



25 November 2009

Mr Gordon Davis  
Managing Director  
AWB Limited  
380 La Trobe Street  
MELBOURNE VIC 3000

Dear Gordon,

**Productivity Submission – GrainCorp**

We have reviewed your recent submission to the Productivity Commission Review of Wheat Export Marketing and noted several assertions by AWB about conduct allegedly undertaken by GrainCorp in the provision of export supply chain services.

We are interested in obtaining from AWB evidence that would establish the basis of the assertions, as we have not received formal representations by any AWB employee that supports your claims.

On page 14 of your submission, AWB asserts that *"...AWB is currently experiencing difficulties in accessing GNC up country storages to accumulate grain to port for a 3rd party customer due to GNC using its rail capacity to move grain to port for "potential" but not nominated shipping. This has the effect of ensuring the efficient operation and utilisation of GNC's port and contracted rail assets but limits the opportunity of competitors to develop their own supply chain capacity to ensure that they can accumulate required stocks for their shipments."*

This claim is factually incorrect. GrainCorp is not moving stocks to port for 'potential' but not nominated shipping. The principal problem with cargo accumulation at this point in time is the failure of customers to have sufficient grain stock ownership to allow the assembly of full rail parcels at site to effectively accumulate grain. We have responded quickly to the late notification of available tonnes as they are purchased by the customer to load trains, and believe that we have been effective in assisting customers to meet their shipping program. At no time has GrainCorp prevented access to sites for rail accumulation against a confirmed vessel nomination.

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**GrainCorp**

AWB also asserts that "...the intake of grain at port by the BHC is subject to the judgement of best operational outcome for the port operator. The allocation of shipping slots is based on a risk assessment that includes an assessment of the available transport to the applying exporter in the case of GNC. In fact it is the commercial freight division of GNC who makes that decision. This decision flows through to:

- granting shipping slots on the basis that they purchase rail from the GNC freight book; or
- showing preferential treatment to those who have already booked freight with the GNC freight book over those who are utilising alternate freight modes or providers; and
- knowledge as to who has booked freight with non-GNC freight providers.

AWB has been "locked out" of delivering to port by rail in 2009 due to GNC using their rail to accumulate grain to port (and filling available storage space) for non nominated vessels."

This assertion is factually incorrect. GrainCorp applies the Port Terminal Protocols that were approved by the ACCC on a non-discriminatory basis. GrainCorp accepts nominations in the chronological order in which they are received. We have meeting minutes that reflect our advice to AWB encouraging submission of cargo nominations at the earliest possible opportunity. AWB failed to do this ahead of other customers, and subsequently port elevation capacity was not available to AWB, not because of rail freight, but due to port capability in a given month being allocated to those exporters who submitted nominations before AWB. Port capacity has also not been filled with non-nominated cargo tonnes.

AWB also assert that AWB rail resources can often face significant delays in unloading at GrainCorp port terminals. Our monitoring of rail arrival times against the nominated schedule for your trains suggests that GrainCorp is not a primary cause of the delays. The factual record indicates that delays are caused primarily through the inability of your service provider to run to schedule. We have incurred additional costs in endeavouring to manage these delays and would appreciate some recognition of the efforts that we have made to assist you in executing your rail task.

Other claims about a lack of capital investment and asset capability at ports are made in your submission, that are neither factual or warranted in the context of the Productivity Commission's review. As the previous monopoly wheat exporter, AWB played a principle role in the retention of and investment in rail capability, and we are surprised that AWB is now expressing views that others have failed to keep pace with the changes in the market. We are investing in additional capability in both road scheduling and physical receival points, but believe that the most effective solution to grain logistics is a longer term commitment by all participants to rail.

On the basis of our observation above, unless AWB can provide substantive evidence to the contrary, we must therefore request that AWB withdraw the claims made in your submission.





**GrainCorp**

We have endeavoured to foster an effective working relationship with AWB, as your company is as an important customer. The conduct of weekly meetings between our teams, providing pre-accumulation storage services at Port Kembla and being flexible in managing rail and road intake for AWB, is an example of our commitment to serving your requirements as a customer. It is therefore disappointing that AWB has chosen to make assertions about GrainCorp that are not based on fact to an important industry review.

I ask AWB to formally respond to my letter and where AWB's submissions are incorrect in its Productivity Submission, please correct them accordingly.

I would appreciate the opportunity to discuss these matters with you, to ensure that we can continue to foster an effective working relationship between our companies.

