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Ms Jeanette Radcliffe
Committee Secretary
Senate Standing Committees on Rural Affairs & Transport
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By email to rat.sen@aph.gov.au

Dear Ms Radcliffe

Operational issues in export grain networks

As a major exporter of grain from Australia since the deregulation of the bulk export wheat sector in 2008, AWB Australia Limited appreciates this opportunity to provide information and raise issues with the Senate Standing Committee on Rural Affairs and Transport regarding operational issues arising in the export grain networks within Australia.

AWB has played a significant commercial role in the post-deregulation period, being consistently one of the largest acquirers of grain from grain farmers across Australia, as well as one of the largest exporters of grain from all port zones, utilising all bulk handling facilities, as well as many container packing facilities. AWB has invested substantially in grain storage and rail transportation assets over the last decade and has progressively increased investment in rail wagons and locomotives in the last three years, particularly for operation in New South Wales and Victoria.

AWB is well placed to comment on the issues that have arisen in the last few seasons that have impacted on the efficient operation of the export supply chain for Australian grains, oilseeds and pulses. AWB has participated, by invitation, in the assessment of the Wheat Export Marketing Act 2008 by the Productivity Commission in 2010, as well as making submissions when requested by the Australian Competition and Consumer Commission into the access undertakings required under the WEMA for port terminal service providers.

As a major customer of GrainCorp Operations Limited, Viterro Operations Limited and CBH Limited, as well as a significant customer of the Melbourne Port Terminal, AWB has substantial experience in utilising all major pathways for the movement of bulk grain exports. Additionally, AWB is the largest exporter of grain in containers from Australia. We have significant expertise in generating and performing sales to customers across the Middle East, Subcontinent and Asia Pacific region in both bulk and containers from Australia.

It is AWB's belief that grain farmers located across the grain belt of Australia have benefited from the development of a flourishing competitive market for grain acquisition since deregulation occurred in 2008. Significant innovation has been demonstrated on the part of many commercial grain buyers in attempts to purchase grain direct from grain farmers.

AWB believes that it is fundamentally important that barriers to the effective communication of price signals to the 'farm gate' for grain farmers, and the removal of supply chain inefficiencies 'between the farm gate and the ship's rail' are required to improve returns to grain farmers. Therefore ensuring effective competition for grain farmers' produce from the point of sale 'at the farm gate' is the key requirement for the future success of this vital Australian industry.

Based on AWB's operational experience, this submission identifies significant inefficiencies in the 'post farm-gate' supply chain of the Australian grain industry that distorting price signal or increase costs resulting in lower financial returns being generated to grain farmers. Proposed remedies to each issue are provided for the consideration of the Senate Standing Committee.

1. Investment in strategically significant rail infrastructure must be made

To improve the resilience and competitiveness of the production sector more focus needs to be directed by Local, State and Federal Governments as well as commercial participants on reducing inefficiencies in the road and rail transport sectors that service the Australian grain industry.

In particular, the initiative that needs prioritisation is upgrading and maintaining strategically significant rail lines to the Australian grain industry.

AWB believes the following rail tracks are the most in need of investment across the Australian grain-belt:

Upgrade to NSW Class 3 lines:

Walgett to Burren Junction – Substantial grain producing region in NSW however a long distance from Newcastle port: Without rail the freight costs to farmers are prohibitive.

Hillston to Griffith - Substantial grain producing region in NSW however a long distance from Port Kembla port: Without rail the freight costs to farmers are prohibitive

Upgrade to 23 tonne axle loading ratings from the 19 tonne capability today – allows for increased efficiency in movement of grain trains:

West Wyalong to Temora to Stockinbingal

Moree to Narrabri to Werris Creek

Nyngan to Narromine

Maroona to Portland

Geelong Port Loop

Upgrade of Western Australian 'wheat belt' narrow gauge lines:

Based on the volume of grain that moves into export channels from all four grain ports in WA, AWB believes that a rigorous cost/benefit analysis will demonstrate sufficient economic and social benefits to support both State and Federal Government funding to maintain the existing grain rail network in WA.

