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Productivity Commission
4 National Circuit
BARTON ACT 2600

Submitted electronically

TO WHOM IT MAY CONCERN

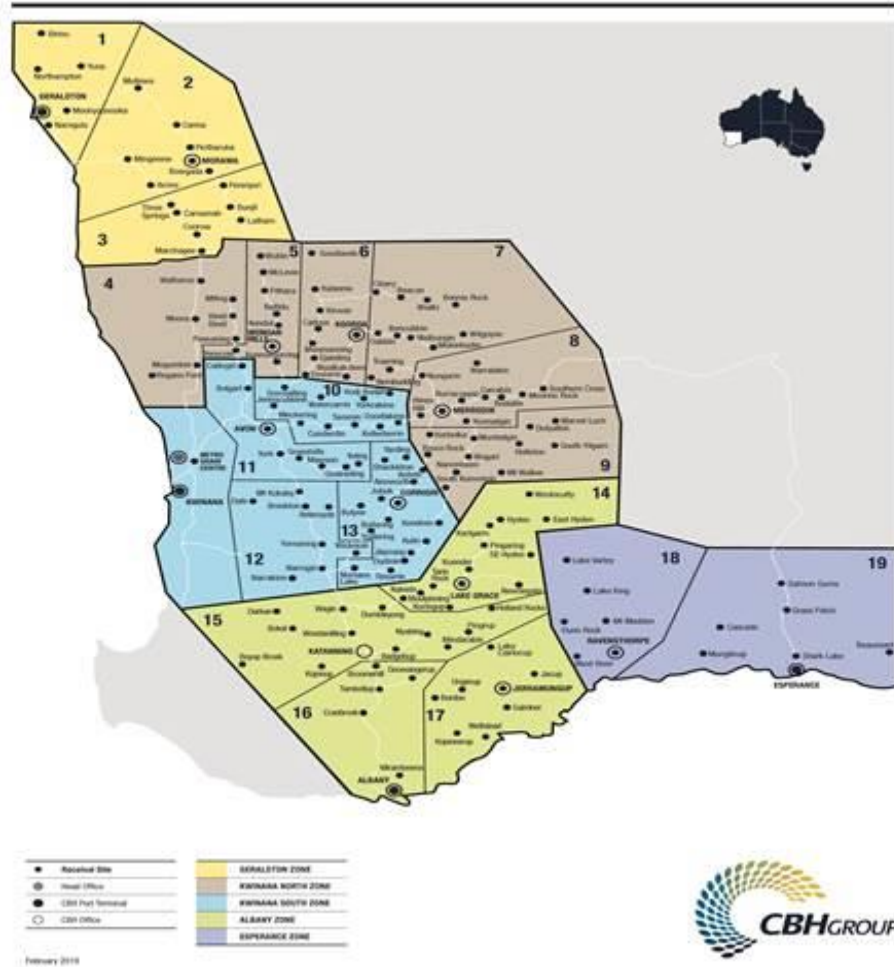
Productivity Commission – Vulnerable Supply Chains

1. Co-operative Bulk Handling Limited (**CBH**) refers to the Terms of Reference requested by the Hon Josh Frydenburg dated 19 February 2021 for the Productivity Commission to undertake consultation and provide a report regarding Australia's resilience to global supply chain disruptions.
2. This letter sets out CBH's response to those issues posed in the Terms of Reference which are relevant to CBH's operations.

Background – CBH and the WA grains industry

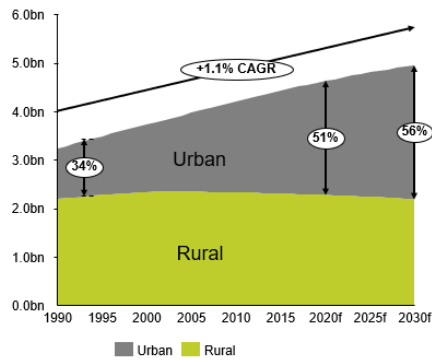
3. CBH is Australia's largest co-operative which is owned and controlled by nearly 3,900 Western Australian grain growers. As a co-operative, CBH's core purpose is to create and return value to WA growers, both current and future.
4. The WA grains industry is the largest agricultural sector in WA and the 4th largest export industry overall, with CBH's grain grower members producing an average of about 15 million tonnes per annum – about 40-50% of the entire Australian grain production – and contributing approximately \$4 billion to the WA economy and regional communities every year.
5. CBH – as the bulk handler and supply chain operator for the vast majority of the WA grains industry – operates a large and complex grain supply chain in regional WA comprising road, rail and port infrastructure and approximately 150 upcountry receival points over a land area almost the size of Victoria.