Yours sincerely

Mark Irwin  
**Managing Director**



Wednesday, 9 December 2009

Mr Gordon Davis  
AWB Limited  
GPO Box 4562  
Melbourne, Vic. 3001

Dear Gordon

I refer to the letter dated 4<sup>th</sup> December 2009 received by GrainCorp from Mr Mitch Morison, General Manager Commodities Division, AWB Limited.

The matters raised in that correspondence, ostensibly 'evidence' of GrainCorp denying AWB access to country storage sites, discriminating against AWB contracted rail logistics and denying AWB access to port elevators, are contextual misrepresentations, as the matters raised constitute normal elements of the complex logistical task of moving grain from country storage to port.

#### **Accessing GrainCorp storage**

GrainCorp has not used or managed any of its country, logistics or port elevator assets to 'disadvantage' a competitor, as you claim.

In the example relating to accumulation of grain for the MV Ma Cho cited in your correspondence, I am informed that rail movements on the Coonamble line were planned well before any request was made by AWB to move grain and involved the movement of grain for:

- wheat for Manildra Milling (Australia's largest domestic consumer of wheat),
- the clearance of receival sites for management of grower receivals, and
- the aggregation of grain for fumigation (an important component of managing country receivals and managing grain quality).

Specific details related to the accumulation of grain for the MV Ma Cho include the following:

- Initially ABB/Viterra did not own enough stock to load the trains ordered by AWB,
- As the proposed accumulation was occurring during the harvest period, access to ABB/Viterra owned stocks was limited by operational constraints,
- As a result of these factors, swaps were required to allow loading at alternate sites to meet the required quality of grain,
- The cargo nomination by ABB/Viterra (CNA) came through late, with the customer booking the vessel outside the GrainCorp protocols. (On this basis, GrainCorp could have rejected the nomination, but allowed the nomination to proceed as we did not want to disadvantage ABB/Viterra, even though ABB/Viterra did not correctly follow the port terminal protocols),
- AWB was pushing to load El Zorro trains as we understand that the trains were idle, however the vessel nomination was still being resolved between ABB/Viterra and GrainCorp (see above),

- There were train line access problems due to,
  - a) other trains were planned to load on the Coonamble line for export and domestic customers,
  - b) a major track possession into port with very late notification, and
  - c) a derailment on the Coonamble line that put the line out of commission for 3 days.

| Date     | Ordered Train Tonnes | Customer Tonnes | Loaded Tonnes | Comments   |
|----------|----------------------|-----------------|---------------|--|
| 27/10/09 |                      |                 |               | Reminder sent to ABB to give an accurate ETA for the nominated vessel for Newcastle as the "Assigned Load Date" for their TBA nomination was 15/11/09, only 19 days notice, whereas the required timeframe is 21 days. |
| 28/10/09 |                      |                 |               | Vessel details supplied, Tien Hau.   |
| 29/10/09 | 2,000                |                 |               | Vessel ETA supplied, 19/11/09, 21 days notice. Rail booked from the Coonamble line, planned for 10/11/09.  |
| 30/11/09 | 4,000                |                 |               | Revised Rail booked from the Coonamble line, planned for 10/11/09 & 11/11/09.  |
| 2/11/09  |                      | 2,569           |               | Coonamble line stocks for ABB, not enough for ordered trains.  |
| 3/11/09  | 6,000                |                 |               | Revised Rail booked from the Coonamble line, planned for 6/11/09, 11/11/09 & 12/11/09.   |
| 3/11/09  |                      |                 |               | ABB substituted vessel, Ma Cho ETA 10/11/09, only 13 days from original ETA notice, OK given as capacity was available.  |
| 7/11/09  |                      |                 | 1,922         | Train Loaded at Coonamble.   |
| 9/11/09  |                      | 3,875           |               | Balance to order on the Coonamble line.  |
| 10/11/09 |                      |                 |               | Advice from AWB that El Zorro could not access the line, due to ARTC signalling changes on the 7/11/09. El Zorro not able to access the line until Fri 13/11/09.   |
| 10/11/09 |                      |                 |               | Train derailed on Coonamble line (another rail company), therefore no access between Gular and Coonamble until 14/11/09. El Zorro Train rescheduled for Gular on 13/11/09  |
| 13/11/09 |                      |                 | 1,816         | Train Loaded at Gular  |
| 16/11/09 |                      |                 |               | Late notification of track possession into Newcastle for the week resulting in the last 2 El Zorro trains from the Coonamble line unable to unload until 21/11/09.   |
| 17/11/09 |                      |                 | 1,900         | Train Loaded at Gilgandra. An extra train was booked due to purchases made during the accumulation.  |
| 18/11/09 |                      |                 |               | Vessel Arrival   |
| 19/11/09 |                      |                 | 1,846         | Train Loaded at Coonamble  |
| 20/11/09 |                      |                 |               | Vessel Berthed   |
| 22/11/09 |                      |                 |               | Vessel departed berth  |

### Stock Swaps

The portrayal of the stock swaps referred to in your correspondence as 'evidence' of GrainCorp denying AWB access to grain storage and / or port elevators, is not appropriate.

