

## FACT SHEET

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# Location Differentials

## Understanding GTA Location Differentials

GTA Location Differentials (LDs) are widely used by the Australian grain industry to price “port based” contracts in particular the *GTA Contract No 2 Grain and Oilseeds in Bulk - Basis Track* commonly known as the “Track Contract”. The purpose of this Track Contract is to buy and to sell grain within storages’ – ownership changes without any physical movement of grain.

The majority of grain produced in Australia will, at some stage, be priced and transacted on a “port based” contract, which refers to the GTA LDs. LDs are not freight rates or freight differentials.

### WHAT ARE LOCATION DIFFERENTIALS (LDs)?

A Location Differential is the “value” attributed to a specific up-country grain bulk storage and handling facility to an export port terminal facility.

They are produced by the GTA Commerce Committee for the purpose of valuing up-country grain on a ‘port basis’. LDs are not freight rates. The LD role is to provide relativities between the sites for buying and selling of grain in-store.

The up-country grain bulk storage and handling facility must be operated by a GTA Member.

### WHY DOESN'T GTA PRODUCE FREIGHT RATES INSTEAD OF LDs?

The price of freight is market driven and subject to continual change depending on amongst other things:

1. Tonnage to be moved versus the available freight capacity. In big crop years freight capacity could be in deficit, the market driven response – freight will be higher. The converse will also apply.
2. How far forward did you book the freight? Generally speaking, the further forward a booking is made the greater the discount to a spot

price. Freight providers, like airline companies, like to get forward bookings as an indication of future cash flow. This is not always the case and for various reasons you may see an inverse in the freight market, in the same way that future grain prices could be higher than current values.

3. How much tonnage is being booked? An organisation moving 100,000 tonnes against an agreed, disciplined freight program will get their freight at a better rate than an organisation moving 1,000 tonnes with no freight program.
4. Is the grain being moved on rail or road? If rail, how many stops are required to fill the train, i.e. one stop or multiple stops down the line?
5. Time of year. The freight program is greatest just after harvest as organisations move grain to port.
6. Site efficiency

Any or all of the above can impact on freight rates at any one time.

The freight market is a free market and acts accordingly. There is nothing constant about the freight market except continually changing rates.

### CONSIDERATION IN



### DETERMINING LOCATION DIFFERENTIALS

1. The GTA Commerce Committee is responsible for development and ongoing review of the values used as the GTA LD's.
2. GTA will not change the current methodology (method of calculation) or the value of the GTA Location Differentials (LDs) for a period of no less than three [3] years (from 2013), subject to any significant changes in the market, which will be determined by the GTA Commerce Committee.
3. GTA will provide industry with 18 months lead time from the publication of any significant changes to the methodology used to calculate the GTA LDs.
4. GTA will provide industry with an 18-month warning of any changes to the LDs as a result of Point 3 above.

# Key points

- Location Differentials (LD's) are not freight rates
- LD's are produced for the purpose of valuing up-country grain on a 'port basis'
- LD's are produced by the GTA Commerce Committee
- LD's come into effect on 1 October each year.
- The Natural Terminal Port (NTP) for any site, is the port with the lowest LD

## There are Different Methodologies used in some States.

In Queensland (Qld), New South Wales (NSW) and Victoria (Vic) the industry (some years ago) established specific values for the LDs that have mainly remained constant since establishment.

Industry has agreed a different methodology for the establishment of LDs in Western Australia (WA) and South Australia (SA).

- In WA and SA industry uses Viterra and CBH Group annually published freight rates as the base of the SA and WA LDs each year, subject to approval by the GTA Commerce Committee and the GTA Board.
- This decision reflects that the relevant BHC provide **the bulk of the freight service** into the ports, and they produce a freight table (fixed for the season) and provide freight services at these gazetted values.
- In SA and WA, the market is based on BHC freight tables that are fixed regardless of actual movement in the underlying

freight market. GTA mirrors these fixed freight tables in its LDs.

Operating two different methodologies can lead to anomalies in the LD values in the SA / Vic border areas as the Vic LDs will not vary year to year as compared to the SA LD values that change annually. Grain buyers are aware of these anomalies and make adjustments to grain values and logistics planning.

## DETERMINATION OF NATURAL TERMINAL PORT (NTP)

1. For the determination of the Natural Terminal Port for a site, rail transportation to a port takes precedence over road transportation to that same port.
2. Where a port and tributary up country rail site are connected by rail, the Natural Terminal Port for that site will be the port with the lowest Location Differential.
3. Where an up-country site has only road access, the Natural Terminal Port for that site, will be the port with the lowest Location Differential.



*It is the markets role, not GTA's, to deal with the difference between the Location Differential (LD) and a freight rate for a particular site.*



## Coverage of GTA Location Differentials

The GTA Commerce Committee sets the LD's for New South Wales, Queensland and Victoria only.

The trade agrees to use the rates set by Viterra and CBH Group each year for South Australia and Western Australia respectively.