

Submission to the ACCC review of the Regulatory Framework of ARTC's Interstate Network

22 December 2021

Attention: Matthew Schroder, General Manager
Infrastructure & Transport – Access & Pricing Branch
Australian Competition and Consumer Commission
Email: transport@accc.gov.au

1. Summary

GrainCorp welcomes the opportunity to engage with the Australian Competition and Consumer Commission (ACCC) and provide a submission on the Issues Paper and views on the regulatory framework for the Australian Rail Track Corporation's (ARTC) interstate network.

GrainCorp makes the following comments with respect to the issues paper and broader rail regulation across Australia.

- GrainCorp supports reform of the regulatory framework to address market failures.
- One network should not be looked at in isolation; a comprehensive review of the regulatory framework needs to incorporate all national and state rail networks, to achieve consistency and alignment.
- Regulation needs to consider the requirements of individual industries. Australian agriculture is highly variable, with grain production and export volumes changing materially from year to year. The grains industry requires flexibility with rail access and minimum service levels on fair and reasonable terms.
- More coordinated regulation, addressing end-to-end freight movement across different networks and access undertakings, would improve efficiency and costs. It would provide users, including the grains industry, with confidence to make long-term planning decisions, including in rail infrastructure investment.
- Greater network efficiency would deliver improved economic and sustainability outcomes for all users.

2. About GrainCorp

GrainCorp is a leading diversified Australian agribusiness, with an integrated operating model connecting growers to domestic and international consumers in over 50 countries. As the largest grain storage and handling network on the east coast of Australia (ECA), GrainCorp operates more than 160 regional receival sites and seven bulk port terminals in Queensland, NSW and Victoria, connected by road and long-distance rail infrastructure. In an average year, GrainCorp handles approximately 26 million tonnes of grain and oilseeds, including 4.9 million tonnes of exports from GrainCorp ports.

For more information on GrainCorp see www.graincorp.com.au

3. The grains industry

Why rail is critical for grains industry:

The grains industry delivers substantial value to the Australian economy and regional communities. The East Coast Australian (ECA) grain industry comprises over 10,000 grain growers producing over 20 million metric tonnes (mmt) of grain on average per annum. Domestic ECA demand for grain, for animal and human consumption, is relatively stable, averaging 11-13mmt p.a.. The remainder, approximately 7-9mmt, is considered the 'exportable surplus' and moves from farm to port via rail or road, before being exported to the destination country by vessel. In large crop years, the exportable surplus can be significantly higher, placing substantially more pressure on freight supply chains. The Australian grains industry needs a rail freight network and operating model that is flexible and resilient, to manage volatile seasonal grain supply and demand conditions. In season 2020-21, the ECA achieved record production.

Total ECA Grains Industry, 2020-21¹

Volume Mt (millions)	NSW	VIC	QLD	Total ECA
Tonnes Produced	19.7	9.7	2.8	32.2
Export - Bulk	5.7	5.0	1.4	12.1
Export - Containers	1.2	1.6	0.4	3.2
Domestic	5.6	3.8	3.1	12.5

Despite record grain production, capacity to export grain was constrained at numerous Australian port terminal facilities during peak periods. The following was noted in the ACCC's *Bulk grain ports monitoring report – data update* for December 2021:

¹ Source: ACCC Bulk grain ports monitoring report, December 2021

“NSW’s record harvest and bulk export shipping year resulted in Quattro’s Port Kembla facility and NAT’s Newcastle facility both experiencing peak period capacity utilisation in excess of 95%, while GrainCorp’s Carrington facility experienced a peak utilisation rate of 87%. GrainCorp’s Port Kembla facility had the lowest capacity utilisation of the NSW facilities at 79%.

Victoria also achieved a record bulk export shipping year, with peak period shipments exceeding peak period capacity at GrainCorp’s Geelong and Portland facilities, Port of Portland Limited’s (POPL) Portland facility and Riordan’s mobile facility. Emerald’s Melbourne facility appeared to have had some spare peak period capacity”

GrainCorp notes that despite being a record year, there remained spare off-peak capacity at its port facilities in NSW (Port Kembla and Newcastle) and in Victoria (Portland). For GrainCorp, capacity constraints upcountry were largely driven by rail access and performance issues, which adversely affected supply chain execution to port. For example, in Victoria the largest export month occurred outside of the peak period in August. Whilst in NSW, three of the four largest export months occurred in the off peak-period (June, August, and September), as shown in the chart below.

