

# GrainCorp submission to IPART review of the NSW Rail Access Undertaking

22 December 2021

Att: Review of the NSW Rail Access Undertaking  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

## 1. Summary

GrainCorp welcomes the opportunity to engage with the Independent Pricing and Regulatory Tribunal (IPART) – NSW and provide a submission on the Issues Paper relating to the Review of the NSW Rail Access Undertaking.

This submission includes some background information on the grains industry, with a focus on east coast Australia (ECA), and the importance of rail in domestic supply chains. GrainCorp also makes the following comments with respect to the issues paper and broader rail regulation across Australia.

- GrainCorp supports reform of the regulatory framework to address market failures.
- One network should not be looked at in isolation; a comprehensive review of the regulatory framework needs to incorporate all national and state rail networks, to achieve consistency and alignment in operating systems and network standards.
- Regulation needs to consider the requirements of individual industries. Australian agriculture is highly variable, with grain production and export volumes changing materially from year to year. The grains industry requires flexibility with access to rail capacity, and commitments to minimum service levels.
- More coordinated regulation, addressing end-to-end freight movement across different networks and access undertakings, would drive productivity gains and reduce costs for users. It would also provide rail access seekers with confidence to make long-term planning decisions, including in rail infrastructure investment and innovation.

- Greater network efficiency would deliver improved economic and sustainability outcomes for all users.

## 2. About GrainCorp

GrainCorp is a leading diversified Australian agribusiness, with an integrated operating model connecting growers to domestic and international consumers in over 50 countries. As the largest grain storage and handling network on the east coast of Australia (ECA), GrainCorp operates more than 160 regional receival sites and seven bulk port terminals in Queensland, NSW and Victoria, connected by road and long-distance rail infrastructure. In an average year, GrainCorp handles approximately 26 million tonnes of grain and oilseeds, including 4.9 million tonnes of exports from GrainCorp ports.

For more information on GrainCorp see [www.graincorp.com.au](http://www.graincorp.com.au)

## 3. The grains industry

### Why rail is critical for grains industry:

The grains industry delivers substantial value to the Australian economy and regional communities. The East Coast Australian (ECA) grains industry comprises over 10,000 grain growers producing over 20 million metric tonnes (mmt) of grain on average per annum. Around one quarter of Australian grain is produced in NSW.

Domestic ECA demand for grain, for animal and human consumption, is relatively stable, averaging 11-13mmt p.a. The remainder, approximately 7-9mmt, is considered the 'exportable surplus' and moves from farm to port via rail or road, before being exported to the destination country by vessel. In large crop years, the exportable surplus can be significantly higher, placing substantially more pressure on freight supply chains. The Australian grains industry needs a rail freight network and operating model that is flexible and resilient, to manage volatile seasonal grain supply and demand conditions.

Moving grain efficiently is critical to the competitiveness of the Australian grains industry. According to *GrainGrowers*, the cost of transporting grain to domestic customers and ports accounts for about 35% of the total cost of delivered wheat in eastern states. Currently, these costs are materially higher than competitor countries. A benchmarking study of Australia's freight and supply chain performance for the National Freight and Supply Chain Strategy found weighted average rail transport costs to ECA ports in 2019/20 (Australian cents per tonne per km) of 9.9c - 10.2c. This compares to 3.2c in Canada and 3.8c in Ukraine (Australian cents per tonne per km), two of the world's major grain producing countries<sup>1</sup>. The

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<sup>1</sup> GrainGrowers, 'State of the Australian Grains Industry 2021'. L.E.K. Consulting.  
<https://cdn.sanity.io/files/1nr0ob5f/production/457b97ea261a675405a278be955d1fe70772a09e.pdf>

relatively higher cost of Australian rail freight directly impacts our global competitiveness and ultimately reduces farmgate returns for Australian growers.

#### **Significant cost of freight rail:**

Rail freight is traditionally more cost-effective than road when transporting bulk commodities over long distances, however, existing rail network inefficiencies increase rail costs and force bulk grain onto the road network. The high cost of rail freight is impacted by many factors, such as decades of underinvestment in capital infrastructure, as well as operational decisions made by network operators that adversely impact network capacity and performance, such as pathing issues and maintenance backlogs.

These issues collectively result in increased fixed and variable costs for rail users, and the current regulation enables this to occur without recourse to the network operator. Track access costs represent a significant component of the overall freight charge for grain growers. Access costs vary depending on operational variables such as train size, train weight and distance hauled, and represent a minimum of 15% of the total rail haulage cost, sometimes up to 25%.

Rail is an asset-heavy, high-skill industry. It requires long lead times for infrastructure investment and for staff training and qualification. It has a high level of fixed costs and lacks the flexibility of other transport modes in flexing up and down at short notice. Despite relatively high rail freight rates, Australia's railroad infrastructure ranks very poorly compared with that of most of its major grain export competitors. Australia sits at 35th — on par with Ukraine (37) but well behind the US (10), Canada (16) and Russia (23).<sup>2</sup> The poor quality of some Australian rail lines severely limits both the carrying capacity and speed of trains.

