



**Productivity Commission
Review of the National Access Regime**

AWB Limited Submission

15 December 2000

Introduction

AWB Limited is pleased to be able to comment on the current national access regime as it applies to the grain export supply chain.

AWB believes that two components of the supply chain should qualify as “significant infrastructure” namely rail track networks and all bulk grain shipping terminals. AWB believe these two links in the export chain require examination to ensure that access is open to third parties thus promoting competition and cost reduction in the chain.

Background

AWB Limited (AWB) is Australia’s major national and international grain marketing organization and Australia’s fifth largest exporter with annual sales revenue exceeding \$4 billion. AWB markets Australian grain on behalf of Australia’s 40,000 grain growers to more than 50 countries throughout the world. AWB export between 15-18 million tonnes of grain per annum through seventeen grain ports around Australia. While the majority of AWB grain is exported as bulk cargo, increasing amounts are exported each year in containers, especially as grain buying arrangements in AWB customer markets become deregulated.

AWB have long promoted the view that the Australian grain supply chain needs to be world competitive if Australian exporters are to survive and prosper. Especially as world markets become increasingly competitive. Australia cannot afford inefficiencies, cost structures or access regimes that inflate the distribution costs associated with exporting grain. Such impost simply make Australian grain uncompetitive on world markets and reduces the price which Australian farmers receive for their commodity.

Current Environment

The rate of change in ownership of handling and transport has been a key component of the supply chain of recent years.

Bulk Handling

There has been privatisation of Bulk Handling Authorities into Bulk Handling Companies [BHCs] and the subsequent merger of two of these companies. There has also been the development of a new BHC, Australian Bulk Alliance [ABA], a joint venture of Ausbulk and Grainco Australia Limited.

The East Coast BHCs have each established new sites in the state of a competitor BHC and have sought to organise the grain flow back into their own network, often against the least cost path for the grain. This has required the cross subsidisation of costs within their networks. Examples of this include storage facilities which have recently been constructed at Goondiwindi QLD, Werrimull VIC and soon at Naracoorte SA. The lack of a formalised access regime has facilitated this expensive grain path.

The vast majority of private storage service the domestic market as the BHCs restrict access to port terminals through excessive fees for handling and restrictive grain quality conditions.

The recent determinations of the Victorian Regulator General on the Graincorp terminals of Geelong and Portland has guaranteed access to all parties, reduced the port terminal costs and established a review framework that ensures an access regime will be maintained in Victoria. The shipping charges at the Graincorp Victorian ports are now the lowest on the east coast of Australia, an excellent outcome for Victorian grain growers.

Rail

Recent years has seen the privatisation of the rail operator in VIC, SA, WA and proposed sale of the NSW operator. The open access regime operating in NSW has allowed AWB to introduce 2 additional rail operators into southern NSW resulting in lower supply chain costs of approximately \$4 per tonne for freight in this region.

While AWB has benefited from the open access regime established in NSW, similar progress has not occurred in Victoria and South Australia. In 1999, the Victorian Government sold its rail freight operation to a private company, Rail America (trading as Freight Australia). As part of the sale, Freight Australia acquired the lease to maintain and control much of the Victorian branchline network. Although the sales document included an access regime, this has yet to be declared by the Victorian Government. To our knowledge no other rail freight operator has successfully gained access to the Victorian branchline network since the Victorian rail sales process was completed.

Whilst the Victorian branchline network is controlled by Freight Australia, the main Melbourne to Adelaide intercapital line is operated by the Australian Rail Track Corporation (ARTC). ARTC has put in place a rail access regime that has allowed AWB to reduce grain costs from its Dimboola Grain Centre by almost 25%. Whilst this reduction is partially influenced by rapid rail loading facilities at this location, the ARTC access regime generates a competitive environment for rail operators. It should be noted that similar reductions at other grain sites on the ARTC network have not eventuated and this is partially due to Freight Australia's control of all grain sidings on the ARTC mainline, other than the Dimboola facility that is owned by AWB.

In South Australia, a rail access regime has been in place since 1997 and is controlled by the privately owned freight operator, Australian Southern Railroad (ASR). AWB has examined the ASR rail access document and believes that the access charges quoted are at such a level that no other rail operator could make a successful competitive entry into the South Australian rail freight market.

Key AWB Access Issues

General

- The time frame that is required to declare, certify or establish an undertaking to provide an access regime is financially impacting Australian grain growers. There is the potential for AWB to increase the number of rail operators in a number of states to reduce freight costs. Access regime definition delays are delaying this expansion.
- AWB believe that in order to expedite the establishment of access regimes that both service providers of significant infrastructure in rail and export terminals need to be given the offer to provide an undertaking. Failing acceptance of this process the NCC should recommend declaration of these infrastructures.
- AWB believe that any access regime needs to be linked to a pricing determination.