NSW bulk grain shipments by month, 2020-21 compared to average:



Significant cost of freight rail:

Moving grain efficiently is critical to the competitiveness of the Australian grains industry. According to *GrainGrowers*, the cost of transporting grain to domestic customers and ports accounts for about 35% of the total cost of delivered wheat in eastern states. Currently, these costs are materially higher than competitor countries. A benchmarking study of Australia’s freight and supply chain performance for the National Freight and Supply Chain Strategy found weighted average rail transport costs to ECA ports in

² Source: ACCC Bulk grain ports monitoring report, December 2021

2019/20 (Australian cents per tonne per km) of 9.9c - 10.2c. This compares to 3.2c in Canada and 3.8c in Ukraine (Australian cents per tonne per km)³. The relatively higher cost of Australian rail freight directly impacts our global competitiveness and ultimately reduces farmgate returns for Australian growers.

Rail freight is traditionally more cost-effective than road when transporting bulk commodities over long distances, however, existing rail network inefficiencies increase rail costs and force bulk grain onto the road network. The high cost of rail freight is impacted by many factors, such as decades of underinvestment in capital infrastructure, as well as operational decisions made by network operators that adversely impact network capacity and performance, such as pathing issues and maintenance backlogs.

These issues collectively result in increased fixed and variable costs for rail users, and the current regulation enables this to occur without recourse to the network operator. Track access costs represent a significant component of the overall freight charge for grain growers. Access costs vary depending on operational variables such as train size, train weight and distance hauled, and represent a minimum of 15% of the total rail haulage cost, sometimes up to 25%.

Rail is an asset-heavy, high-skill industry. It requires long lead times for infrastructure investment and for staff training and qualification. It has a high level of fixed costs and lacks the flexibility of other transport modes in flexing up and down at short notice. Despite relatively high rail freight rates, Australia's railroad infrastructure ranks very poorly compared with that of most of its major grain export competitors. Australia sits at 35th — on par with Ukraine (37) but well behind the US (10), Canada (16) and Russia (23).⁴ The poor quality of some Australian rail lines severely limits both the carrying capacity and speed of trains.

How the grains industry uses freight rail:

ECA grain production is highly variable, and this has been evident in recent years with a three-year drought followed by one of the largest crops on record in 2020/21. In the 2019 financial year, GrainCorp exported 0.3mmt of grain from its seven ports in ECA. In the 2021 financial year, GrainCorp exported 7.9mmt of grain and it expects a strong export program again in 2022.

This degree of variability is relatively unique to Australian agriculture and highlights the need for supply chain flexibility and a deeper understanding by rail operators of grain industry requirements.

The majority of GrainCorp's ECA rail movements are over long distances to port, with trains regularly traversing more than one rail network and access undertaking. During typical harvest production years, the NSW rail network is used heavily by domestic millers and exporters to haul bulk grain to the destination site. In most instances this rail movement is captive to the CRN, ARTC Interstate and ARTC Hunter Valley rail lines. During drought years, grain can also travel longer distances – e.g. from Victoria to

³ GrainGrowers, 'State of the Australian Grains Industry 2021'. L.E.K Consulting.
<https://cdn.sanity.io/files/1nr0ob5f/production/457b97ea261a675405a278be955d1fe70772a09e.pdf>

⁴ AEGIC, 'Australia's Grain Supply Chain', https://aegic.org.au/wp-content/uploads/2021/03/FULL-REPORT-Australias-grain-supply-chains-DIGITAL_.pdf

growers, feedlots and millers in Queensland (as experienced in 2019-20). Each of these routes require seamless cross-border linkages.

The current lack of coordination between rail networks, and inconsistency in access arrangements, creates complexity and increases costs, which are ultimately borne by grain growers who receive a lower price at the farm gate.

Rail network operators also exercise their market power to create additional network inefficiencies. Trains are highly vulnerable to impacts of congestion, changes in rail capacity, wagon capacity limits, cycle times and other time-related costs such as labour, each of which are regularly changed by network operators to suit the operator's commercial objectives.

Network owners regularly prioritise trains that maximise the commercial return for the operator, including passenger trains and more profitable freight. For example, if a grain train that is operating on time gets put aside in a crossing loop to enable a late interstate intermodal train to pass, this creates delays for the grain train and risk of a future cycle cancellation.

