

GRAIN INDUSTRY MARKET INTELLIGENCE – UPDATE March 2014

BRIEF

Council has been getting informal reports of increased trucking activity across the Wheatbelt and into export terminals. Council seeks some general analysis of post-harvest logistics activity and developments in the grain marketing and handling environment of Western Australia.

APPROACH

Informal discussions have been held with key players in the grains logistics sector, including CBH, Bunge Australia, Tamma Grains, Australian Grain Exporters Association and local councils.

POST-HARVEST ACTIVITY

CBH received an estimate 15.8 million tonnes of grain in the 2013/14 harvest, the third largest total in its history. Volumes were particularly heavy in the southern areas - the Albany, Esperance and the southern Kwinana zones. Albany zone experienced a record crop of over 3 million tonnes.

This volume has led to an export program of at least 1 million tonnes per month until the next harvest commences in October 2014, after accommodating domestic demand of 1-2 million tonnes. CBH figures demonstrate that over 4 million tonnes has been exported from its four terminals in the three month period to 31 March 2014.

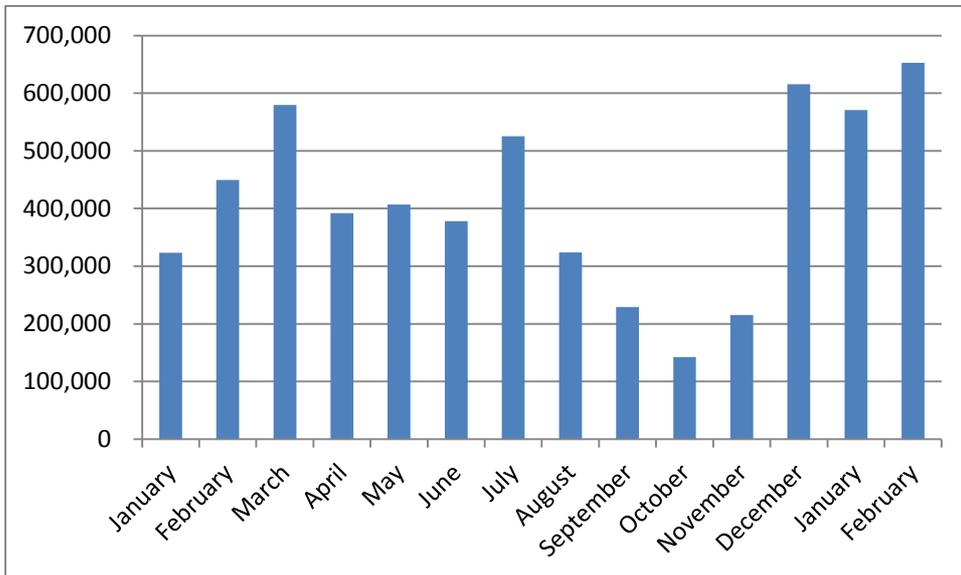
Despite the heavy volume, prices for Australian wheat are strong, which has resulted in record early season demand for export capacity. Early season demand is usually heavy in any case, but the premiums available ahead of the northern hemisphere harvests seem to be higher than normal this year. In previous years, when prices were down, there is less impetus to sell, and more incentive to store grain for long periods in the hope of eventual better prices.

CBH export capacity auction rules have changed again this year, making it easier for exporters to manage the risks associated with booking large volumes, which may be contributing to more consistently high demand. CBH also suggests that finance costs for traders buying and then selling grain are slightly higher now that grain pools are no longer generally being run by the major exporters, which may be a factor.

All trains are being effectively deployed, especially in the more optimal rail-efficient sites and lines, and those not affected by summer heat restrictions. Trains are unable to meet demand on their own, which means that trucks are being used by CBH and other parties to augment the rail service.

In some areas, trucks are running shuttles from smaller rail sites into larger hubs such as York, from where trains are operating. In other areas, especially where no logical hubbing opportunities exist, trucks are running directly to port.

Monthly bulk grain exports 2013-14 (Kwinana, tonnes)



ROAD USAGE ISSUES

There is no question that road freight of grain from bin to port has become more pervasive and less predictable in recent years. The investment in rail wagons by CBH and the introduction of the new operator, WATCO, has led to some operational changes and a stronger focus on optimising rail asset usage for the overall benefit of CBH members and the export effort.

This has meant that the use of road transport is now oriented around short term rail efficiency needs, as well as customer export demand. CBH routinely runs trucks from bins where rail loading is possible, but not efficient – especially in peak periods. 2014 will be a year of continually high demand, and trucks will be operated all year round throughout the Wheatbelt.

CBH also has additional competition in exporting grain in 2014, and volumes will grow from mid-year, when the Bunge supply chain via Bunbury commences activity. Other grain traders and integrated competing chains will ramp up into 2015. Much, if not all, of the volume associated with these chains will be hauled by road, especially in the Southern Kwinana and Albany zones, where rail suffers a significant disadvantage relative to road in transferring grain to Kwinana.

Kwinana also offers a significant sea-freight price differential relative to Albany, and increasingly this will attract grain into Kwinana and Bunbury from the northern part of the Albany zone.

UNPREDICTABILITY

Main Roads has tried to anticipate where these grain flows will eventuate, and to allocate road maintenance expenditure accordingly. However, there is no firm information confirming the use of any nominated routes – not even the new exporters know at this stage exactly where their grain will be sourced.

Meetings with local government officials in York, Wickopin and Narrogin confirmed that grain truck movements are now taking place less predictably, on routes previously not expected to be used significantly.

Some of these have resulted from the closure of lines such as the Quairading line, while others pertain to the lack of rail services on less efficient lines at this time of the year.