Rail

- Due to the rail access regime not being declared in Victoria, AWB's operations are currently restricted in that we cannot utilise alternate rail operators to Freight Australia on branch lines and reduce freight costs.
- AWB is concerned that the impending sale of Westrail and potential future sale of Queensland Rail that an open access regime may not be quickly established to facilitate competition and supply chain efficiency.
- AWB would encourage a review of the South Australian rail access agreement to determine whether it is consistent with other effective regimes such as in NSW and the ARTC network.

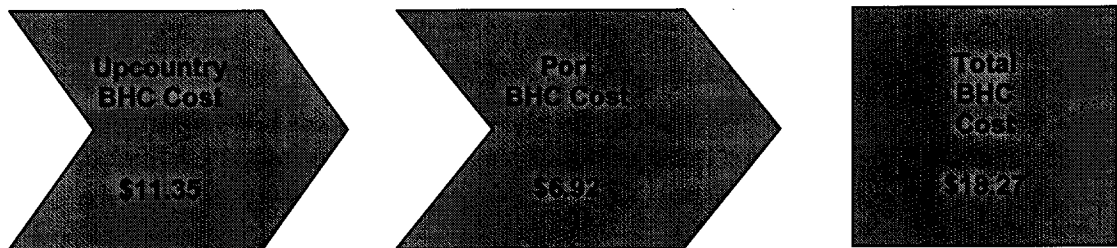
Export Terminals

- AWB believe that the pricing for similar services could be linked to a determination in another state. For example, the Victorian Regulator General pricing determination on the ports of Geelong and Portland could be used as a benchmark pricing in establishing charges for receipt and shipping of grain from other export terminals. Currently one BHC is extracting monopoly rents that are 80% higher than the Victorian Regulator General's determined charges for the same service in Victoria.
- Another pricing issue is the full service charge from some BHCs for deliveries direct to port. One BHC receives approximately 40% of export receipts direct to port yet charge the same fee as though it was a delivery at an upcountry location. It is clear that the cost structure for the BHC is reduced at the port terminal yet the BHC insist on applying the same charge at port. The determination by the Victorian Regulator General provided for a reduced charge structure for direct deliveries to port. As stated earlier this structure could be established as the benchmark for all export terminals.

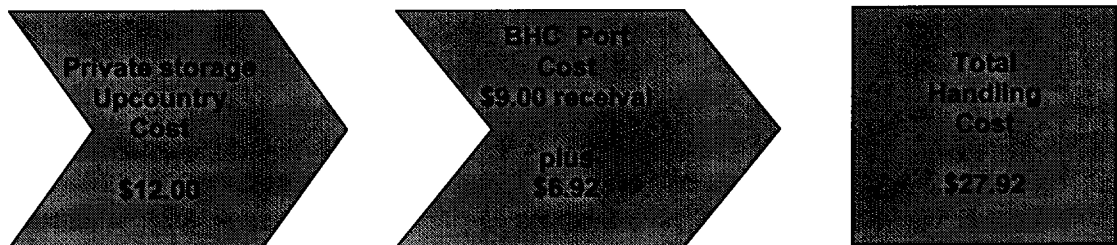
- The AWB experience has been that third parties have not been denied access to infrastructure. AWB's use of third parties has been restricted by the price and conditions of use of export facilities.

For example, if AWB use a third party storage provider in some states the BHC will charge for upcountry services that have already been supplied by the private storage such as classification, receipt and initial storage. These costs are in addition to the port handling charges for receipt and outturn from the port terminal. This results in a significantly higher supply chain cost structure for receipt into a private storage and export from the BHC terminal creating an artificial access barrier. This cost is highlighted diagrammatically below.

BHC export supply chain path total cost \$18.27



Export supply chain from Private storage to BHC port \$27.92



Victorian Regulator General has determined a pricing structure that eliminates this artificial access barrier by setting a charge of \$2.50 for non-Graincorp receipts into port. In the above example the export supply chain path would be reduced by \$6.50.

Recommendations

- Generally, the methodology needs to very responsive to so that an access regime can be quickly established.
- Rail track networks in all states and territories need an access regime established immediately to ensure that competition can be developed, especially upon privatisation of government rail operators.
- All export bulk terminals need an access regime established immediately to ensure that upcountry storage competition can be developed.