

COOPERATIVE BULK HANDLING LIMITED (CBH) EXCLUSIVE DEALING NOTIFICATION N93439 – COMMENTS ON THE DRAFT FINDING

The Department of Agriculture and Food Western Australia (DAFWA) does not support the draft notice issued on 6 December by the Australian Competition and Consumer Commission to revoke the notification. The bundling of storage, handling and transport for grain is an integral part of the Grain Express system and there are far reaching implications if this bundling is removed.

DAFWA see that the benefits provided by the Grain Express system outweigh the costs the system imposes. These benefits include:

- Lower overall supply chain costs for all participants through better coordination of the logistics task,
- Lower handling costs as receival sites only need to be opened a limited number of times that correspond to the coordinated transport task,
- More certainty of freight prices as CBH can negotiate freight rates (road and rail) with a high degree of certainty in advance of harvest, and
- Encouraging grain to stay on rail by allowing CBH to coordinate and negotiate with the rail provider directly and in a coordinated way.

From a State perspective, Grain Express provides the most feasible solution to implementing assistance to the rail network and hence limiting the leakage of grain from rail to road in the short term. Grain Express provides the only solution that is likely to be palatable to all parties, providing a storage, handling and transport package at a reasonable cost at the current time.

In the longer term, there is likely to be an evolving storage, handling and transport system in Western Australia that will develop to cater for a broader number and nature of users. The major cost of Grain Express would appear to be the loss of a quality focus with the loss of grain identity through the system. As a result buyers wanting very specific quality requirements need to have the ability to negotiate with CBH for a separate arrangement or develop their own system outside CBH. Container trade is likely to play a role in this area. Apart from port infrastructure, there does not appear to be high barriers to entry to new competitors in container trade.

While DAFWA sees the Grain Express model at the current point in time, there are questions as to whether it is a viable model in the longer term. This is based on concern around the carrying of risk and a lack of control of quality. Traders and domestic processors have limited knowledge of the quality of the grain they will receive on outturn, or where it has come from (its origin). There is a need for price signals to be allowed to flow through the supply chain to growers to encourage delivery of specific grain quality that is achieving premium prices. Over time, there is likely to be an evolving storage, handling and transport system developing in Western Australia post grain export deregulation. The system that has been set up to service the 'single desk' and provided a low cost, highly aggregated supply chain will not be suited to a number of markets and marketers.