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Submission

Grain Trade Australia

Management of the Inland Rail Project by the ARTC and the Commonwealth Government

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Table of Contents

1.0 Introduction....3
2.0 Grain Trade Australia's Role....3
3.0 Grain Industry Sector....3
4.0 Grain Industry Framework and Transport....4
5.0 Inland Rail Project – GTA Focus....4
6.0 Rail Transport – Grain....5
7.0 National Freight and Supply Chain Strategy – Grain....6
8.0 Inland Rail – Benefits to the Grain industry....6
9.0 Strategic Leadership t0 Foster Change....7
10.0 Consideration of Market Complexity Price Cycles and Drought....8
11.0 Conclusion....8

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1.0 Introduction

Grain Trade Australia (GTA) welcomes the opportunity to provide a Submission to the inquiry into the management of the Inland Rail project by the Australian Rail Track Corporation (ARTC).

GTA believes an effective and efficient supply chain is critical to maintaining and growing productivity and profitability in the agricultural sector and specifically within the grain industry. GTA is committed to assisting and providing input to ARTC and to the Commonwealth Government to ensure the Inland Rail project supports and enhances supply chain efficiency within the Australian grain industry.

2.0 Grain Trade Australia's Role

GTA is the focal point for the commercial grain industry within Australia. It facilitates trade and works to provide an efficient, equitable and open trading environment by providing leadership, advocacy and commercial services to the Australian grain value chain. GTA is non-political, industry driven with a primary focus to ensure the efficient facilitation of commercial activities across the grain supply chain including a strong focus on the logistics of grain through transport storage and ports.

GTA's has over 280 organisations as members ranging from regional family businesses to large national and international trading, storage and handling companies, grain marketers, consumers and processors. The vast majority of grain contracts executed in Australia refer to GTA grain trading standards, standard-form grain contracts and GTA Trade Rules. Most of Australia's grain storage and freight movements are made by GTA members. Key national and state producer representative groups are also GTA Members. A full list of GTA Members is attached to this Submission.

3.0 Grain Industry Sector

The Australian grain sector has been a consistent provider of productivity increases to the Australian economy. Depending on the season the Australian grain industry is Australia's number one or two agricultural export industry. In 2018/19 ABARES estimates the Australian grain industry value to be around $A12.9 1 billion (at the farm gate). This is 6% below the 5-year average of $A13.8 billion with 60% of production exported in a normal season the industry is a major driver of export revenue. Exports in 2018/19 are estimated by ABARES at $A7.9 2 billion (FOB) and approximately 18.7 million metric tonnes (mmt). This has been severely impacted by the drought being 29% below the 5-year average. The grain industry, and its ancillary suppliers and service providers, are a substantial employer of people from farm gate through to port.

Domestic demand for all crops is estimated at 15.5mmt in 2018/19. The domestic market continues to be the largest consumptive home for Australian grain, and its growth is expected to continue with consumption forecast to reach 16mmt in 2019/20.

The grain industry supply chain is geographically diverse and is spread across 18 ports in the 5 major producing states of the nation.

Producing on average 45mmt tonnes from approximately 21,000 farms production units[3] the grain industry has an inordinately heavy reliance on the nation's road and rail networks including rural branch lines and the many non-sealed farm access and rural roads.

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[1] ABARES (farm gate value, July 2019
[2] ABARES (FOB value), July 2019
[3] Grain Growers Limited – State of the Australian Grain Industry 2016

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Historically, the Australian grain supply chain operated under a simple aggregation system with farmers delivering their produce approximately 10-30kms at harvest time to local collection points from where the grain would, over time be delivered to domestic and export destinations. This model has now changed with the industry increasingly moving to a disaggregated market with:

- Increased use of on-farm storage.
- Rationalisation of bulk handler receival sites and service arrangements.
- Privatisation of the above rail operating companies and their rolling stock assets and some of the below rail track networks. Removal of government ownership and in some states Community Service Obligations (CSOs) for rail leading to a transport modal shift from rail to road.
- Increased use of containers for export tonnage due to favourable sea transport back freight opportunities combined with international markets preferences in delivery and order size.
- Increased commodity trading activity with multiple aggregators for most sales contracts and a dramatic increase in supply chain participants resulting in competing demand for common use infrastructure.

The increased complexity in the grain supply chain has created challenges and constraints in peak periods. This evolving model and its complexity need to be understood and factored into any reform agenda by government and industry.