2. Barriers to the creation of competition within 'above track' rail markets must be removed

There are currently significant impediments to the creation of competitive 'above-track' rail services in the critical export grain producing regions of Western Australia and South Australia. The lack of effective competition results in a lack of pressure for rail operators to drive efficiencies into the operation of their business and results in higher 'per tonne' costs being charged to users, ultimately borne by grain farmers as the original suppliers of the grain.

In particular AWB supports the removal of the exclusive dealing notification for CBH's Grain Express system in WA, and we note that the Productivity Commission has also recommended that the ACCC review its decision to provide the exclusive dealing notification (p282, Productivity Commission Inquiry Report into Wheat Export Marketing Arrangements, Report no. 51, July 2010). AWB understands, as at the time of making this submission, that the ACCC is finalising its review.

AWB also believes that the track access fees charged by Genesee & Wyoming, owner and operator of most of the South Australian rail track, are prohibitive and serve as an anti-competitive barrier to entry for competing rail service providers. This has the effect of artificially inflating rail costs to South Australian farmers and reducing their farm gate returns. The most recent costing provided to AWB from Genesee & Wyoming to run a rake of grain wagons along the Pinnaroo or Loxton lines to deliver grain into the port of Adelaide amounted to \$66,000 per train. In comparison in NSW or Victoria, an

equivalent grain train movement costs AWB less than \$6,000 per train. Appendix #1 outlines correspondence received from El Zorro, a rail asset management provider that AWB uses in Victoria and New South Wales that responds to the provision of rail access costs from Genesee & Wyoming, when AWB sought access to South Australian track in 2009.

3. Equitable access to essential grain infrastructure must be achieved

Beyond the certainty of access, AWB is concerned that all exporters are able to equitably access the critical infrastructure required to build and maintain export pathways for Australian grain, in particular for bulk exports. AWB has been a supporter of efforts to ensure that transparent and contestable mechanisms exist to equitably allocate shipping slots from all grain port terminals in Australia. AWB was, and remains a strong supporter of CBH's move to introduce an auction system to allocate shipping slot capacity for WA port terminals and remains opposed to the 'first come, first served' approach used by Viterra and GrainCorp. We note that the Productivity Commission, in its inquiry report into the Wheat Export Marketing Act, also supported the use of auctions as the preferred method for allocating port terminal slots (p 220). The ACCC is investigating the recent behaviour of Viterra and the management of the 'first come, first served' booking practices for the 2011/12 season and while this is occurring GrainCorp has suspended its 'first come, first served' booking practice for the 2011/12 season.

In AWB's view an auction system ensures a level playing field for all exporters to secure capacity and also is an effective mechanism in providing a 'non-discriminatory provision' against the port terminal owners' own trading business units securing the majority of the prime capacity at peak shipment periods. For reference AWB has included our recent submission to the ACCC (See Appendix #2: AWB submission to Ms Kerry Anne Taylor of the ACCC, April 7, 2011) in support of an auction system for allocating shipping capacity.

4. Provision of information regarding ownership of grain held by farmers in warehousing within bulk handling facilities should be made available to all buyers

Currently some bulk handlers prohibit grain buyers from accessing information regarding the ownership, volume and quality of grain being held by grain farmers within the bulk handler's storage facilities. This information is shared with the bulk handler's own trading operation. This restriction provides the bulk handler's trading operation with a distinct advantage in the acquisition of grain and potentially diminished farmers' ability to secure a competitive price given the asymmetric information advantage one trading company has against all others.

