



NSW GRAIN FREIGHT REVIEW

Terms of Reference

An Australian Government Initiative

Department of Infrastructure, Transport, Regional Development and Local Government

October 2008

Introduction

NSW's grain supply chains involve, as in other states, a combination of road and rail transport, grain storage facilities and intermodal and port transfer facilities. Growers and service providers have been able to exploit changes in the market (including its on-going deregulation) to achieve economic gains through lower cost transport options. This has seen significant pressure placed on some of the less viable parts of the supply chain, especially the branch lines on the western edge of the rail network, where growers are increasingly opting to utilise road transport to access more efficient grain receival sites at a lower cost, providing them with increased returns. This in turn places a greater cost on local authorities responsible for the maintenance of the local road network.

The New South Wales Government established a Grain Infrastructure Advisory Committee (GIAC) in 2003 to investigate and report on a range of matters associated with the use of "restricted" rail branch lines and the road networks in those regions. The GIAC considered the costs and benefits of maintaining and/or upgrading these lines and the regional road networks, including quantifying on-going maintenance and upgrading costs.

The GIAC report of January 2004 identified:

- Five "restricted" branch lines where it considered the cost of upgrading would be significantly less than the cost of potential road alternatives;
- Seven "restricted" branch lines where it considered that there was still some uncertainty surrounding the data and that pending further consultation with industry and regions over the ensuing harvests, should remain operational; and
- Three "restricted" branch lines where it considered the cost of upgrading would be significantly greater than the cost of potential road alternatives.

NSW has operated in a deregulated market for the last 20 years, supplying 5 to 6 million tonnes of grain annually to meet domestic market demand with excess grain flowing to export markets in years of greater production¹. The long term trends for grain production in NSW have generally been positive with increased areas being sown to grain along with improvements in farming practice, including the introduction of new varieties of grain, generally leading to increased yields (although these have been somewhat tempered in recent years with sustained periods of drought).

As a result of this environment, the NSW grain production has a multiplicity of customers dispersed across eastern Australia, from the dairy industry, millers, feed lots and alternative fuel plants, and internationally. Within this diverse customer base, there is growing demand for grains to meet niche market requirements (eg durum wheat).

The Australian Government has committed \$3 million to undertake the Review.

Purpose of the Review

The purpose of the NSW Grain Freight Review is to examine the grain freight supply chains considering institutional, governance and accountability arrangements (both public and private); and competition, pricing and asset management aspects of the NSW grain freight task. Having considered these matters, the Review's chairperson is to develop advice and recommendations with a view to identifying how best to ensure the most appropriate modes of transport are used to move grain efficiently through the supply chain to enhance its long term sustainability.

¹ ABARE has forecast a 200 per cent increase in winter crop production for NSW for 2008-09 compared with the 2007-08 harvest, totalling around 9.3 million tonnes.

Scope of Review

The grain supply chain in New South Wales comprises a number of discrete sections:

- farm gate to initial consolidation point (on branch line) – generally, this is a relatively short distance, with grain always being transported by road;
- initial consolidation point to either a mainline consolidation point or directly to a domestic customer – grains transported directly to a domestic customer are almost always transported by road while grains moving to a mainline consolidation point can be moved by rail (using the branch network) or road and can involve distances of up to 100km;
- mainline consolidation point to port (export grain) – grains are always transported to port by rail.

The primary focus of the Review will be on that section of the grain supply chain involving the movement of grains between the initial consolidation points to a mainline consolidation point.

Terms of Reference

In undertaking its assessment, the NSW Grain Freight Review is to provide a short, medium and longer term appraisal of the domestic and export grain supply chains in NSW in terms of the grain markets that they serve with a view to identifying some long term sustainable opportunities that may lead to increased efficiencies. This assessment will, by necessity, take account of the recent changes to wheat export marketing arrangements provided for in the *Wheat Export Marketing Act 2008*.