The grains industry is generally unable to absorb additional costs and is therefore considered lower margin compared to other users of the network. Being de-prioritised can result in delays and/or reduced track availability; rail operators can also use their monopoly power to impose other inefficiencies such as unscheduled track work, heat restrictions, and delayed maintenance. Each of these inefficiencies regularly impact the grain industry and create cost and complexity.

Road v Rail:

In the ACCC Issues Paper, it states that road is a viable alternative to short-haul rail (as defined as less than 1,000km). However, in GrainCorp's view, rail is a far more efficient mode of transport for the movement of bulk grain, with road only suitable for shorter hauls of less than 150km.

There are also significant societal costs that arise from increased road traffic and these should be considered as part of any rail network review:

- **Safety:** Rail freight produces 14 times less accident costs for every tonne of freight hauled a kilometre.⁵ Heavy articulated trucks have a fatal crash involvement rate of 1.8 to 1.3 deaths per 100 million km.⁶
- **Environment:** Rail freight produces 16 times less carbon pollution than road freight for every tonne of freight hauled a kilometre.⁷

⁵ Deloitte Access Economics. Value of Rail. The contribution of rail in Australia. A report commissioned by the Australasian Railway Association (ARA). November 2017

⁶ BITRE: https://www.bitre.gov.au/sites/default/files/is_078.pdf

⁷ Deloitte Access Economics. Value of Rail. The contribution of rail in Australia. A report commissioned by the Australasian Railway Association (ARA). November 2017

- **Community:** Many heavy truck movements occur through residential areas, creating noise, pollution and safety concerns for local communities; Replacing trucks with rail would assist in relieving road congestion and maintenance costs in metropolitan areas.
- **Road maintenance:** The cost of maintaining roads in Australia is growing and the overall maintenance backlog is increasing. Road network faces increasing demands from growing population and freight task.

4. Responses to the questions raised in the ACCC Issues Paper

1. Do stakeholders agree with, or have any comments on, the observations set out in sections 2.2.1 and 2.2.2 on the competitive conditions for short and long haul freight?

The ACCC issues paper describes intermodal freight, non-bulk freight and passenger traffic as the main users of the Interstate network and by inference the most affected by its regulation. However, this fails to recognise that grain and other bulk commodities are also significant users of the network.

All bulk grain (moved by rail) through Port Kembla, and a large portion of bulk grain (moved by rail) through Newcastle requires use of the ARTC Interstate Network. In those instances where the route doesn't travel on the ARTC Interstate network, the route instead uses ARTC-managed Hunter Valley rail lines. So effectively, in NSW all bulk export grain is in some form captive to ARTC managed networks. Similarly in Victoria, a significant portion of rail freight to port must move through ARTC track to connect with Geelong and Portland, as shown in the map below.

ARTC Network Map and Bulk Grain Port Terminals



As discussed above, bulk grain exports are not spread evenly throughout the year. There is typically a peak shipping period from around January to May where grain shipments to port are accelerated to capitalise on global grain market conditions. For this reason, demand for pathing fluctuates throughout the year as grain industry participants seek to maximise rail freight paths to align with this peak export period.

Furthermore, the grains industry uses the Interstate network differently to other industries. It does not operate between large terminals nor between capital cities. The Interstate network often forms only a portion of the end-to-end journey for bulk grain – anywhere from 1% to 100% of the journey from silo to destination. This means most train paths traverse more than one network and/or more than one access undertaking. A map of GrainCorp's network of storage and handling facilities and ports is provided in Appendix 1.

GrainCorp disagrees with the assertion that road provides a suitable or viable option to compete with short-haul rail (as defined as less than 1,000km). The economics of the movement of containers and domestic goods is very different to the economics of bulk grain export – with bulk grain export more akin to coal and iron ore export where road only plays a minor role for the shortest hauls (below 150km). Socio-economic factors (safety, environment, community), as outlined above, have real costs associated. It is in the interests of both public and private enterprise to target a modal shift from road to rail for bulk freight movements.

The road market is substantially less efficient and more costly for the movement of bulk grain for export. While some areas have good road capacity (e.g. southern Victoria), regions such as northern NSW and southern NSW are poorly serviced by trucks into export terminals.

GrainCorp agrees with the assertion that rail has a natural competitive advantage for hauls over 1,000km; however, it would argue that, for the movement of grain, this competitive advantage exists for distances as low as 150km when rail networks operate efficiently. Note: grain is very rarely hauled for distances above 800km.