#### **How the grains industry uses freight rail:**

ECA grain production is highly variable, and this has been evident in recent years with a three-year drought followed by one of the largest crops on record in 2020/21. In the 2019 financial year, GrainCorp exported 0.3mmt of grain from its seven ports in ECA. In the 2021 financial year, GrainCorp exported 7.9mmt of grain and it expects a strong export program again in 2022.

This degree of variability is relatively unique to Australian agriculture and highlights the need for supply chain flexibility and a deeper understanding by rail operators of grain industry requirements.

The majority of GrainCorp's ECA rail movements are over long distances to port, with trains regularly traversing more than one rail network and access undertaking. During typical harvest production years, the NSW rail network is used heavily by domestic millers and exporters to haul bulk grain to the destination site. In most instances this rail movement is captive to the CRN, ARTC Interstate and ARTC Hunter Valley rail lines. During drought years, grain can also travel longer distances – e.g. from Victoria to

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<sup>2</sup> AEGIC, 'Australia's Grain Supply Chain', [https://aegic.org.au/wp-content/uploads/2021/03/FULL-REPORT-Australias-grain-supply-chains-DIGITAL\\_.pdf](https://aegic.org.au/wp-content/uploads/2021/03/FULL-REPORT-Australias-grain-supply-chains-DIGITAL_.pdf)

growers, feedlots and millers in Queensland (as experienced in 2019-20). Each of these routes require seamless cross-border linkages.

Currently, there is a lack of coordination between rail networks and inconsistent end-to-end arrangements for access, which creates complexity and increases costs. These network inefficiencies and higher costs are ultimately borne by grain growers, who receive a lower price at the farm gate and are subsequently less competitive in international markets.

Rail network operators also exercise their market power to create additional network inefficiencies. Trains are highly vulnerable to impacts of congestion, changes in rail capacity, wagon capacity limits, cycle times and other time-related costs such as labour, each of which are regularly changed by network operators to suit the operator's commercial objectives.

Network owners regularly prioritise trains that maximise the commercial return for the operator, including passenger trains and more profitable freight. For example, if a grain train that is operating on time gets put aside in a crossing loop to enable a late interstate intermodal train to pass, this creates delays for the grain train and risk of a future cycle cancellation.

The grains industry is generally unable to absorb additional costs and is therefore considered lower margin compared to other users of the network. Being de-prioritised can result in delays and/or reduced track availability; rail operators can also use their monopoly power to impose other inefficiencies such as unscheduled track work, heat restrictions, and delayed maintenance. Each of these inefficiencies regularly impact the grain industry and create cost and complexity.

#### **Road v Rail:**

In the IPART Issues Paper, it states that grain businesses have other price-competitive options for transporting freight. However, in GrainCorp's view, rail is a far more efficient mode of transport for the movement of bulk grain, with road only suitable for shorter hauls of less than 150km.

There are also significant societal costs that arise from increased road traffic and these should be considered as part of any rail network review:

- **Safety:** Rail freight produces 14 times less accident costs for every tonne of freight hauled a kilometre.<sup>3</sup> Heavy articulated trucks have a fatal crash involvement rate of 1.8 to 1.3 deaths per 100 million km.<sup>4</sup>
- **Environment:** Rail freight produces 16 times less carbon pollution than road freight for every tonne of freight hauled a kilometre.<sup>5</sup>

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<sup>3</sup> Deloitte Access Economics. Value of Rail. The contribution of rail in Australia. A report commissioned by the Australasian Railway Association (ARA). November 2017

<sup>4</sup> BITRE: [https://www.bitre.gov.au/sites/default/files/is\\_078.pdf](https://www.bitre.gov.au/sites/default/files/is_078.pdf)

<sup>5</sup> Deloitte Access Economics. Value of Rail. The contribution of rail in Australia. A report commissioned by the Australasian Railway Association (ARA). November 2017

- **Community:** Many heavy truck movements occur through residential areas, creating noise, pollution and safety concerns for local communities; Replacing trucks with rail would assist in relieving road congestion and maintenance costs in metropolitan areas.
- **Road maintenance:** The cost of maintaining roads in Australia is growing and the overall maintenance backlog is increasing. Road network faces increasing demands from growing population and freight task.

**Conclusion:**

In GrainCorp's view, a broader regulatory review of the national rail network is required due to the inherent interconnectedness of the network and critical cross-border freight links that drive the national economy.

The current regulatory model is extremely fragmented and places onerous cost and risk upon rail access seekers. There is lack of certainty around the future rail freight strategy and timing for much needed rail infrastructure investment, which actively disincentivises private industry investment and innovation.

Opportunity exists to significantly improve rail freight productivity and resilience in the network, which will not only enhance economic outcomes for users of the networks but provide greater certainty to facilitate future business investment for the benefit of regional communities. We look forward to continuing to engage in consultations with you as this review progresses.

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