4.0 Grain Industry Framework and Transport

The Australian grain industry operates under a self-regulatory industry framework enabled by GTA's products and services. Industry self-regulation is unique to Australia and is well-regarded amongst other grain trading nations. This self-regulatory framework is recognised by the Australian Government and by governments in our destination markets as an important part of the Australian grain industry.
The glue that binds the self-regulatory framework together is the Australian Grains Industry Code of Practice (Code), managed by GTA. The Code plays an important role in the facilitation of trade and creates value by ensuring confidence in the Australian value chain. Australia remains the only major exporting country with an industry managed and driven Code of Practice.

5.0 Inland Rail Project – GTA Focus

The Australian Senate has tasked the Rural and Regional Affairs and Transport References Committee to complete the enquiry with particular reference to:

a. financial arrangements of the project;
b. route planning and selection processes;
c. connections with other freight infrastructure, including ports and intermodal hubs;
d. engagement on route alignment, procurement and employment;
e. urban and regional economic development opportunities;
f. collaboration between governments;
g. interaction with National Freight and Supply Chain Strategy; and
h. any other related matters.

GTA's submission relates specifically to:

a. Connections with other freight infrastructure, including ports and intermodal hubs; and
b. Interaction with National Freight and Supply Chain Strategy

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6.0 Rail Transport – Grain

Historically, rail transport has supported the majority of the grain tonnage movement to export ports and to a portion of the domestic market. This was due in part to federation government's strategy of developing rural industry off the back of rail transport infrastructure and assets. As it is now clear in most regions the remaining "pioneer" rail networks have been underfunded for some time.

Due to a number of factors, including the funding shortfall for below rail assets, a highly agile and innovative trucking sector combined with a disparity in infrastructure access pricing has resulted in a significant modal shift to road across the three eastern seaboard states of Queensland, NSW and Victoria. Whether this modal change will continue, or can be reversed, is uncertain even with the major investment in the Inland Rail project. This should be of concern to government due to increasing emissions, road congestion and safety.

One factor that has contributed to the reduction in rail usage by the grain industry is the difficulty associated with the high fixed cost of rail providing service to an industry that has many peaks and troughs of demand. Historically, this has been managed by a commitment to 'take or pay' multiyear rail contracts by the major regulated exporters. Since the removal of legislation that supported regulated grain marketing the rail and grain industries have been struggling to find a commercial model that supports rail in the eastern states.

It is acknowledged with its relatively high fixed cost; rail requires a consistent volume preferably spread evenly throughout a calendar year. Matching demand for transport assets from the multiple marketing and trading companies to the supply of rail is challenging.

The aggregation of demand for rail assets across a number of commodity traders focussed on the export pathway has proven difficult. The efficiencies of rail are quickly eroded without a system overview or orchestration model being in place. In WA and SA system optimisation for transport occurs through a bundled service arrangement provided by the Bulk Handling Companies (BHCs) in those states.

BHCs continue to provide rail services as part of their service offering in the eastern states without the same impact and efficiencies as in WA and SA due to a more competitive environment and adverse production cycles. Transport economists would argue that some form of vertical cooperation amongst the key participants may result in more efficient planning, capital decisions and operational efficiency.

Some form of grain supply chain system collaboration and coordination may assist to at least analyse and understand the pressures on rail and road to determine if there is a model that may support rail and road coexisting in the grain supply chain. This may include a greater focus on intermodal operations and the coordination of tonnes through farm-based storage assets. Given commercial sensitivities and competition law the process of coordinating and performing a review may be best performed through a shared industry and government approach.

It is important that any study includes the integration of farm-based storage into the supply chain. Farm storage has evolved to be a major component of the supply chain. Whilst this evolution is based on sound transport economic principles the proliferation of farm storage and small commercial storages is creating challenges from a biosecurity and quality management perspective.

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Summary:

- Grain industry structure, disaggregated demand for transport assets and the cyclic nature of grain production is resulting in a modal shift from rail to road.
- Funding shortfalls on below rail infrastructure across regional lines does not support rail usage due to the load capacity difference across Networks significantly impacting transport efficiencies.
- Industry s collaboration and coordination is likely to foster more efficient intermodal operations and the integration of farm-based storages into the supply chain.