There are indications that major rail sites on the Great Southern Railway are acting to some extent as hubs, with trucking into York and Brookton being noticed. Grain from Quairading is apparently being trucked into York instead of Cunderdin, despite the investment in upgrading of the Cunderdin-Quairading road.

York Shire is attempting to protect its roads from damage by restricting the use of the local road servicing York CBH bin to RAV 2 vehicles.

A southern bypass of the town centre is in the planning stages. This would service the CBH bin without passage through the town, and would also support the development of a new industrial zone in the same area. Some transport and logistics businesses are suggesting a move to York away from expensive industrial land in southern Perth is attractive. There is also growing commuter traffic from York, as population is rising at about 4% per year.

The York-Cunderdin issue is in need of resolution. Cunderdin rail siding is not long enough to accommodate long trains and the site cannot store or put-through large volumes at present. CBH freight deduction differentials between York and Cunderdin indicate that the freight rate at Cunderdin is about \$4 higher than at York, which would also dissuade growers in the region from delivering to Cunderdin.

Narrogin Shire expressed lack of understanding of local freight movements. Grain from the Kulin line was expected to be funnelled through Brookton, but is apparently passing through Narrogin and Williams en route to Kwinana.

All councils suggested that the running of trucks in campaign movements from bins to port or rail bins does damage to the road. Some also suggest that the longer combination vehicles also damage roads more than shorter ones, due to the creation of a 'wave' effect on the pavement which sustains forward pressure on the road surface for longer.

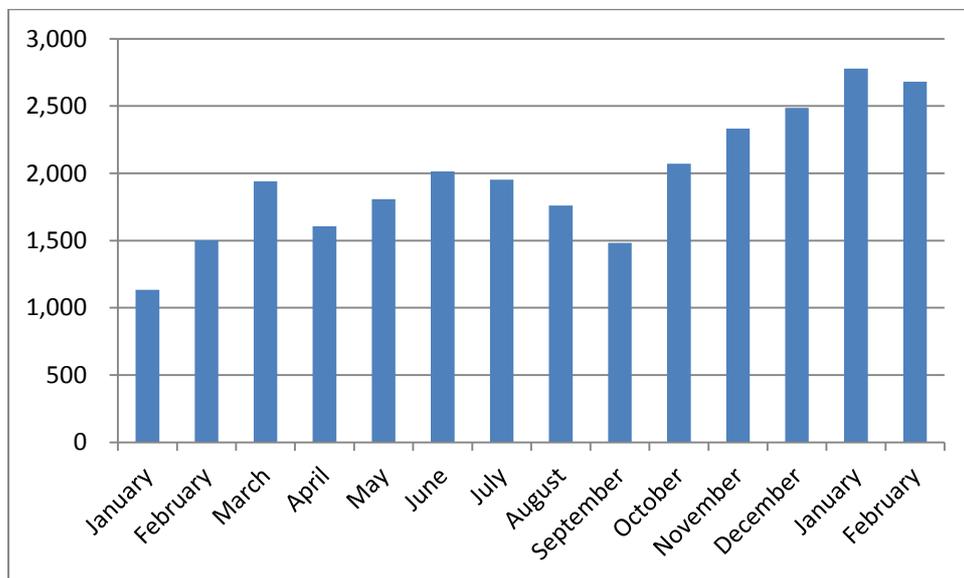
It would be useful to clarify whether there is any technical confirmation of these concerns, or whether the issue is essentially one of perception. Long lines of big trucks on a single corridor would certainly have a visual impact that more steady trucking does not. CBH will increasingly use campaign movements, however, under Grain Express, as it is much more cost-effective to clear bins and sites in a short time frame, rather than spread the activity over a large area and time-span.

NEW SUPPLY CHAINS

The new Bunge export facility at Bunbury will not be open for business until mid-year, with the first shipment expected in May. However, from early April the first tonnages are starting to be accumulated in storage, and for commissioning purposes.

The Chinese funded VicStock supply chain using Albany Port has not commenced operation, but some grain grown on company-owned farms in the Albany Zone (estimated 80,000 tonnes) is being transported west to Fremantle in containers. Export statistics from Port of Fremantle suggest an increase in containerised grain volumes over 2013 is evident already this year.

Monthly containerised grain exports 2013-14 (Fremantle, TEUs)



There are also indications from the private (non-CBH) grain trading sector that more grain from the northern Albany zone (eg Hyden, Lake Grace, Lake King areas) is beginning to move by road along a westerly corridor towards Kwinana, rather than southwards to Albany. This includes grain produced on farms recently acquired by entities seeking to compete with the CBH chains.

It will only be possible to assess the long term trends when the competing Bunbury and Albany chain infrastructure is in place and operating. However, it seems very likely that this trend will continue, as export volumes not using the rail network will be attracted to the west coast ports ahead of Albany, due to the sea freight differential which can be as much as \$7/tonne.

The potential withdrawal from service of the Tier 3 lines from mid-year will no doubt exacerbate this trend.

SUMMARY

- Post-harvest road freight activity is usually high, due to availability of early season global price premiums. In 2014, pressures on rail freight capacity are greater than usual due to the scale of the harvest and sustained high prices
- CBH has incentive to optimise the use of rail, which means that bin-bin and bin-port truck operations are used to ensure trains are loaded at the most efficient locations. New road use patterns are emerging from this incentive.
- Competing supply chains are yet to commence operation, but trend towards increased east-west road freight activity is already emerging
- Some local councils are confused about the use of local roads and some of their urban streets by larger than usual truck numbers

RECOMMENDATION

Every attempt should be made by the Dept of Transport, Main Roads and WALGA to establish lines of communication with competing non-CBH supply chains. This will help with the prediction of Wheatbelt road use patterns for the remainder of 2014 and for future seasons from 2014/15 onwards where a greater variety of export chain options will be in place.

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