Receive Sites



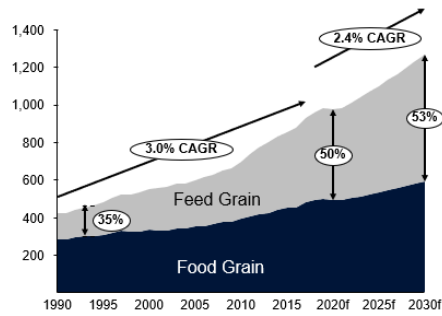
6. CBH employs approximately 1,100 permanent employees, and also engages an average of 1,8000 casual employees over the busy WA grain harvest period (October-February), as well as various contractors to perform work at its sites throughout the year.
7. CBH's marketing and trading arm is Australia's largest exporter of grain, with a market share of approximately 30 per cent of aggregated bulk Australian grain exports.
8. Unlike the Eastern States, the vast majority of grain produced by WA growers (approximately 90%) is exported to international markets, with 66% exported to Asian markets. Australian grain exporters are price-takers in these international markets.
9. Continued urbanisation and income growth in Asia has shifted consumption toward more protein, calories and processed foods, particularly more meat consumption, and therefore driving strong grains demand (especially for feed grains).

Asia To Grow By ~350 Million People
(Urban Population, Billion People)



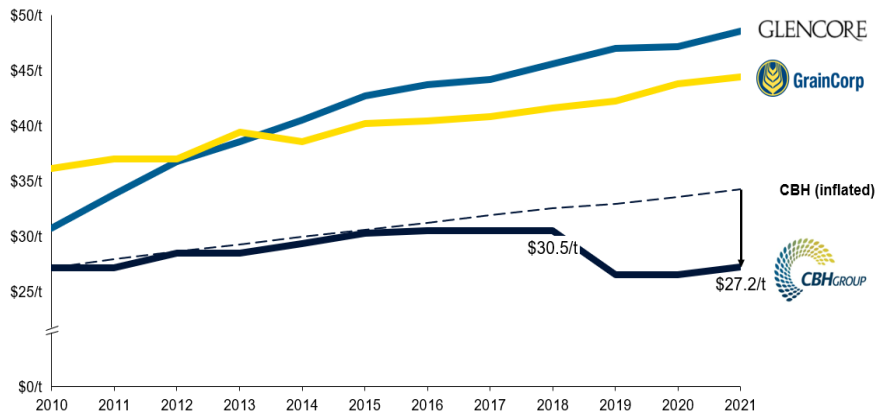
Source: FAO/OECD, UN-Population Division, CBH Analysis

Asian Grain Consumption Growth
(All Grains & Oilseeds, Million Tonnes, Asia)



10. WA grain is well-placed to meet this demand and has historically had an advantage in these markets due to its supply chain from our WA grower to customer, geographical proximity to South East Asia, and the consistency of quality of its grain. Increasingly, WA has benefitted from a market reputation that it is a “clean and green” grain producer, relative to global competitors.
11. CBH consistently provides an efficient and low-cost grain export supply chain, which the majority of growers and exporters in WA choose to use to export their grain to these international markets.

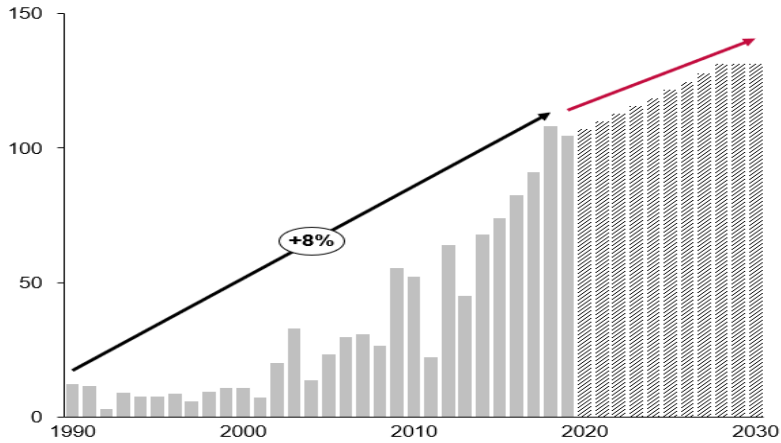
Storage and Handling Fees
(AUD per tonne)