GrainCorp believes that the grain industry is at a general disadvantage to other commodities using rail networks because of the relativities of track access margins and the impact this has on rail capacity allocation. The ARTC and other monopoly network managers are incentivised to favour more profitable commodities at the expense of those that are less profitable. This has an adverse impact on costs and efficiencies for bulk grain movement, which is ultimately borne by grain growers.

This preferential treatment is evident on the Hunter Valley Coal Network, where non-coal freight is constrained to a limited number of train paths per day. Only six train paths are made available per day, and these are shared by grain, passenger, and general freight. The grains industry requires significant additional capacity to manage export and domestic grain haulage tasks. Under the current framework, the ARTC is under no obligation or incentive to improve this level of access.

GrainCorp believes a broader regulatory review of the national rail network is required, to reduce complexity, create greater alignment between networks, and deliver end-to-end supply chain efficiency.

This should include an assessment of ARTC's infrastructure and its role in the broader national rail network, its role in commercial supply chains and its ability to meet the needs of end customers.

2. To what extent are passenger services on the interstate network constrained by competition or effective transport substitutes? Why?

GrainCorp has no comment on the competitive market for passenger rail operations. However, as a large regional employer and with extensive operations spread across Queensland, NSW and Victoria, GrainCorp supports ongoing improvements to passenger rail services.

GrainCorp notes there are risks to freight rail capacity and cost should the ARTC increase passenger rail services and capacity allocation. It is important that passenger rail is not favoured over freight due to its higher level of profitability.

3. Do stakeholders have any views on the current regulatory framework for the interstate network and its effectiveness?

N/A

4. Is ARTC currently able to exercise market power? Why and how, or why not?

The ARTC can exercise power in several ways, including by prioritising trains which maximise commercial returns for the network operator, and by adjusting ARTC operations to reduce costs.

In each example, the ARTC has the ability to make decisions for its own commercial benefit, leading to adverse impacts on users of the network. The current regulation enables this without recourse.

For example, the ARTC can change the operational capability of the network (e.g. speed limits) as a means of reducing maintenance costs, while imposing delays, higher cycle times, and a requirement for significant equipment adjustments on users of the network. This market power can be exercised through reduced track speeds, deferred maintenance of infrastructure, closure of rail sidings, loops and yards, and heat restriction limits.

All these components are important for the efficiency of the network. Under current regulation, the network manager can make these changes with minimal end-user consultation, adding cost and complexity for network users. There is no incentive for ARTC to improve or even maintain a base level of service as part of its undertaking. There is also no incentive or requirement for ARTC to pass on any of the cost savings it achieves through these activities.

5. In the absence of regulation, could ARTC exercise market power on the interstate network (for example, due to the lack of competitive alternatives)? If so, in which geographic areas is ARTC able, or unable, to exercise its market power?

ARTC is able exert market power on both the regulated rail network and unregulated parts of the network which are under ARTC management.

An example is on the Maroona to Portland rail line in Victoria, which is leased and managed by ARTC. Since 2019, ARTC has imposed speed restrictions on this line to minimise the risk of train derailment rather than undertaking the necessary track maintenance to allow the line to operate at normal capacity.

Longer operating times has led to higher crewing costs per train cycle and lower above-rail asset utilisation. It has added significant cost for rail users while also reducing efficiencies, and this has been detrimental to industry participants exporting grain from GrainCorp's Portland Terminal. ARTC has failed to compensate rail users or discount the relevant access charges to offset the impact. As of December 2021, the speed restrictions have been in place for more than a year, and this is expected to continue indefinitely. There is no competitive alternative for a rail user exporting grain out of Portland – the cost impost of these inefficiency decisions flows directly to grain value, which is borne by the grain grower. The additional supply chain costs ultimately lower the competitiveness of Victorian grain in inter-state and international markets.

This example of ARTC's use of market power is not unique to the Maroona to Portland rail network, nor to ARTC or to Victoria. This type of maintenance cost decision and use of market power is observed across the national rail network, and by all network managers, at the expense of rail network users.

6. Who are the captive customers or services on the interstate network?

The grains industry is a captive customer of the ARTC inter-state network, due to the long distances to port, the bulk volumes being moved, the urgency of delivery to meet market requirements, lack of alternative routes (on other rail networks) and lack of viable alternative modes of transport.

7. In the absence of regulation, what is the likelihood of ARTC being able to exercise market power in relation to captive customers or services on the interstate network?

