



## **NSW Farmers' submission**

# **Review of the National Freight and Supply Chain Strategy**

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## About NSW Farmers

NSW Farmers is Australia's largest state farming organisation, representing the interests of its farmer members in the state. We are Australia's only state-based farming organisation that represents farmers across all agricultural commodities. We also speak up on issues that matter to farmers, whether it's the environment, biosecurity, water, animal welfare, economics, trade, workforce or rural and regional affairs.

Agriculture is an economic 'engine' industry in New South Wales. Despite having faced extreme weather conditions, pandemic and natural disasters in the past three years, farmers across the state produced more than \$23 billion in 2021-22, or around 25 per cent of total national production, and contribute significantly to the state's total exports. Agriculture is the heartbeat of regional communities, directly employing almost two per cent of the state's workers and supporting roles in processing, manufacturing, retail, and hospitality across regional and metropolitan areas. The sector hopes to grow this contribution even further by working toward the target of \$30 billion in economic output by 2030.

Our state's diverse geography and climatic conditions mean a wide variety of crops and livestock can be cultivated here. We represent the interests of farmers from a broad range of commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and chickens.

## Overview

A profitable agriculture industry is reliant on an effective and efficient national freight network and supply chain network. An efficient agricultural supply chain benefits both the nation's food security and economic prosperity. Efficient supply chains are needed to meet this region's growing demand for high quality agriculture goods, as well as linking our primary producers to food processors in Australia, improving domestic production. Additionally, approximately 72% of Australian agricultural production is exported<sup>1</sup> and efficient access to export markets is critical for agriculture across NSW and Australia.

Any inefficiencies in agricultural supply chains add operational costs, impact continuity of market access and may have a tangible adverse impact on the capacity for Australian primary producers to further expand their enterprises. If an industry is not profitable then there are dire implications for its sustainability, as it will not be able to attract investment and businesses will leave the industry. This will in turn have consequences for food security as supply will diminish ultimately leading to upward price pressures and a lack of long-term investment into its sustainability.

The three main items to improve supply chain efficiency are first, a better road funding model. This should involve proper funding allocation for local government which maintains 87% of the road network, as well as better coordination of funding by the three different levels of government. Second, upgrading the rail network by improving connectivity between the lines, with initiatives such as upgrading the network to 25 Total Axle load (TAL). The third is improving port efficiency, performance time and infrastructure connectivity.

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<sup>1</sup> ABARES 2023, ABARES Insights - Snapshot of Australian Agriculture 2023, ABARES, March 2023.  
[https://daff.ent.sirsidynix.net.au/client/en\\_AU/search/asset/1034541/0](https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1034541/0)

## Supply Chains

Agricultural supply chains have unique properties and are becoming more complex in structure, and thus more susceptible to different risks and inefficiencies. Food needs to be frequently purchased and consumed daily, meaning even temporary disruptions significantly affect households. Food production is also seasonal and exposed to environmental stresses, which makes the supply task variable throughout the year. The evidence available suggests that agricultural supply chains are underperforming which makes it more difficult for new entrants to justify significant upfront costs due to the high risks present. The availability and security of the supply of critical farm inputs including agvet chemistry, fertilizer, energy, and machinery is also crucial to maintain agricultural production. There is a clear need to increase the resilience of input supply chains to increase the confidence of farmers to invest in their business' by stabilising prices and reducing lag times.

Despite trade tensions and COVID-related supply chain disruptions, there is increasing connectivity through infrastructure which is reshaping supply chains. This new infrastructure could open new trade routes and improve the efficiency of delivering produce to growing markets in Asia. However, there will need to be significant investment to improve efficiencies for both intra- and inter-state freight movement within Australia to gain maximum benefit and return from greater market access.

Inefficiencies in freight movements, particularly for high volume primary produce, add costs and time imposts for farmers. Our farms produce high quality, high value product that attracts premium prices both domestically and internationally. Any inefficiencies and productivity gains attained on-farm will be lost without a concerted effort to establish and maintain infrastructure for road and rail across regional NSW. This is particularly important for NSW relative to other states and territories, given that the state manages the second-highest trade volume in the country at 28 per cent of Australia's total imports and exports.