Source: CBH Analysis

12. However, despite all these efficiencies and natural advantages, the international competitiveness of WA growers is currently under significant threat, primarily because of the relatively recent rise in supply of grain from alternative origins like the Black Sea region (which includes Russia and Ukraine).
13. Importantly, the Black Sea region benefits from much higher yields than WA (on average, up to 6 tonnes per hectare in the Krasnodar district in Russia, compared with 2 tonnes per hectare in WA), and can produce significantly higher volumes (over 100 million tonnes per year, compared to about 15 million tonnes, respectively).
14. As a result, Black Sea exports have doubled since 2010, and are forecast to add a further 30 million tonnes by 2030:

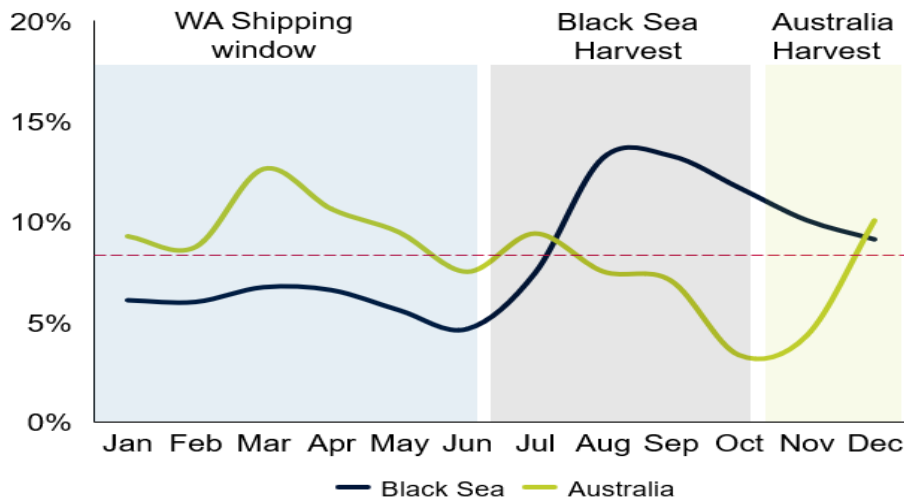
BLACK SEA EXPORTS
(ALL GRAINS, MILLION TONNES)



Source: Bloomberg, CME, USDA, CBH Analysis

15. These tonnes have displaced Australian grain in the Middle East and North Africa and are penetrating our traditional Asian markets. By way of example, those factors allow wheat – WA’s largest volume export grain commodity – from alternative origins to be delivered into WA’s closest contestable market, Indonesia, at a much lower cost.
16. One of WA’s key competitive advantages against the rise of the Black Sea is the timing of our harvest versus Northern hemisphere producers, providing the ability to supply grain to international customers when competition from those lower cost competitors is limited.

Shipping window
(% of total exports)



Source: CBH Analysis, ACF

17. Currently, however, the Western Australian grain supply chain does not have the throughput capacity to fully leverage this advantage, especially due to sub-standard or sub-scale rail infrastructure and under maintained road infrastructure.
18. More broadly, it is therefore crucial that domestic settings are appropriate – including policy decisions – to ensure that there is downward pressure on WA grain production and supply chain costs.