As noted above, ARTC is already exercising market power through access arrangements and track maintenance scheduling (or lack of track of maintenance, and the impact this has on operations). In the absence of regulation, there is no question that ARTC would continue, and likely increase, this exercise of market power.

8. Will the introduction of Inland Rail potentially allow ARTC to exercise market power on the Melbourne–Brisbane corridor?

GrainCorp is a supporter of Inland Rail and its key objectives of meeting future freight demands, reducing the reliance on roads, and better linking businesses, farmers and producers to markets.

The grains industry is a potential beneficiary of the Inland Rail project, but it is also at risk if infrastructure design and connectivity and associated operational standards are enforced in ways that reduce grain train efficiency. Increased track speeds, axle loads and train lengths are all key modes of efficiency gain for

grain trains. However, there are risks if network connections are inadequate, if connecting networks don't support the efficiency gains (e.g. last mile issues), or if new onerous and costly operational standards are imposed on users of the line.

The Inland Rail project has been designed and funded based largely on 24-hour one-way trips between Melbourne and Brisbane. It seems reasonable to expect the time sensitive city to city high speed trains for which the rail line is being designed will get the highest priority by ARTC. This prioritisation could come at the expense of other users of the line, including grain trains which are a major existing user of the network.

GrainCorp also notes that grain trains tend to be slower than interstate intermodal trains and are at risk of being sidelined if having to wait for faster trains to pass on Inland Rail. If ARTC makes scheduling, pathing and/or network control decisions that cause delays to grain train movements, this could result in a material loss of efficiency and erode the business case for future investment in grain-related rail infrastructure.

ARTC could also impose higher performance standards on users of the line, such as minimum acceleration rates, minimum top speeds and maximum train length limits, each of which are incompatible to the grain industry. Without regulatory protection, grain users would lose confidence in their ability to transport grain cost-effectively and efficiently and to make sound decisions on further infrastructure investment.

9. Would any of the policy changes set out in section 4.3.3 significantly alter the competitive environment of the interstate network? Are there any other changes that are likely to do so?

GrainCorp notes that road and rail haulage are the only viable modes of transport for grain and therefore the example of changes to coastal shipping policy would have low relevance to the grain industry.

If governments start to impose some of the societal costs of road transport back onto road users, such as road use charges, carbon and emissions costs, and safety costs, then it would be expected that grain haulage via truck would become less viable than rail. This would create a larger dependence on the ARTC Interstate rail network, further amplifying the need for effective and coordinated regulation of the state and national rail networks.

10. Do stakeholders agree with our preliminary view on the case for regulation (as set out in section 4.4)?

GrainCorp agrees that the case for regulating ARTC's Interstate network is stronger today in areas relevant to grain haulage, as grain logistics do not have the luxury of effective substitutes, and the industry is captive to the Interstate network. This need for regulation doesn't stop at the Federal ARTC level but extends to state owned and managed rail networks.

The reform of the regulatory framework is supported by GrainCorp, with the view that it needs to give some assurance of cost, capacity, capability, and minimum service levels that the industry can rely on.

11. Would a uniform level of regulation be appropriate for the interstate network, or would a targeted regulatory framework be more suitable?

GrainCorp believes market-based or supply chain based regulation would be more appropriate than a uniform level of regulation. This would reflect the different competitive environments for different users of the rail networks and, in the case for grain, would better match the unique attributes of the grain supply chain.

However, on a national level, and across different rail networks, there is a need for coordinated regulation to reduce complexity and improve efficiencies for users of multiple rail networks. A regulatory framework that doesn't ensure end-to-end coordination will fail to achieve its core goals, adding cost and inefficiency and eroding rail's competitiveness in the freight market.

Conclusion:

In GrainCorp's view, a broader regulatory review of the national rail network is required due to the inherent interconnectedness of the network and critical cross-border freight links that drive the national economy.

The current regulatory model is extremely fragmented and burdens rail access seekers with onerous cost and risk. There is lack of certainty around the future rail freight strategy and timing for much needed rail infrastructure investment, which actively disincentivises private industry investment and innovation.

Opportunity exists to significantly improve rail freight productivity and resilience in the network, which will not only enhance economic outcomes for users of the networks but provide greater certainty to facilitate future business investment for the benefit of regional communities. We look forward to continuing to engage in consultations with you as this review progresses.

GrainCorp contact:

Luke Thrum – Senior Manager, Corporate Affairs & Investor Relations
E: luke.thrum@graincorp.com.au

Appendix