It would be appropriate for growers to elect, upon registration with a bulk handler, whether they wished to have information regarding their warehoused grain being made available on request to all registered buyers. This information could be made available online through the bulk handlers' websites and accessible by registered buyers. This initiative would ensure that grain farmers are accessing a much broader section of the market and essentially creating a permanent market for their grain irrespective of whether they are a willing seller on any given day. This can be achieved at a very low cost relative to the alternatives that are currently in operation today.

5. Standard grain quality information needs to be accessible on a grain segregation basis at each grain storage site for all buyers

The inability of certain bulk handlers to supply information to all potential buyers regarding the average stack quality by receipt site is creating additional risks and reducing returns to Australian farmers. Exporters would be able to negotiate better outcomes with international buyers if they were provided with granular information about the quality of each stack of grain within a bulk handlers system. Providing this information only to their own trading operation creates an information asymmetry to the benefit of the bulk handler and diminishes competition for warehoused grain. Additional risks are being worn by exporters when negotiating sales to buyers without this information; minimum guarantees on protein, moisture, screenings, falling number and test weight results are

given on every sale, and this information should be made available on a stack average basis for all exporters to ensure a level playing field is established every season.

From the beginning of the 2010/11 harvest in November 2010 until late February 2011, Viterra failed to provide any buyers with access to basic grain quality information. Historically in South Australia this information has been provided on a daily basis to all potential buyers on 'segregation by site' basis (site running samples). GrainCorp, CBH and GrainFlow continued to provide site running samples during and after the harvest as a service to buyers, in accordance with normal historical practice. This information allows buyers (traders and, flour millers and other processors) to determine appropriate value for the grain quality relative to other origins, thereby assisting Australian grain farmers to secure fair value for their grain once it is commingled with other sellers into a site segregation.

Specifically in the last harvest in South Australia a lack of effective capability to measure the degree of sprouting of rain-affected grain (falling number test) at most of Viterra's upcountry grain facilities, meant that buyers of the grain were operating without significant information that is required to accurately value the worth of the grain being acquired. Compounding this failure, Viterra also failed to provide timely information on grain receival quality (grain received into store either as sold grain or warehoused grain yet to be sold) during the 2010/11 harvest. After repeated requests to Viterra across the harvest period of 2010/11, site stack average protein, test weight, screenings and moisture data was provided in late February to potential buyers. Viterra has yet to provide falling number test averages for any grain segregation at any of their sites to potential buyers unlike every other bulk handling operator in Australia.

In order to create a level playing field for potential buyers of grain, it is important that information regarding the quality of grain received into storage is available on an equal basis to all buyers. Without this equality, grain farmers do not receive the benefit of open competition.

It should be mandatory for all bulk handlers to provide five basic quality parameters (protein, moisture, screenings percentage, test weight, falling number) to grain farmers (by truck delivery) and grain buyers (by truck and by stack average) on a timely basis.

6. Up-country grain storage outturn fees in WA are detrimentally affecting competition

In Western Australia, CBH charges additional fees to buyers who seek to physically outturn grain from 'up-country' storage facilities. CBH charges \$8.50 per tonne for outturn to road.

It is important to note that CBH also charges a receival fee but unlike other BHC's does not charge monthly storage fees. Effectively CBH has bundled the outturn fee with the monthly storage fee.

The effect of this approach is to discourage outturn by road from CBH facilities, which has a detrimental impact on road transport providers competing with CBH's rail provider and also effectively eliminates the ability of container packers to source grain from CBH's country storage facilities. Since the commencement of this charge structure AWB has noted a significant decrease in container sales volumes from WA origins.

In comparison of outturn fees from country storages, Viterra in South Australia charges \$2.35 per tonne and in the eastern states, GrainCorp charges \$5.70 per tonne, and ABA \$2.00 per tonne. However these companies also charge monthly storage fees, unlike CBH.

The effect of imposing these fees in WA has been to block the development of road transport competition outside of those companies that have secured rights under tender to CBH to move grain to port. Additionally it has curtailed the growth of the container packing sector in WA to the benefit of CBH's Metro Grain Centre container packing service in Perth. In order for competition to be allowed to flourish and marketing costs to be lowered to WA grain farmers these charges should be altered to reflect the actual costs of physically out-turning grain from up-country storage facilities and allow competition into the road and container packing sectors in WA.