Responding to the Terms of Reference

Impact of current disruptions on WA export markets

19. While there has been some disruption caused by the COVID-19 pandemic, the CBH grain supply chain, and the WA grain industry more broadly, has been working well through the crisis, albeit with some unsurprising supply challenges/shortages.
20. Generally speaking, grain demand both domestically and internationally has been fairly strong during the crisis, and with the low Australian dollar, this translated into reasonable prices for WA growers across the different grain commodities.
21. However, prior to the COVID-19 crisis, CBH had announced six (6) network expansion projects for 2020, but taking into account potential changes to project schedules from travel restrictions, possible interruption of supply chains, and continued efforts to reduce the spread of the virus into regional communities, the decision was made to defer three of those projects until 2021.
22. In addition, some WA port authorities (MidWest Ports Authority (**MWPA**) (where the CBH Geraldton terminal is located) and Southern Ports Authority (**SPA**) (where the CBH Albany and Esperance port terminals are located)) imposed – and continue to impose - 14-day restrictions on vessels entering those ports from international ports. Those additional restrictions obviously result in delays on shipping of grain to customers (affecting WA and Australia’s international reputation as a reliable exporter of grain), potential contract breaches and subsequent significant penalties, not to mention significant additional cost to the supply chain (freight rates & demurrage/detention). It is worth noting that other port authorities, including the Fremantle Port Authority (**FPA**) (where the CBH Kwinana Grain Terminal, and the largest terminal in the CBH network, is located), do not impose 14-day restrictions and instead use a risk based approach to management of vessels arriving from international ports.
23. Further, one of the underlying challenges that the crisis has exacerbated is a shortage of key front-line workers available for businesses across the State, including train and truck drivers. In relation to the grains industry specifically, this shortage is currently significantly impacting CBH’s ability to move grain to our ports as rapidly as required to meet strong demand from international customers for WA grain during this peak shipping period. For instance, our rail provider WATCO, recently lost 18 drivers from a workforce of about 120 - in one month, and our trucking contractors can currently only staff around 90 trucks of a daily requirement of about 130 to 150 trucks, despite CBH increasing rates paid to contractors.
24. Consequentially, we are now experiencing substantial shipping delays, with vessel turnaround times increasing from around 3-4 days to up to one month at our ports (particularly Geraldton, which has also been impacted by Tropical Cyclone Seroja). Those delays adversely impact the international reputation of Western Australia being a reliable exporter of grain, something our industry prides itself on.
25. More generally, the COVID pandemic has demonstrated that large, established export industries like mining and agriculture that provide a significant contribution to the National and State GDP (and the grains industry, which is the largest of the agricultural industries), are resilient and in the short-term can weather the economic and practical uncertainties inevitably created by a global pandemic. Supporting those industries in the long-term is therefore key to the creation and preservation of jobs, and the economic recovery and future development of the country.
26. While there exists huge potential for improvement in infrastructure investment in those industries, even comparatively small, incremental improvements that drive supply chain efficiencies can translate into significant increases in export earnings, and therefore

benefits for the country and State. Where possible, of course, public investment should be directed towards complementing private sector investment particularly in what is likely to be a constrained funding environment going forward.

Risk management strategies used to manage and respond to disruptions

27. Given the large geographic spread of the CBH network, during the height of the pandemic, CBH proactively restricted movement of its employees between regional boundaries to help limit the risk of spread.
28. CBH also had in place a zone based risk mitigation plan to provide direction to workers, contractors and visitors at CBH facilities, to limit physical interaction and to provide instruction of what to do in certain situations (eg: if a confirmed case was confirmed at one of our sites, or a neighbouring site). Procedures were also introduced specifically for our stevedoring operations at our port facilities, dealing with interactions between stevedores and international maritime crew, and monitoring/management of vessels that arrived at berth within 14 days departure from an international port.
29. In relation to disruptions to the grains supply chain, in normal circumstances, CBH has approximately 2,000 suppliers of goods and services. During the initial lockdown in early 2020, our procurement division identified the critical suppliers, without which the supply chain could not operate (such as fuel, tarps, fumigant, dust removal, PPE, and some essential machinery).
30. We note that although CBH and its workers were exempt from the lockdown as “essential workers” on the basis of being in the “agricultural” sector, some of these suppliers are not overtly “agricultural” in nature – for that reason, we suggest that in the future, not only the “agriculture industry” and “agricultural supply chain” are included, but also “critical services and supplies required for industry or business continuity, and maintenance of operations”.