AWB is aware that the swapping of physical grain stocks between country sites, between country sites and port elevators, and between exporters at port, is common practice and increases the efficiency of grain logistics and cargo accumulation for exporters.

### Control of grain intake at port

The GrainCorp rail desk is not involved in “...the assessment process for shipping slots...” as alleged in your correspondence. Why this is being raised is illogical and fundamentally incorrect. As I am sure your team is aware, the GrainCorp rail desk is involved in validating the availability of rail capacity for *contracted users of GrainCorp rail* when a request is lodged by them for elevation capacity.

The GrainCorp rail desk verifies that,

- a) the exporter seeking to book elevation capacity has a rail contract with GrainCorp, or has purchased rail capacity from GrainCorp on the ‘spot’ market and,
- b) having established that the exporter in question has contracted rail capacity with GrainCorp, that sufficient GrainCorp rail capacity is available during the Requested Elevation Period that would allow cargo accumulation to be successfully accomplished.

Where an exporter requests elevation services and GrainCorp is not a contracted provider of logistics, the GrainCorp rail desk plays no role in the assessment of such a request.

As your team knows, GrainCorp does not provide ‘bundled’ grain storage, logistics and port elevation services. Where an exporter, or other customer, contracts services from GrainCorp, these services are negotiated and contracted separately.

The second matter related to control of grain intake at port raised in your correspondence implies that GrainCorp “...filled up the (Carrington) port...” with grain as a means of restricting exporter access to the Carrington elevator. This is not correct.

The Carrington terminal has the capacity to accumulate up to four cargos of a similar commodity. The available storage capacity at the elevator can be limited to well below the nominal site capacity of 160 kt if exporters require multiple grades and segregations that lead to the inefficient use of bin capacity.

The port elevator ‘block outs’ experienced at Carrington in January and February 2009 were due to the failure by seven vessels to pass quarantine and / or marine survey, and rain delaying the accumulation of a durum vessel direct ex-farm. Both were matters beyond the control of GrainCorp.

The vessels in question were:

| Vessel       | Date Fail | Exporter             |
|--------------|-----------|----------------------|
| Ocean Breeze | 12/1/2009 | Elders Toepfer Grain |
| Urawee Naree | 19/1/2009 | AWB                  |
| Siam Jade    | 30/1/2009 | GrainCorp            |
| Ostende Max  | 2/2/2009  | Cargill              |
| Prairie Sky  | 3/2/2009  | Glencore             |
| Accord       | 16/2/2009 | AWB – GrainCorp      |
| Daria        | 25/2/2009 | OzEpulse             |

When extended delays to vessel loading occur, any grain elevator will experience restrictions on both the amount of grain that can be held, and the ability of the elevator to receive grain.

The serious delays experienced at Carrington in early 2009 were solely caused by the unusually high number of consecutive vessel survey failures, not by any other factor.

The movement of grain to port elevators in anticipation of export demand has been common practice for many years and has benefited exporters, including AWB, by speeding the accumulation of cargos, and militating demurrage risks for multiple exporters.

Claiming that the movement of grain to Carrington in anticipation of export demand, and citing the 'block outs' at Carrington caused by vessel survey failures as 'evidence' of GrainCorp operating in a manner to intentionally disadvantage AWB, is inappropriate.

I am personally disappointed by the raising of these claims, when the 'evidence' to support them is clearly being presented out of context.

As you know, we have sought to work with AWB to improve rail logistics in Queensland in particular and to adjust other operational aspects of the grain supply chain to ensure that export cargo accumulation is carried out in an efficient manner. The continued attacks by AWB on the conduct of GrainCorp's operations only serve to damage an operational relationship we are working hard to make commercially constructive.

I would be happy to sit down and discuss this further should you choose to investigate our comments and ascertain your claims are without merit.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Mark Irwin', with a long horizontal stroke extending to the right.

Mark Irwin

Managing Director