



Co-operative Bulk Handling Ltd
ABN 29 256 604 947
Level 6, 240 St Georges Terrace
Perth WA 6000 Australia
GPO Box L886
Perth WA 6842 Australia
Telephone
+61 8 9327 9600
Grower Service Centre
1800 199 083
cbh.com.au

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National Freight and Supply Chain Strategy Secretariat
GPO Box 594
CANBERRA ACT 2601

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2023 Review of the National Freight and Supply Chain Strategy

On behalf of Co-operative Bulk Handling Ltd (**CBH**) I welcome the opportunity to provide feedback on how the National Freight and Supply Chain Strategy and National Action Plan can be strengthened to improve the efficiency, effectiveness and reliability of Australia's supply chains.

Background

CBH is Australia's largest co-operative which is owned and controlled by nearly 3,500 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.

The WA grains industry is the largest agricultural sector in WA and the fourth largest export industry overall, with CBH's grain grower members producing an average of around 17 million tonnes per annum – about 40 – 50 per cent of the entire Australian grain production and contributing approximately \$6 billion to the WA economy and regional communities every year.

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 with approximately 120 upcountry receival points over a land area almost the size of Victoria.

CBH employs approximately 1,100 permanent employees and engages up to 2,000 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.

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, exporting to around 200 customers in 30 countries around the world.

The impact of supply chain distribution on the economic contribution of the grains industry

The grain industry is the largest agricultural industry in WA and is heavily export focussed compared to the eastern States. More than 90 per cent of the grain grown in WA is transported from upcountry to port and shipped into highly competitive international markets.

The average WA crop size is growing, and by 2033 we forecast that it will increase from the current average of 17 million tonnes to an average of 22 million tonnes, with a peak crop of almost 30 million tonnes. Last year, WA grain growers produced their largest ever crop of 22.7 million tonnes with an estimated value of more than \$9 billion to the economy.

To optimise grain value for WA growers and attract a price premium, the supply chain needs to be able to maximise grain exports in the first-half of the calendar year, before grain harvested by competitors in the northern hemisphere becomes available in our contestable international markets. In order to maximise value and cater for the growing crop size, the most critical challenge for the industry is to significantly increase the capacity to get more tonnes to port on a monthly basis to meet market demand. As a result, CBH has put in place a ten-year strategy to increase its tonnes-to-port export capacity from 1.6 million tonnes per month currently to 3.0 million tonnes per month by 2033.

The opportunity

To deliver this strategy it will require significant investment in the supply chain – particularly in rail upgrades to increase the efficiency of the rail network and gets more tonnes moving via rail. Road infrastructure investment is also required, as the rail network does not cover the whole grain growing footprint. The road network needs to complement rail freight activities, particularly where rail does not exist, in getting grain to a rail loading facility, and from the farm gate to site.

To that end, the Federal and Western Australian State Governments announced in 2021 a \$200 million commitment to Package 1 of the Western Australian Agricultural Supply Chain Improvements (ASCI) Project, which has since been added to the Infrastructure Australia Priority Initiative List. The package includes \$68 million for 11 grain rail siding upgrades with CBH co-investing in rail loading infrastructure at these sites to complement this investment, \$60 million to upgrade the track between Carnamah and Mingenew from 16 tonne axle load (TAL) to 19 TAL, and \$72 million to investigate recommissioning of the Tier 3 rail lines in the Narrogin-Wickepin-Kulin area.

That funding will complement significant investment already committed by CBH to de-constrain its supply chain through significant capital investment in:

- increasing permanent storage capacity through the expansion of strategic grain receival sites throughout the network;
- the purchase of additional train sets to complement its existing fleet; and
- capital investment at its four ports by way of upgrades to support the tonnes-to-port strategy.

The opportunity cost

If the export capacity of the grain supply chain does not keep pace with the projected growth in grain production in Western Australia, then the cost to grain growers, regional communities, and the broader economy will be immense. That cost has several strands:

- 1) If grain cannot be delivered from up-country to port at a rate which keeps up with ships arriving at port, then those ships will incur additional significant demurrage costs while they queue to be loaded;

- 2) Grain that can be shipped prior to the beginning of the northern hemisphere harvest typically earns a premium of \$25-\$35 per tonne. This premium is lost on tonnes that are shipped after that time;
- 3) If a trader cannot ship grain within a reasonable time frame, they will be less willing to buy grain from growers for fear of the price falling before it can be shipped. The effect of this is that traders build a risk margin (i.e. a discount) into the local cash prices they are willing to offer growers. This is particularly a problem when international prices are highly volatile as they are now; and
- 4) If the market believes that there will be a significant carry-out of old season's stock into the next year, that carry-out will serve to undermine local cash prices both in relation to supply side economics and logistics.

If investment in the rail and road network can be made in line with CBH's strategy to enable the WA grain supply chain to get more tonnes to port, and meet the international demand for WA grain, then there is a significant opportunity to avoid these costs and capitalise on the early shipping price premium for the benefit of Western Australian farmers and the wider economy.

Global food security

As mentioned, CBH Marketing and Trading is Australia's largest grain exporter and since 2019 has shipped WA grain to more than 34 countries, providing these countries with a level of food security from our export focussed State.

This food security has been highlighted more recently, unfortunately, by the conflict in the Ukraine and the related decrease in the supply of grain from the Black Sea region, a major global producer of grain and oilseeds, which has benefitted WA grain growers through an increase in global grain pricing.

Investment in the export capacity of the grain supply chain not only benefits WA growers, as outlined above, it also ensures that we can continue to meet the strong international demand for WA grain which continues to offer food security to our trading partners in SE Asia, North Asia, the Middle East, South America and Europe.

Challenges constraining supply chain investment

Alongside the investment by government, CBH intends to spend approximately \$4 billion over the next ten years investing in capital infrastructure and projects which will enable us to achieve our path to 2033 strategy.

Although certainly not unique to CBH, there are pressures which constrain not only the delivery of capital works projects, but the efficient use and operation of the supply chain following completion.

Namely these are;

- 1) An increasingly complex regulatory approvals environment across all levels of government, which means projects often spend upwards of two years going through environmental, Aboriginal heritage and planning approval processes before construction is able to commence; and
- 2) Attracting and retaining skilled staff to the regions as labour to support farmers and also CBH during peak periods, or train drivers and truck drivers to maximise the capacity of the supply chain at crucial times.

The above factors adversely impact the grains industry's ability to maximise its production and contribution to State and National GDP, and we see a need for all levels of government to work together to resolve some of these barriers facing investment into supply chains and freight networks nationally.

In summary

Having covered the opportunities, challenges and opportunity cost of investment into the to the WA grains supply chain, we will continue to advocate, with strong industry support, for further investment into the grains supply chain. This includes investment by government via further packages of ASCI funding that complement CBH's own investment.

The opportunity to make a submission is appreciated [REDACTED]
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Yours sincerely,

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Ms Brianna Peake
CHIEF STAKEHOLDER RELATIONS, SUSTAINABILITY AND STRATEGY OFFICER