Specifically, the Review is to have regard to:

- the grain supply situation in NSW in terms of cropping patterns, densities and innovations (e.g. new grain types, farming practices, and the increasing provision of on-farm grain storage), and the likely impact of climate change² in terms of short, medium and long term trends for the grain industry.
- the market demand situation for NSW-produced grain, examining in detail the domestic and export sectors with their multiplicity of customers and niche grain requirements, including considering the likely impact of the *Wheat Export Marketing Act 2008* on both market sectors and the supply chains separately serving those sectors in terms of short, medium and long terms trends for the grain industry.
- the capacity of the grain supply chain infrastructure to service the domestic and export markets in terms of the various transport options currently available to growers and service providers, including: examining the level of access, pricing, and competition; considering the nature of ownership, management and investment in the grain supply chains' physical assets; as well as competition for available locomotives and rolling stock and available track slots with the coal industry and other sectors relying on bulk freight transport and handling.

In making its recommendations for future sustainable arrangements for the NSW grain freight supply chains, the Review's Chairperson is to have regard to:

- the role of road and rail modes of transport in NSW for both non-port haulage of grain and haulage to ports and the extent to which these roles are affected by any concentration of and/or vertical integration of ownership, pricing, access and competition aspects at various stages of the domestic and export grain freight supply chains;

² The intention is not to undertake new detailed analysis of the likely impact of climate change on grain production but to distil any existing analysis.

- the efficiency of the current access, regulatory and institutional arrangements covering the transport of grain in NSW;
- opportunities that may lead to increased efficiencies, flexibility and sustainability through reshaping the domestic and export grain supply chains through:
 - strategic investment in fixed rail infrastructure (e.g. track upgrades) and rolling stock, while at the same time maintaining a balance between the needs of growers and the needs of service providers;
 - examining road sector chain of responsibility issues that are now emerging; and
 - examining the efficiency, pricing, access and competition aspects of the handling and storage facility operations at Newcastle, Port Kembla, Melbourne and Brisbane seaports for NSW grains bound for export markets;
- how to best facilitate the grain freight industry's response to emerging market demands, including considering the appropriate role of governments vis-à-vis possible proposals for private/public investment to address any existing and/or emerging infrastructure bottlenecks, whilst also taking account of environmental and social externalities;
- potential new rail freight opportunities that could reduce rail's dependence on seasonal grain freight flows; and
- the roles and responsibilities of the grain industry, freight operators, handling and storage operators, the NSW Government and the Australian Government with respect to managing future institutional, governance and accountability arrangements to bring such opportunities to fruition in the context of on-going domestic and international competition and economic change.

Managing the Review

The Chair of the NSW Grain Freight Review is Mr Des Powell. He will be supported by a Review Secretariat comprising the Australian Government Department of Infrastructure, Transport, Regional Development and Local Government and the NSW Ministry of Transport.

A high level Task Force comprising key industry and government groups will be convened from time to time to support the work of the Review where specific expertise is required or access to specific data is required. The Task Force is expected to include:

- The ARTC (as the lessee of the rail network in country NSW);
- Above track operators (PN – existing operator; El Zorro potential new entrant);
- The Rail Tram and Bus Union (NSW Branch);
- The Department of Agriculture, Forestry and Fisheries;
- Grower groups (NSW Farmers Association, Grain Growers Association);
- Grain handling groups (GrainCorp, Australian Bulk Alliance);
- Grain marketing groups (AWB, ABB); and
- Local government (Local Government Association of NSW).

Key outputs

The key outputs of the Review will be:

- NSW Grain Freight Supply Chain : Issues Paper – the Issues Paper will be published on the departmental web site at www.infrastructure.gov.au
- NSW Grain Freight Supply Chain : Final Report – providing advice and recommendations in relation to the most appropriate modes of transport to move grain efficiently through the supply chain to enhance its long term sustainability.

Reports prepared for the Review by consultants may also be published on the departmental website.

Timing:

The NSW Grain Freight Review is expected report by end May 2009 to the Commonwealth Minister for Infrastructure, Transport, Regional Development and Local Government and the NSW Minister for Transport.