The high cost of transport along the supply chain is demonstrated in the weighted rail cost per tonne per kilometre in NSW compared to other jurisdictions such as Canada. In NSW rail transportation costs 9.9 AUD cents per tonne per kilometre, while in Canada it costs 3.2 AUD cents per tonne per kilometre<sup>2</sup>. The distance for grain to travel in the supply chain is higher in NSW which averages just above 400km, compared with South Australia which averages 150km and Western Australia which averages 250km. With the national crop size expected to grow, Australia faces the challenge of significantly increasing current network capacity to move commodities from paddock to port to increase export capacity.

Regional supply chains are critical not only for industry but also to supply communities with basic needs. However, local governments tasked with maintaining critical transport infrastructure are often inadequately resourced over an extended timeframe to manage a priority activity list. Improvements to regional road and rail will improve access for the agribusiness supply chain, in addition to enhancing liveability in regional centres. Consideration must also be given to improving the governance of regional road networks, which the Australian Infrastructure Audit describes as inconsistent and lacking transparency.

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<sup>2</sup> L.E.K (2023) Connecting the Dots: Improving Australian Grain Supply Chain Efficiency.

<https://www.graingrowers.com.au/connecting-the-dots-improving-australian-grain-supply-chain-efficiency>

## Ports

Ports are essential gateways for agriculture to access international markets and need to be as competitive as possible to Australia to be globally competitive. Primary production has a significant reliance on shipping, either as containerised product or as bulk cargo to move the product internationally. Analysis of in-port time performance of 351 container ports across the world by the World Bank found that four Australian major container ports, including Sydney, were in the worst-performing 15 percent<sup>3</sup>. Given that there is a growing trend of containerised grain exports, this puts Australia at a competitive disadvantage to overseas exporters.

The market for stevedoring services is very concentrated contributing to inefficiencies and higher costs. The 2021-22 ACCC container stevedoring monitoring report shows that operating profit margins of Australian container stevedores have increased from 13 per cent in 2019-20 to 25 per cent in 2021-22.

The process of port privatisation in NSW has been mishandled. The purpose of privatisation is to improve productivity and efficiency through competition, however the process restricted competition by inserting trade restriction clauses for the privatisation of the Port of Newcastle. The trade restrictions have since been lifted; however, it will take time for the Port of Newcastle to make the necessary investment in productive capital such as better grain storage and cranes.

The two most expensive parts of the supply chain, (a) transport from handling sites to port and (b) port charges. These are the areas where most supply chain issues have been identified and therefore where the highest cost savings could be achieved. For example, supply chain costs to port account for approximately 40% of the delivered cost of wheat in NSW.

It is of concern that congestion in and around ports is where bottlenecks occur, not necessarily at the port loading facilities themselves. This is especially true at Port Botany, which requires either trucks to travel through Sydney congestion or freight rail which needs to compete for slots with the passenger network in Sydney.

Until dedicated freight lines such as the Western Sydney Freight Line are delivered, and the interaction with the new Western Sydney Airport precinct is clarified; the critical need for improved governance and coordination between Australian Rail and Track Corporation (ARTC) and Sydney Trains will be critical for improved Port Botany rail access.

Train delays, in part due to the shared rail infrastructure with commuter rail, and the onflow impact of curfews for rail movement across the metropolitan area causes unforeseen delays for rail movement and results in missing slots adding therefore adding extra costs.

Accessing port windows for rail has become more difficult given the need to manage complex operating constraints including matching port window times to train paths from regional areas. Because of the high use and complexity of scheduling rail (freight and commuter) movements, the establishment of a dedicated unit, like the Hunter Valley Coal Chain Coordinator should be investigated. This model aligns capacity with demand, integrating maintenance and operation to synchronise the flow of raw product load points to end points through a broad network of interdependent infrastructure.

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<sup>3</sup> World Bank Group (2022) The Container Port Performance Index 2021, Washington.

## Rail

Underinvestment in regional rail lines has occurred due to the low level of cost recovery from users of these lines. In many instances the rail access fees paid by operators covers just 1 per cent of the total maintenance costs. The NSW Government is required to fund most maintenance costs for low-volume lines, and there is an absence of funding for actual improvement of rail infrastructure.

The Government needs to invest in improving country rail for a more efficient supply chain. Linking regional NSW to the coastal cities and ports is important to underpin the sector's future prosperity, as well as the nation's food security. Rail is critical for the transportation of goods over long distances, through fixed high-volumes paths. Especially inland where rail has a cost advantage over road.

The rail network in Australia is localised with a patchwork of different Total Axle loads (TAL) and rail gauges. This restricts interconnection between the networks, leading to inefficiencies. Upgrading the country regional network to 25 tonne TAL will allow a larger quantity of goods transported along the regional freight network. This would improve the interconnectivity between Inland rail and the regional freight network improving productivity and efficiency. Ensuring the Hunter Valley rail networked is upgraded will allow more efficient use of the Port of Newcastle. Ensuring interconnectivity between the different rail gauges will also improve efficiency across state borders and allow goods transportation on the Inland rail to Queensland ports.

The different legal, administrative, and regulatory structures that emerges from fragmented track ownership across Australia adds another level of complexity. Across Australia there are currently 8 rail infrastructure managers and over 50 above rail operators. As a result, Australia has a patchwork of technology and signalling systems in use, multiple rail access regimes with different operating requirements. These different systems create additional complexities and costs in the rail supply chain.

## Road

Fixing country roads is required to improve road freight efficiency. Harmonizing heavy vehicle requirement will reduce compliance cost by creating a standard regulation framework for heavy vehicles across Australia. This would reduce cost and improve productivity of the road supply chain network. Decaying bridge infrastructure is becoming a problem. Thousands of bridges in Australia are reaching the end of their useful life, with load limits not able to carry freight vehicles. When new roads are built in regional and rural areas, increasingly roads are not suited for that task of transporting heavy agricultural vehicles. For improved agriculture efficiency this needs to be taken into consideration.

Upgrading the infrastructure connectivity between western New South Wales and the Sydney basin would improve the agriculture supply chain. Duplication of The Great Western Highway will be needed between Lithgow and Katoomba through a tunnel or similar, to bypass bottlenecks. The Bells Line Road will need upgrading to build more overtaking lanes and repair the flood damage, which will improve efficiency and safety.

Insufficient funding for the maintenance of local roads is leading to country roads that are not suitable for agriculture and freight. Australian's regional road network has been left in extremely poor condition. Local Government is responsible for 87% of Australia's road networks and their lack of proper funding is reducing the quality of the road network. The tax dollars collected from fuel taxes and other road related taxes are not being invested back into road maintenance and construction. Local government have no ability to collect road related charges but are responsible for most of the road network.

Recent adverse weather effects have accelerated the deterioration of country roads. The impact of climate change has exacerbated chronic underfunding of regional roads. It is crucial that investments are made in the creation of a resilient road network against the emerging problem of severe weather events and climate risk.

The whole system of road funding and road responsibility needs an overhaul. There needs to be improved coordination between the Federal, State, and local governments infrastructure plans to ensure proper allocations of funds that maximise road and rail freight efficiency, and dollar spend utility. The Federal Government raises most revenue, the State governments run transportation policy and Local Government has responsibility for most of the road network. The miscoordination between each level creates inefficiency.

## Data

Evidence-based policy making and investment across the supply chain that benefit industry and the community is the goal and would struggle to be achieved with current available information. A key component of the National Freight and Supply Chain Strategy, as outlined by DITCRD (2019)<sup>4</sup> was the need to better measure freight and supply chain performance to aid government and industry to improve freight productivity and help evaluate where infrastructure was required.

The Productivity Commission has identified that governments should aid the management of supply chains through provision of information, especially for risk identification<sup>5</sup>. The ACCC could be granted the statutory powers to gather the required information from industry to closely examine margins throughout the grain supply chain. This would be used to ensure there is no excessive use of market power and that information flows are sufficient to encourage both competition and more efficient decision-making across the supply chain.

The Australian supply chain lacks robust, publicly accessible data to provide performance transparency, mitigate disruptions and support industry stakeholders. While some data is available, it is often held by private operators and hard for other stakeholders to utilise for the supply chain's improvement. To maximise the supply chains potential requires coordinated investments of capital, time and effort into policy, funding, and operational optimisation standardised supply chain data available to the industry should be a priority.

