



Grain Producers SA



24th March 2015

Essential Services Commission of South Australia (ESCOSA).
GPO Box 2605
Adelaide SA 5001

Dear Sir/Madam,

RE: 2015 South Australian Rail Access Regime Review (Access Regime)

Please find a submission from Grain Producers SA Ltd (GPSA) regarding the Rail Access Regime Review. Representatives of GPSA would welcome invitations to discuss this submission in general or answer any specific questions or concerns.

Overview

Grain Producers SA Ltd (GPSA) is the peak body representing South Australian grain producers.

GPSA's objectives are to improve the profitability and sustainability of South Australian grain producers through:

- Representing the views of South Australian grain producers to government, industry and the community on grains issues;
- Working with an effective state farming organisation and other commodity groups to represent South Australian grain producers on cross commodity issues;
- Working with government and industry to develop policies around creating and maintaining an efficient, accessible and cost effective supply chain;
- Working with government, industry and institutions to improve the technical and business skills of South Australian grain producers
- Working with Research, Development and Extension organisations to identify and disseminate research priorities in grain production, handling and management
- Supporting an effective national representative organisation to work with government around national initiatives to support the grains industry
- Providing a program to include and develop young farmers to be prepared to take on leadership roles within the SA grains industry.

Yours sincerely

Darren Arney
CEO Grain Producers SA Ltd

This Submission is tendered in support of the Railways (Operations and Access) Act 1997 (ROA Act) and ESCOSA's ongoing role as regulator of the Access Regime.

Background:

The State's grain industries are large and diverse, making a significant contribution to the economy. Total grain production in South Australia from an estimated 3,000 grain producing businesses for the 2014-15 season was 7.63 million tonnes from 4.04 million hectares. With an estimated farm gate value of over \$1.8 billion & export value of \$2.2 billion, the grains industry is not only a major contributor to this state's economy it is also a significant export earner for this state.

Despite the volume, value and importance of the grains industry to this state, increasingly we are seeing the profitability of farming being challenged by every increasing costs and community emphasis on urban issues and opportunities. A major cost to grain producers across South Australia is the cost of getting grain from farm gate to port¹. GPSA welcomes your review of the rail component of the supply chain.

We submit that:

- Rail is the most efficient & cost effective method of transporting grain² yet we see a declining percentage of grain moving by rail due to increasing prices, declining quality, service, reliability and closure of rail routes. This trend needs to be reversed.
- Grain is a significant component of bulk freight. Across Australia 75% of bulk freight is made up of iron ore, coal & grain³ and the volume of grain production is on the increase in South Australia. Rail infrastructure to handle both current and future growth demands needs to be maintained and built.
- The current Rail Access regime needs improvements to further achieve its objectives of fostering competition, appropriate pricing, quality, reliability and longevity as an essential service.

Answers to your specific questions below:-

Q1: Is there any evidence of misuse of market power by rail operators?

- GPSA is not privy to negotiation that occur between the service provider and its client or potential clients however we observe no new participants choosing to use the service despite new providers of grain storage & handling being established alongside both the Mallee and the Eyre Peninsula lines over the past five years. This disappoints us however GPSA's primary concern is the lack of transparency around the negotiations and ultimately agreements between supplier and client as these costs are passed onto the grain producer without recourse due to the monopoly nature of the provider and

¹ [AEGIC - The cost of Australia's bulk grain export supply chains](#)

² [GTA Submission - Ag Competiveness White Paper - Transport infrastructure & the grains sector](#)

³ [Aust. Govt. - Road & rail freight competitors or complements?](#)

client. We also note Murray Zircon, Mineral Sands mine near Halidon has chosen to use road freight rather than rail citing “road option provides lower cost, safer and faster solution”⁴.

Q2: Has the current Access Regime been successful? How should this success be measured?

- Complete success has not been achieved against the key reason for the ROA Act which “was introduced to accommodate competition between users of railways”
 - o There has been no additional competition since the ROA Act was introduced in 1997
 - o Cost of grain freight continues to increase rapidly. Location Differentials (LD’s) the cost farmers pay to get grain from local silo to port, has increased 19% over the last 5 seasons.
 - o A smaller percentage of SA’s grain is transported by rail each season
 - o Reasonable maintenance levels and longevity of this essential service is in jeopardy⁵

Q3: What are the benefits of retaining the current Access Regime?

- GPSA believes the Access Regime has in part kept these rail lines, essential services, operational for longer than had it been an unregulated market place. The Access Regimes requirement of open communication as described in the “Information Kit” makes for an orderly market place where an opportunity for new entrants to consider and be considered for rail access is afforded. It keeps the players to some degree open and honest in their modus operandi, including pricing negotiations.

What would be the risks (if any) if it was to expire?

