia, ABB utilises four dedicated grain rail branch lines. These are the Eyre Peninsula, the Lower North Broad Gauge and the two Mallee branch lines ending at Loxton and Pinnaroo. These branch lines appear to be in operational demise. ABB believe that if running efficiently, there may be a business case to save them. ABB believes there are a number of common major factors that are causing the gradual demise of these lines.

Lack of rail maintenance has resulted in inefficient rail operations. All four branch lines were built early last century and have essentially been maintained on a *fix when fail* basis. This was especially the case when Australian National owned and operated the lines up until 1997. For this reason, many sections along the branch lines are in extremely poor condition, and operating extremely inefficiently. Some line sections are speed restricted to 15 km/h and are only able to operate during the night in summer due to heat buckling the line beyond safe-operating levels.

There is *insufficient tonnage* running over the branch lines to sustain and upgrade the rail tracks and rolling stock to a safe and efficient standard. Because the rail business is a business operating with high fixed costs and small marginal costs, there are economies of scale to be had. Each additional tonne carried enables the overall per tonne charge to be lowered, helping rails competitiveness against road. If the operational condition of the tracks had been properly maintained in the past, the current tonnage task may be sufficient to maintain the track in good operational order with the current freight rates, but as it is, the task is just not sufficient to pay for current maintenance and line overhauls.

The mainline ARTC owned track has the advantage of being utilised for goods and commodities other than grain, thus the fixed costs can be spread over a greater task.

The rail business is restricted in its ability to raise rail freight rates for much needed line upgrades due to competition from road freight carriers. Road freight rates determine the price ceiling for competition rail freight business. There is a lot of evidence to suggest that current road use charges for heavy vehicles are inefficient in that they do not accurately reflect the costs of road-wear. The National Road Transport Commission's cost allocation process, it is argued, overcharges lighter vehicles and undercharges heavy vehicles.

The Bureau of Transport Economics estimate that the average avoidable cost of road-wear over the arterial road networks is higher than the NRTC's current charges. BTE estimate that the NRTC undercharges the total cost of road-wear and other road provision costs for 6-axle articulated trucks by 0.34 cents per ntkm (BTE Working Paper 40: *Competitive Neutrality Between Road and Rail*). This means, for example, that if road transport was to compete for the 250 million ntkm currently carried out by the Eyre Peninsula rail network, then the Government would effectively subsidise the road operation by \$850,000!

If the NRTC were to more accurately tax larger road carriers for road usage, then the competitive neutrality between road and rail may be restored. This would in turn enable the rail company to either a) raise their rail rates slightly, or b) leave freight rates at the pre-road-adjustment level and attract greater incremental tonnage to rail via more competitive freight rates.

There is a trend to truncate branch lines that are not financially viable. In most cases, the branch lines in question are in poor operational condition and a reasonable maintenance standard has not been upheld over its life. Had maintenance been better managed over the life of the rail line, current tonnage levels and grain freight rates may be viable.

From a grain handlers view point, there is concern that railway operators assume that grain previously captured along the truncated section of line will be captured at newly created railheads. This assumption, if correct, infers that grain handlers will build up railhead sites to be able to handle more grain; thus there is a transfer of cost to the bulk handler. This may not be the cheapest solution for the supply chain as a whole. It also infers that storage sites located on the truncated section of line will be made redundant.

If grain is not captured at the newly formed railhead sites, it is likely that previously railed grain will be trucked to port, putting more pressure on rail freight rates due to incremental tonnage loss.

Case in Point:

The Eyre Peninsula is a key grain-producing region for Australia, with 95 percent of the production destined for export markets. The branch line network on the Peninsula has historically played a vital role in the movement of large parcels of grain to the export port. The system's current operational condition has declined to a critical point where its future operation requires an injection of investment funding. ABB is keen to see the survival of the Eyre Peninsula grain branch line network and has recently invested over \$2 million in fast rail loading infrastructure to help improve the networks efficiency. More funding is required to upgrade much of the networks lines to bring them back to safe and efficient operational condition.

A submission to the Department of Transport and Regional Services, titled *Eyre Peninsula Grain Export Logistics Project Proposal* has been made to attempt to gain some funding support. The submission made on behalf of the project partners: -

- Eyre Peninsula Local Government Association (EPLGA).
- Grain growers of the Eyre Peninsula represented by the Eyre Peninsula Regional Development Board (EPRDB).
- The Australian Railroad Group.
- ABB Grain Ltd.
- AWB Ltd.
- The State of South Australia through the Department of Transport and Urban Planning, the Office of Infrastructure Development and the Department of Primary Industries and Resources.

was made by the EPRDB and the EPLGA.

If funding is gained, the investment will improve the flow of grain to port and ultimately grain industry sustainability on the Peninsula. Safety benefits will also be gained from continued rail usage. The interaction of freight traffic and the community will improve. Congestion in Pt Lincoln will reduce and greenhouse gas emissions will decrease as rail maintains market share.

The proposal includes a number of components that can be implemented independently and staged over a three-year period to suit Commonwealth cash flows. The costs and benefits of the project are outlined in the proposal, as too are the results of a Rapid BCA. The Rapid BCA provides an estimated project BCR of the order of 1.6 and an estimated project NPV of the order of \$22 million. The BCR of the proposed Commonwealth Government contribution is of the order of 3.3.