

# Member Update

**Title:** Explanatory Memorandum of GTA Location Differentials

**Update No.:** 10 of 11

**Date of Issue:** 10 May 2011

**How did Grain Trade Australia's (GTA) Location Differentials (LD) Evolve:** GTA LD's essentially evolved in an era when there was one statutory Bulk Handling Company (BHC) and one (rail) freight authority in each state. Typically this meant there was one standard storage and handling agreement for all post farm customers of the BHC and one freight schedule for all customers (traders, processors and exporters) valid for all situations for 12 months.

Thus when the customers of the BHC's (traders, processors and exporters) who had accumulated grain from growers needed/wanted to on sell their grain to other parties they used a standard 'track' contract incorporating the standard BHC storage and handling agreement and the standard (rail) freights of the era.

Today the market is fully deregulated and the ownership of the BHC's and most (rail) freight providers are fully corporatized. This means the value/price of all services provided (storage & handling and freight) are all negotiated on a case by case basis due to all sorts of commercial reasons (e.g. seasonal peaks/lowes and transactional size).

## **What is a Track Contract?**

The 'track' contract is a mechanism for (post farm gate) parcels of grain to be bought and sold according to standard terms and conditions with the key feature being that the title passes 'free in store' (FIS) i.e. the grain is not required to be physically moved. In order for this contract to trade successfully there needs to be a standard 'storage and handling agreement' and a standard freight related matrix/index. Furthermore these need to be fixed for a period of 12 months or a season so that the grain can be traded across the pre and post harvest time duration.

## **What is a GTA Location Differential?**

A GTA Location Differential is a set of values (index) that are used to adjust a "port based price" for delivery of grain to a range of up country locations for the primary purpose of the settlement of Track Contracts.

## **What is the difference between a 'Track' contract and a 'Port Based Price grower contract'?**

While appearing to being identical to the casual observer the answer revolves around the point at which and how 'Title' changes hands. A 'Track' contract in the strictest sense can only be transacted/settled between 2 parties that have a current storage and handling agreement with the BHC in question. Thus permitting a 'FIS' transfer of grain. Most grain producers on the other hand pass title to the buyer by either delivering into the silo in the buyers name or subsequently via warehouse transfer.

## **Are GTA Location Differentials the same as freight rates?**

No. Freight rates in previous years were public tariff rates published by freight companies that guaranteed an annual rate to move grain irrespective of who, what, where and when. However in a deregulated freight market there is no such thing as a public tariff rate for "all comers" with 12 month validity. The cost of freight will tend to move up and down to reflect the supply and demand for freight. This will not be such an issue for grain organisations that have long term agreements with freight operators. This issue will become particularly evident when a large harvest may require additional transport assets that could only be introduced if a premium is attached to the freight

## **What is the difference between freight rates and GTA Location Differentials?**

Freight rates are actual rates that freight providers charge to move grain, whilst GTA Location Differential is an index used to adjust a "port based price" for delivery of grain to a range of up country locations. GTA LD's are fixed in advance for a season while freight rates can and do vary on a case by case basis.

## **How are GTA Location Differentials determined?**

On the Eastern States of Australia the GTA Location Differentials are determined by a kilometre based formula aligning NSW, Queensland and Victoria to both the road and rail freight values. Whilst in South Australia and Western Australia GTA use the export freight rates set by Viterria and CBH. Over time GTA through a review process executed annually adapted this formula to more accurately reflect a commercial rate.

## **Are GTA Location Differentials subject to change during the year?**

As a matter of policy GTA Location Differentials are set for a season and will only change where there are gross errors &/or omissions. The procedure is that this will only occur after having first being approved by both the Chair of the GTA Commerce Committee and the Transport Storage and Handling Committee.