7.0 National Freight and Supply Chain Strategy – Grain

GTA provided a Submission to the government's July 2017 National Inquiry to Freight and Supply Chain Priorities. As part of the Submission GTA proposed government consider the benefit of replicating a similar network review and funding model for rail as is being considered for roads. This was called for due to the lack of below rail funding of rural branch lines.

It was suggested this process may provide a common methodology for measuring and considering the economic value of the two modes of freight. This could potentially provide a base for considering:

- The benefits of the **coexistence of rural roads and rail**;
- Strategies to consider the future structure of rural supply chain networks based on solid economic principles and values; and
- Government policy on the value of CSO contributions being applied to the non-economic rural branch line rail track as well as rural roads.

At this stage there appears to be no clear strategy for the funding of below rail assets within the states that are linked by the Inland Rail project.

Summary:

- Rural rail should be considered as part of any government review of road funding with the potential for a common methodology for measuring the economic value of road and rail.
- Rural supply chain network strategies are necessary.

8.0 Inland Rail – Benefits to the Grain industry

Without a clear government strategy that considers a full network road and below rail funding, the modal shift from rail to road may continue within the grain industry. Given the economic return on rail assets is sensitive to volume any decrease in rail's share of the market is likely to create a compounding withdrawal of demand for rail.

GTA is unsure whether the advent of the Inland Rail project will benefit the use of rail over road. However, given grain has the tendency to flow based on relative distance to the nearest port or domestic end-user it is not clear if the Inland Rail project will significantly increase volume on rail. If all pricing relativities stay

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the same, it is anticipated there may be tonnage from Northern NSW move to Brisbane in favour of Newcastle port.

GTA is happy to be corrected in its assumption. However, GTA is not aware of any review or study that has been published that indicates substantive benefit to the grain industry from the Inland Rail project. This may be a reflection of planning that is yet to be integrated and formed as how the new and upgraded rail infrastructure will coexist with existing grain routes and infrastructure.

Given the expenditure on the Inland Rail project, it is disappointing that it may not afford value to the grain industry and is unlikely to slow or halt the demise of the grain rail network. It is possible this can be corrected. However, it will not be possible without leadership, strategic consideration and discussion between industry, and federal and state governments.

Summary:

- Benefits to the grain industry from Inland Rail cannot be realised without a plan to integrate the project with existing infrastructure and market and operational arrangements.

9.0 Strategic Leadership t0 Foster Change

The transport sector and especially the rural road and rail networks are largely a service planned and provided by government. With the advent of the Inland Rail project an opportunity exists for an industry and government partnership focussed on a strategic review of the grain supply chain to understand the most appropriate model to support the grain industry into the future within the three states.

It is proposed a review of the grain supply chain and the Inland Rail project should be considered to understand the potential to optimise and improve its functioning to the benefits of all participants.

This review must consider:

1. The fundamental capital and operating cost of all aspects of the supply chain and the relativities between different modes.;
2. Market forces. Market demand and structure must also be analysed and understood especially in relation to rail as potential system coordination and collaboration opportunities must be reviewed and considered to ensure the opportunities for rail are not disadvantaged.

This review may not be a panacea for the use of rail within the grain supply chain but will determine what is sustainable and provides the most effective support for industry over time. It is anticipated better coordination and common objectives within the supply chain may assist planning and will improve the utilisation of the rail system and commercial assets.

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An extensive and detailed scope of work is required to support discussion and direction for industry and government.

Recommendation:

- An industry and government review of the grain supply chain is necessary to shape government planning and to explore coordination and collaboration opportunities within the supply chain by supply chain participants.

10.0 Consideration of Market Complexity, Price Cycles and Drought

Global markets forces will at times depress value in the agricultural sector due to price cycles in inputs and outputs. This volatility places pressure on private and government investment in rural industry. The agricultural sector and the grain industry in particular are of the view the cyclic nature of the industry may impact on government investment funding decisions.

It is important that the Inquiry recognises and understands adverse market cycles and downturn periods will occur in agriculture and as such a long term and balanced view of the demand and value of the grain industry is required when undertaking any investment review.

11.0 Conclusion

GTA welcome the opportunity to provide input into the Senate review into the Inland Rail project and view this process as aligned to the National Freight and Supply Chain Strategy. It provides an opportunity to ensure the future efficient balance of road and rail transport within the grain sector.

GTA is committed to support this Review process and requests an extension of its scope to an industry and government review of the grain supply chain to:

1. shape government planning; and to
2. explore coordination and collaboration opportunities within the supply chain by supply chain participants.

Ends: