NSW Farmers ASSOCIATION

01 October 2004

The General Manager
Adjudication Branch
ACCC
PO Box 1199
Dickson ACT 2602

Via Email: adjudication@accc.gov.au

Dear General Manager

Export Grain Logistics Pty Ltd (EGL)

I write following your call for submissions in relation to Export Grain Logistics Pty Ltd (EGL).

<u>Authorisation</u>

The NSW Farmers' Association (the Association) wrote to the ACCC on 13 July 2004 in relation to the proposed joint venture between AWB LTD and GrainCorp. I would like to reiterate the Association's position on this issue.

The Association supports initiatives aimed at lowering supply chain costs for NSW grain producers.

The Association's Grains Committee has seen the urgent need and the potential benefits that could be achieved from a greater co-ordination between the two major participants in the supply chain for some time.

This is both in an operational perspective and investment in strategic infrastructure.

Therefore, on the basis that a cooperative arrangement is required to address these issues and based on the company's public claims and following further internal investigation, the Association is of the view that this joint venture has the potential to deliver benefits in the movement of grain from farms to the export market.

This support is based on the following points.

1. **Public Comment**

The Association has welcomed the public comments made by both companies and strongly encourages the ACCC to ensure that the joint venture will deliver the claims, including:

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- *The JV is designed to improve coordination of the grain export task, increase efficiencies and, over time, lower supply chain costs to improve the competitive position of Australian grain growers in the global market*[1]

- *AWB was purely focussed on improving efficiencies in the supply chain, and reducing costs for the AWB National Pool*[2]

- *We expect this JV will drive improvements in rail cycle times and coordination between rail and shipping tasks, making a more efficient grain supply chain on the east coast*[3]

- *The venture will also encourage investment in the supply chain infrastructure development*[4]

- *We expect this JV will encourage participants in the supply chain to improve areas such as train loading times and handling efficiencies at storage sites*[5]

- *This joint venture will provide clearer commercial incentives for investment in the grain supply chain. The result will be a faster and more efficient system that will benefit both producers and buyers of grain*[6]

The Association expects that the ACCC will investigate these public commitments and will aim at ensuring they and their outcomes are clearly identifiable within the joint venture.

Failure to achieve these public claims would be viewed as extremely disappointing.

2. Not for profit company

The Association's current understanding is that the joint venture is a "not for profit company" and that any savings achieved will be eventually passed down to grain producers.

The Association encourages the ACCC to confirm this.

3. Joint Venture isolation

The operations of the joint venture must be isolated from the influence of both companies involved. The directors of the joint venture must be held accountable and ensure that this occurs at all times.

4. Transparency and Competition

The joint venture must not stifle competition in the supply chain and all services, rates negotiated and "hired" must be open and transparent. This would include storage and handling, rail (and road if required) freight and port charges.

The "bundling" of supply chain costs is not supported by the Association.

[1] GrainCorp / AWB Media Release, 28 June 2004
[2] GrainCorp / AWB Media Release, 28 June 2004
[3] GrainCorp / AWB Media Release, 28 June 2004
[4] GrainCorp / AWB Media Release, 28 June 2004
[5] GrainCorp / AWB Media Release, 28 June 2004
[6] GrainCorp / AWB Media Release, 28 June 2004

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Should the supply chain attract investment (or non – investment) as a result of the joint venture (also publicly claimed) then it is essential that industry is aware as to the reasons why (or why not).

This investment must not be ad hoc, and that it is with a view of ensuring the long term sustainability of the supply chain, while also sending the correct market signals to grain producers.

It is also essential that the joint venture does not negatively impact of smaller traders when negotiating supply chain fees for their domestic and export markets.

The Association would also expect that some "savings" in supply chain charges could be obtained for domestic grain as well and this should be further investigated.

5. Flexibility in Future Monitoring

The ACCC should consider some flexibility within the joint venture to accommodate any changes in Federal legislation in relation to how the wheat single desk is managed and/or monitoring activities currently undertaken by the Wheat Export Authority (WEA).

This need for flexibility is based on the uncertainty surrounding the upcoming report on the management of the wheat single desk from the 2004 Wheat Review Panel, which will be handed to the Federal Minister, Warren Truss (10 September 2004) and the public (15 October 2004).

Interim Authorisation

I note that AWB LTD and GrainCorp are seeking interim authorisation of EGL on the basis of the:

- impending above average, harvest in NSW and Vic,
- need to publish ESR in October 2004, and
- need to put in place logistic arrangements for this harvest with Pacific National and Queensland Rail.

The ACCC should ensure that the companies involved in the joint venture establish a transparent system aimed at benchmarking its performance and giving the wider industry more confidence that the public claims of the companies are in fact being achieved.

This information should be publicly available and potentially used by the bodies such as the Association and the Wheat Export Authority (WEA).

The possible areas for benchmarking are:

- EGL will be a break even business in the sense that it will not be a separate profit centre (The Association questions the possibility of increased service fees to AWB LTD which is an extra cost to the National Pool and in effect Australian wheat growers),
- Increase efficiencies in the handling of rail freight tasks for export grains from upcountry silos to export port terminals,
- Improve the rail export task which will decrease demurrage costs for grain exports which costs are associated with shipping delays from Australian ports,

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- Claims that EGL will reduce rail freight supply chain costs in the order of 5-15% and the company's views that the average export task of 7.5 million tonnes, costing in excess of $200 million per annum, these efficiencies equate to approx $10 - $30 million pa, or an estimated $1.33 to $ 4 per tonne of export grain moved.

Summary

History has continually shown that there have been major inefficiencies along the supply chain for many years, a result of an obvious lack of cooperation between both AWB and GrainCorp (also lack of Government spending).

This has caused a reluctance to invest along the supply chain.

It is essential that the ACCC ensure that all appropriate safe guards are in place in relation to the purchase, storage and movement of NSW grain and that the supply chain remains open and competitive.

The stated aim of the joint venture is to remove inefficiencies and lower costs and the Association will be monitoring this. It is also extremely important that the joint venture does not dilute the current constitutional structure and requirements of each company.

In conclusion the Association also notes and welcomes GrainCorp's further investigation of:

- A new rail discharge facility at Newcastle Port on the balloon loop, which will reduce discharge time by one half and increase port receival capacity from 3-4 trains a day to up to 7 trains a day. This facility would cost approximately $12 million,
- Fast rail discharge pits at all sub terminals. This will enable grain to be transhipped from the rail branch lines to main lines efficiently. This would cost approximately $8 million for 4 sub terminals,
- Fast out loading spouts (from 200tph to 800tph) at all major silos, reducing loading times to 3 hours for a unit train. This would cost around $20 million for 40 major silos,
- Unit train siding to handle 40 wagon trains at selected major silos, enabling block train operation, costing $10 million at 10 silos,
- A joint review of Project Broadacre concept to explore the potential to maximise the joint venture for the use of branch lines and existing GrainCorp sub terminals,

Should you require further information, please contact me on 0427 442 252 or Policy Manager, Bill Golsby on 02 825 11 816

Yours Sincerely

Angus Macneil
Chairman
Grains Committee