The aviation industry and other grain exporting countries provide demonstrations that this is possible. The US service Transportation Board: Rail Service Data is a case example of this as they require Class 1 carriers to provide weekly reports containing data on rail service performance. These reports allow both the agency and the public to have real-time visibility into the performance of the rail industry.

Data reporting includes:

- Average terminal dwell time.
- Weekly total grain cars loaded and billed by state and service.
- Grain trains planned vs performance.
- Weekly carload origin and received by commodity.

An excerpt from the USDA Grain Transportation Report on March 31, 2022, using this data stated:

*“On March 30, the USDA expressed concern to the Surface Transportation Board over worsening rail service. According to STB’s latest service metrics, train speeds for grain across the four major US Class 1 railroads were 2% lower than prior years, origin dwell times were up 60%, and the number of unfilled car orders was up 152%. At the same time, premiums paid for services have escalated significantly.”*

This shows how real-time, granular supply chain performance data can be used to diagnose poor performance in terms of bottlenecks and cost increases.

A further example is Canada, which has introduced legislation to increase the transparency and ease of regulating its grain supply chains. In May 2018, Bill C-49, the Transportation Modernization Act, became law, causing the introduction of reciprocal penalties into Service Level Agreements.

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<sup>4</sup> Department of Infrastructure, Transport, Cities and Regional Development (2019) National Freight and Supply Chain Strategy, Canberra

<sup>5</sup> Productivity Commission (2021) Vulnerable Supply Chains, Study Report, Canberra



This legislation provides the Canadian Transportation Agency with inquiry powers on systemic or emerging rail freight issues under guidance from the Minister of Transportation. It defined adequate and suitable service and made other changes to promote railway investment in rolling stock.

A key outcome of Bill C-49 was the development and monitoring of rail service performance indicators. The Bill ensured that Canada's grain supply chains would be monitored transparently and effectively, and key players would be held accountable for their performance.

## Climate and Decarbonisation

Agriculture is particularly exposed to the physical risks of climate change, especially with the large proportion of agricultural production in the Murray-Darling Basin. The World Economic Forum has noted that Australia is 'in the region most vulnerable to the impact of climate change, including security threats, resulting from both the onset of long-term trends and increased extreme weather events', and that 'the security and humanitarian risk' in Australia 'is significantly higher than in other regions of the world'<sup>6</sup><sub>10</sub>.

Whilst the sector's level production allows us to meet domestic demand prior to exporting any excess production, extreme events in the past five years have shown that there are vulnerabilities. For example, during drought in 2019 Australia imported wheat for the first time in twelve years<sup>7</sup>. Indeed, ongoing floods, drought, and bushfires, and have been identified by the Senate Foreign Affairs, Defence and Trade References Committee as being significant national security threats<sup>8</sup>.

Investment and long-term planning in achieving net zero emissions in agriculture has been marginal, especially when placed in contrast to other sectors. In terms of energy, the recently announced Powering Australia Plan in the federal budget included \$20 billion of low-cost finance to upgrade electricity transmission infrastructure. At the state level there is also the NSW Electricity Infrastructure Roadmap which is expected to attract \$32 billion of private investment. For transport, the Driving the Nation Fund will see \$275.4 million invested over the next six years, bringing total investment for electric and hydrogen vehicle infrastructure to over \$500 million. The NSW Government will also invest \$633 million as part of the NSW Electric Vehicle Strategy.

Investment in agriculture pales in comparison to these numbers. For example, in the latest federal budget \$20 million is allocated to establish an outreach program to empower participation in carbon markets and to integrate low emission technologies and practices. Agriculture is a hard to abate industry with no commercial alternatives available for some emissions sources, such as enteric fermentation from livestock. Significant investment in research and adoption far above current levels will be required to ensure agriculture can decarbonise.

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<sup>6</sup> World Economic Forum, 'The Global Risks Report 2020' (Report) 15 January 2020.

<sup>7</sup> The Guardian (2019), Australia to import wheat for first time in 12 years as drought eats into grain production.

<sup>8</sup> The Senate Foreign Affairs, Defence and Trade References Committee, 'Implication of climate change for Australia's National Security', Australian Government (Report), May 2018.