The impact that these disruptions have in regional areas

31. For many WA regions, agriculture is the dominant industry, providing income and jobs to the local communities. In addition, agricultural industries are often inter-twined and extend across multiple regional boundaries. As shown by our network receipt map, for example, CBH operates in or through multiple regions – the Wheatbelt, the Mid-West, Esperance-Goldfields, the Great Southern, Perth, and Peel – and in over 60 local government areas. For regional areas to continue to survive they need to be able to continue exporting product which the WA State Government allowed for.
32. Generally speaking, over its history CBH has been fortunate to be able to attract and retain high quality people to its workforce across the regions.
33. However, there are recurring and emerging challenges, including the declining population in the regions.
34. As is well known, most regional WA towns, particularly those in remote locations, do not have the same level and standard of infrastructure that can be found in larger cities and towns. Over time, that has contributed to the general trend of internal migration from regional WA to urban areas.
35. From a workforce perspective, that can often make it difficult to attract and retain workers in some regional locations in the CBH network. It also often requires putting in place different rosters to allow for commuting to work, and for workers to go home when not on shift.
36. In CBH’s view, priority areas to address are:

- a. considered immigration policy that will allow workers into the country safely, such as options to provide safe and effective quarantine alternatives for workers from interstate and overseas; and
- b. targeted regional economic and social infrastructure investment in regional WA, in order to attract and retain people.

Exposures/deficiencies that have been highlighted as areas of concern

37. As discussed above, the exposures/deficiencies that COVID has highlighted in the WA grains industry are:
 - a. Historical government underinvestment in multi-user supply chain transport infrastructure, coupled with record investment in supply chain infrastructure by competitors.
 - b. Labour supply issues, especially with truck and rail drivers, which has been exacerbated by restrictions on interstate and international travellers, and a booming local mining and construction industry that are competing for a limited pool of workers.

Role of Government (State and Federal)

38. In CBH's view, the role of Government, is as follows:
 - a. Generally, the priority of government must be to slow and stop the spread of COVID-19, and then ease and remove social and economic restrictions as soon as reasonably practicable. Specifically, as an export State (and given CBH is the largest Australian exporter of grain), there has been, and should continue to be, a focus by WA on maintaining exports to international destinations to ensure we maintain market access and share post-COVID-19.
 - b. As we all know, Australia - and particularly Western Australia - has historically grown its population through considered and targeted immigration. However, as a consequence of the COVID-19 pandemic, this has dramatically reduced. Government – in partnership with industry – need to identify potential solutions to address this issue, both in the short and long term, such as options to provide safe and effective quarantine alternatives for workers from interstate and overseas, and providing training to WA workers for in-demand skills/professions.
 - c. Enabling diversification of markets for exporters. For example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) provided new market access opportunities for Australian grains into Mexico with tariffs on barley being eliminated over five years. This opportunity for free trade between the two countries was realised in January 2021 with a shipment of malting barley 35,000 tonnes leaving Albany, WA for destined for Heineken Mexico. This new market opportunity is timely given the recent tariffs imposed by China on Australian barley, which resulted in Australia effectively losing access to its largest barley market. Whilst the volume does not compare to that of China, the interest shown by Mexico to purchase high quality malting barley demonstrates the ongoing need to invest in activities to diversify markets for our grain commodities.
 - d. With a reduced labour force, the efficiency of supply chains comes into sharp focus as greater capacity cannot be delivered by employing more people. Infrastructure needs to be able to deliver the efficiencies required by the system (ie shifting more tonnes). Directing government investment to

industries and areas where it has the highest capacity for benefit. For the WA grains industry, that means:

- i. Infrastructure investment in rail and roads (noting that there has recently been a \$200M investment by the Federal and WA State Government in Package 1 of the WA Agricultural Supply Chain Improvements project);
- ii. addressing the State's road maintenance back-log, particularly for regional roads, and developing a preventative approach to ongoing road maintenance;
- e. developing a strategy for investment in public infrastructure at our ports, which are critical for export-based agricultural commodity industries; and
- f. investing in digital connectivity networks in the regions, and supporting competition in backhaul service provision for regional WA; and
- g. investment in energy sources that increases the reliability of grid power supply to infrastructure in regions, whilst reducing costs and carbon emissions for regional WA.

Thank you for the opportunity to provide feedback to the Terms of Reference. If you require further information from CBH please contact David Paton, Head of Government and Industry Relations.

Yours sincerely

For: Co-operative Bulk Handling Limited

Brianna Peake
CHIEF EXTERNAL RELATIONS OFFICER