



GrainCorp

Tuesday, 6 July 2010

The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

Cooperative Bulk Handling Limited (CBH) Exclusive Dealing Notification N93439

Background

GrainCorp previously advised the ACCC that it supported the principles behind the development of the 'Grain Express' storage – handling – export elevation business model promoted by CBH.

While the Grain Express model would not translate successfully to the eastern Australian states due to the different structure of the industry in this region, GrainCorp believed that the theory behind Grain Express warranted practical examination.

Supply Chain Focus

Due to the heavy reliance on exports in Western Australia, most of the logistical task in that region is focused on delivering grain to export elevators. The primary focus of the grain supply chain in this region is the task of export elevation. Grain Express focuses on the management of 'notional stocks' and presentation of grain at the elevator. The fact that grades across Western Australia are uniform when compared to eastern Australia, contributes to the theoretical benefit of a notional stock system like Grain Express.

GrainCorp does not have enough experience as an exporter of grain from Western Australia to provide a fully informed opinion about the manner in which the supply chain in that region is, or is not, more efficient under Grain Express.

Supply Chain Competition

GrainCorp handles approximately 55% of an average eastern Australian grain harvest (~18 million tonne). Grain handled within the GrainCorp network is largely owned (up to 80%) by parties other than GrainCorp.

GrainCorp operates an 'actual stock' system, where customers retain title to physical grain. A significant proportion of grain produced in eastern Australia is consumed domestically (up to 10 million tonnes). The physical location of grain in relation to a domestic consumer is an important factor in value determination.

(Refer to the attached presentation made to the board of Wheat Exports Australia for more background on the structure of the grain handling network operated by GrainCorp.)

The transportation of grain from country storage site to port elevator in eastern Australia is subject to considerable competition.

Currently, there are four companies operating main-line train units capable of servicing port elevators in NSW and Victoria – GrainCorp, AWB, Cargill, and Viterro. Two of these companies contract 'take-or-pay' trains from Pacific National, and one (AWB) has invested in the purchase of rolling stock.

GrainCorp contracts with Pacific National approximately three million tonnes of annual rail capacity, at a cost of ~\$30 million per annum. Under the first two years of GrainCorp's direct management of train deployment, per train efficiency (calculated as tonnes hauled per train per year) increased by around 40%.



GrainCorp

In Queensland, GrainCorp has a 'take-or-pay' contract with ARG (Queensland Rail), the monopoly rail service provider, for provision of main-line rail capacity servicing port elevators located at Mackay, Gladstone and Fisherman Islands (Brisbane).

Across Queensland, NSW and Victoria there are hundreds of road haulage operators that provide transport services for the accumulation of export cargos ex-farm, or ex-non GrainCorp country storage.

GrainCorp does not compel an exporter using a GrainCorp country site or GrainCorp port elevator, to use GrainCorp as the supplier of transport services. Organisations with ownership of grain in the GrainCorp storage network arrange their own transport to domestic customers, bulk export elevator or export container packer.

Where GrainCorp is the supplier of rail or road transport, that service is contracted separately from the provision of both storage and port elevation services.

Where grain destined for export through a GrainCorp port elevator is stored by a storage provider other than GrainCorp, or is accumulated ex-farm, it is once again the responsibility of the owner of the grain to contract freight services independently with a rail or road transport provider.

GrainCorp does not require an exporter to contract rail or road transport services as part of the companies country storage or port elevation services.

Grain Storage in Western Australia

GrainCorp does not have sufficient knowledge of the Western Australian market to provide detailed observations of the kind sort by the ACCC.

Summary

Given that GrainCorp operates in a market where there is,

- a. a significant over-supply of grain storage capacity (more than 30 million tonnes for a region that produces an average annual crop of ~18 million tonne), and
- b. significant competition to bulk exports handled through GrainCorp port elevators (3 million or more tonnes of the eastern Australian average export surplus of 8 million tonnes can be / is exported through containers, Melbourne Port Terminal and now from Victoria / southern NSW through Viterra's Outer Harbour elevator),

we are familiar with the manner in which competition for the provision of storage, handling, transport and export elevation services is a significant driver of both efficiency and customer service improvement.

Yours sincerely

[Sgd] Ian Wilton
(Interim) Chief Executive Officer