- Rampant & uncontrolled price rises which would make rail more uncompetitive and hasten its demise. Without the current Access Regime there would be even less incentive for grain haulage operator(s) to use rail versus road where the broader community foots more of the bill.

Q4: What are the current costs of the Access Regime?

- GPSA are not privy to the actual costs however we don’t believe they are a material in the overall scheme or a limiting factor for either the ongoing operation of the rail corridors or the potential access of services by any new participants. Most of the Access Regime requirements are simply good business practises.

Q6: What are the intentions of rail service providers and their customers in the next 5 years?

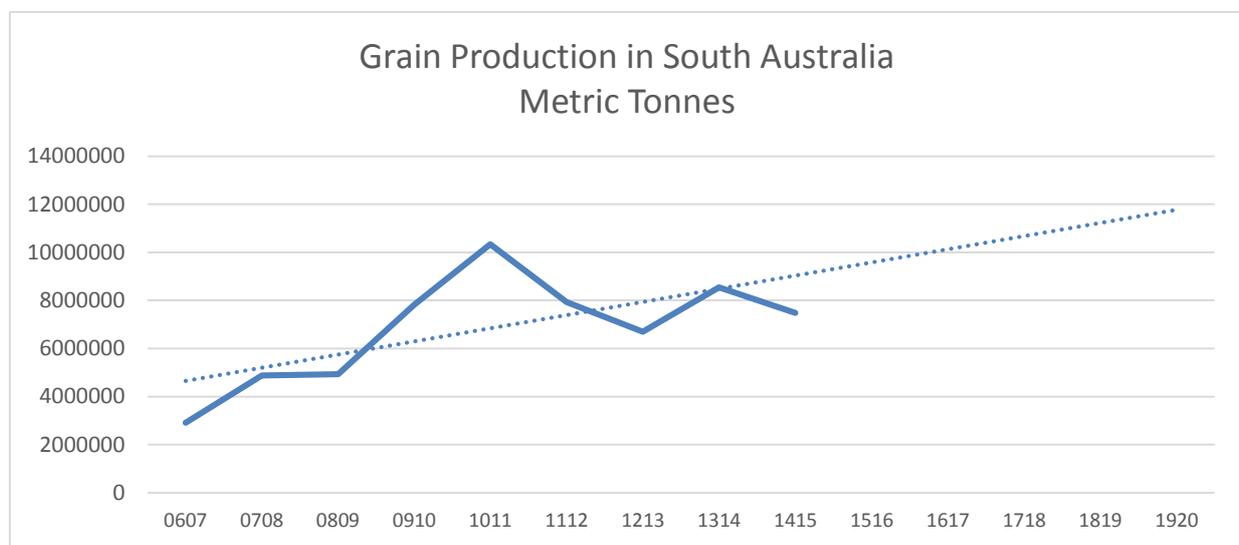
- GPSA understand the closure of the Mallee line is scheduled for midyear 2015 and the remaining Eyre Peninsula line closure, north of Cummins likely midyear 2017. GPSA is not aware of any pending change to the provider’s services on the Mid-North line. Grain currently carried on these lines plus any increased production will be diverted to road freight adding to maintenance and safety pressures.

⁴ [RDA - Freight Study & Rail Operations Investigation - SA Mallee](#)

⁵ [DPTI - Mallee rail lines to be used this season](#)

Are there any key industry developments in the foreseeable future that may impact on the demand for these services?

- Grain production continues to grow in volume (see graph below) and in addition to this long term trend very recent announcements by the Minister for Agriculture, Food and Fisheries suggest volumes of grain produced may increase by as much as 40% p.a.⁶ in the near future.



Source data – PIRSA Crop reports.

Q7: What other issues are relevant to the decision to continue, or discontinue the current Access Regime?

- Proposed new mining on Eyre Peninsula which will need infrastructure to transport product to port and could possibly work in with grain transportation. If any of these projects were to become operational and share rail corridors the need for an effective Access Regime would be more pronounced.

Q8: Are there any other matters that the Commission should consider as a part of the Review?

- The Australian Governments Inland rail project from Melbourne to Brisbane⁷ and the recently announced Victorian Governments upgrades to rail freight across Western Victoria⁸. The possibility of a truly free flowing national railway system supporting commerce through efficient and reliable freight services is most enticing to GPSA. The cost of the current piece meal approach to Australian Railways is a significant cost and lost opportunity for grain producers. Every break in the “chain” reduces competition and increases cost or loss of value to grain producers.

⁶ [PIRSA – South Australian Farmers set to reap massive yield bonanza](#)

⁷ [Aust. Govt. - Dept. of Infrastructure & Regional Development - Inland Rail](#)

⁸ [ABC - Labor Government has announced \\$30 million in rail freight upgrades for western Victoria.](#)