7. Third party storage through-put fees at port terminals are excessive

Both GrainCorp and Viterra impose significant charges for grain delivered to their terminals that does not originate from one of their up-country storage facilities. Ostensibly the defence raised by both parties is that there are 'risks' associated with receiving grain that is out of specification and contaminating their facilities. In reality this grain is received using the same receival standards into facilities that are recognised storage agents.

The costs imposed by GrainCorp for the grain provided by competitor storage providers is \$1.54 per tonne and by Viterra \$2.50 per tonne. MPT by contrast charges \$0.50 per tonne: it should be noted that MPT is the only facility that operates in competition to another terminal (GrainCorp's Geelong port terminal) and lacks the ownership advantage of sourcing grain from over fifty up-country sites owned by GrainCorp in Victoria and Southern NSW.

AWB strongly believes these charges constitute an abuse of market power, and, given the third party throughput charges of GrainCorp and Viterra are three and five times higher than MPT's respectively, in no way reflect the risk to either port terminal service provider for receiving this grain at their port terminals.

In AWB's view, in the event that contaminated grain were to be received the actual costs of quarantining and addressing the rectification of the contamination should be charged directly to the owner of the grain that created the issue rather than penalising every tonne of grain from competing facilities from which the vast majority is exactly the same quality as the grain out-turned from a GrainCorp or Viterra storage facility.

As a result of these unwarranted and anticompetitive charges, returns to grain farmers are being diminished, as higher costs are passed back to country storage competitors to those companies who operate both the port terminals and their own country storage sites, resulting in higher costs being reflected to farmers seeking to encourage competition.

8. Maintaining nationally consistent grain receival and storage standards is in the interests of all Australian grain farmers

AWB is concerned about the fragmenting approach to the establishment of grain receival standards and the binning or storage management practices in the Western Australian market.

There are two specific and distinct issues: the first relates to the lowering of receival standards for certain grain types in WA. Lower test weight minimums in feed barley, for example, may provide short term relief to Western Australian farmers in a given season, however it also removes Western Australian feed barley as a potential source of supply to many international buyers. In turn this reduces a grain marketing company's ability to source a common quality of grain across all available port zones, which results in less competition at the farm gate in WA for growers. Maintaining nationally consistent receival standards is in the interests of maximising farm gate returns to farmers.

The second issue relates to the intention of CBH to introduce a new 'Quality Optimisation' operational storage model for grain farmers in WA. While yet to be fully implemented across CBH's network, AWB has concerns that the practice of binning inferior quality grain in the same stack as acceptable quality grain of the same variety will lead to a diminished return for WA grain farmers, as international buyers will gradually perceive Western Australian grain to be of lower quality with greater inconsistency in performance than grain from other port zones across Australia. This is a high risk initiative in AWB's opinion that seeks to create improved returns to WA farmers without acknowledging the reality that the perspective and opinion of the buyer on the performance of the product in their market context is of paramount importance in establishing market access for export commodities.

9. Summary

In summary, AWB contends that since the commencement of bulk wheat export deregulation in Australia, many willing and resourceful marketing companies have entered the market. However, due to the fact that a small number of participants control strategically significant assets – rail, interior storage and port terminal facilities – and effective competition in the provision of these services is either non-existent or alternative suppliers of these services lack scale, the supply chain is not as efficient as it should be and as a result costs that growers are charged for accessing export markets are not as low as they should be.

Addressing the issues identified in this submission would assist in improving the returns to grain farmers and make Australian exports more competitive in international markets. Additionally investment in new, scalable assets such as port terminal facilities would create the competitive conditions necessary to further improve returns to Australian grain farmers.

Yours sincerely

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