

Notice to Members

Title: DRAFT GTA Location Differentials for the 2009/2010 season

Update No.: 18 of 09

Date of Issue: 19 June 2009

1 Background

The GTA Transport, Storage and Handling Committee has developed a DRAFT set of Location Differentials (LDs) for the 2009/2010 season. The Draft LDs are attached along with an Explanatory Memorandum.

GTA Location Differentials are valid for 12 months (effective 1 September 2009) and subject to review annually.

It is important to stress that Location Differentials ARE NOT FREIGHT RATES.

2 Process for Implementation

1. Feedback is sought from members on issues listed in this Notice to Members and any other issues industry feels relevant to the Location Differentials for 2009/10.
2. Following receipt of feedback, the Transport, Storage and Handling Committee will consider all issues raised and prepare a final draft of the 2009/10 Location Differentials.
3. The final draft will be presented to the Grains Industry Common Interest Forum preceding the Australian Grains Industry Conference on 27 July 2009 in Melbourne.
4. Following ratification by the GTA Board, the final Location Differentials will be published on the GTA website and available for industry use.
5. **All feedback from industry on the above issues must be received by GTA (admin@graintrade.com.au) by COB Friday 3rd July 2009. In your email message line please put "Submission – Location Differentials 2009/2010".**



GRAIN TRADE AUSTRALIA

EXPLANATORY MEMORANDUM Draft Location Differentials 2009/2010

1. Background

- a. The Transport, Storage & Handling Committee (the Committee) conducts a yearly review of the Grain Trade Australia Location Differentials. The Committee met on a number of occasions during April and May 2009 to discuss development of the 2009 Location Differentials.
- b. Committee members documented concerns over the 2008 Location Differentials and potential changes that may be implemented in 2009 to address these concerns. It was agreed by the Committee that they would not seek broader member input at the initial stage of review process as there was a wide industry representation on the Committee and the broader members could have direct input when the Draft 2009 Location Differentials were circulated.
- c. After circulation of the Draft 2009 Location Differentials to members for comment, the Committee will meet to consider feed back and potential modifications to the Draft 2009 Location Differentials prior to presenting them to the Grains Industry Common Interest Forum on 27 July 2009, following which, the Committee would recommend that the Board adopt the Draft values as the 2009 GTA Location Differentials.

| Member | Organisation |
|----------------|--|
| Peter Tuohey | Victoria Farmers Federation |
| Dan Cooper | Grain Growers Association |
| John Ridley | NSW Farmers Association |
| Rod Wolski | A & B Grain Pty Ltd |
| Lloyd George | AgIntel Pty Ltd |
| Antony Borgese | Cargill (Aust) Ltd |
| Dan Johnson | Glencore Grain |
| Gavin Cavanagh | ABB Grain Ltd |
| Mark O'Brien | George Weston Foods Ltd |
| Matt Kelly | KW & WM Kelly & Sons |
| Peter MacSmith | MSM Milling Pty Ltd |
| Matt Watt | AWB Ltd |
| Kayla Scott | GrainCorp Operations Ltd |
| Chris Ayers | Co-Operative Bulk Handling Ltd |
| Terry Roach | Grain Industry Association of Victoria |
| Tim Dean | Riodan Grain Services |

2. Location Differentials are NOT FREIGHT RATES

GTA releases LDs each year to enable pricing of the *GTA No 2 Contract – Contract for grain and oilseeds in bulk delivered price basing point or port terms (Basis Track)* commonly referred to as the “*Track Contract*”. If they are used for other purposes this should be done in the knowledge that there will be a difference between the GTA LD and the actual cost of freight execution. This “freight price risk” or “freight basis” must be managed by commercial interests.

Members must adjust their port based pricing according to their analysis of the LDs. The GTA LDs are not a substitute for management by members of freight price risk and the variation between the LD and the actual cost of execution of freight must be managed by the member.

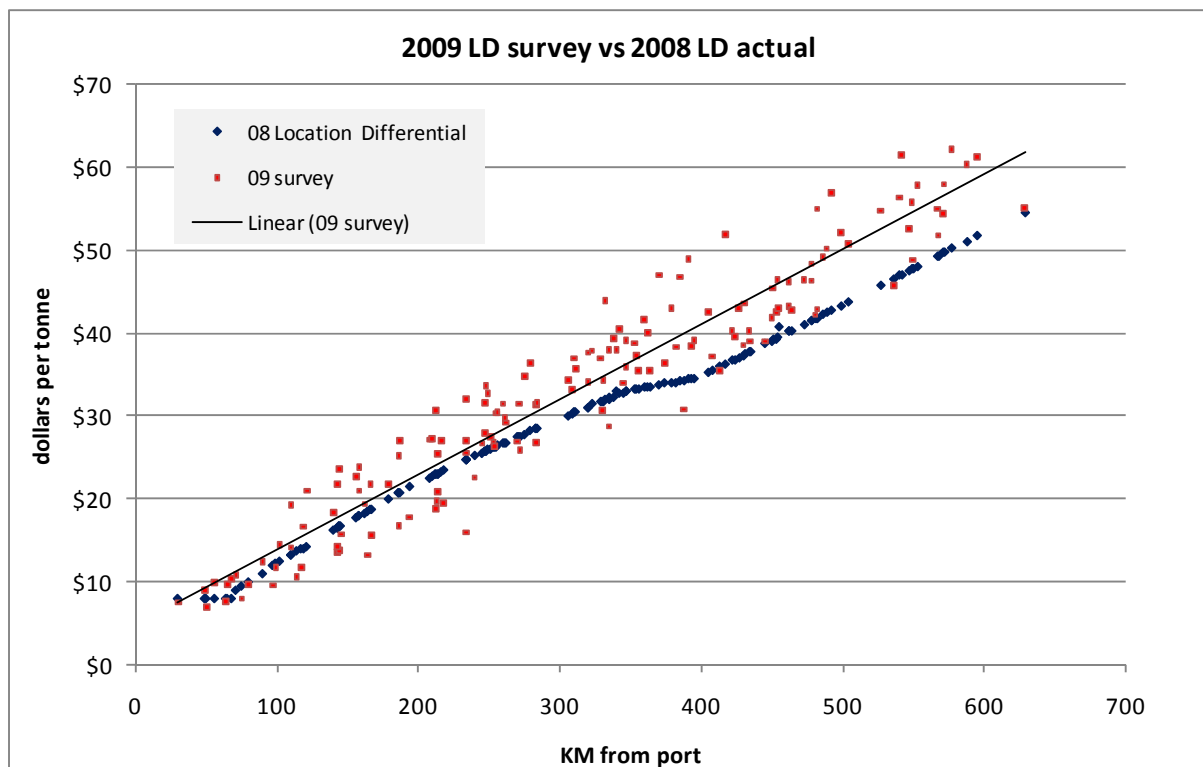


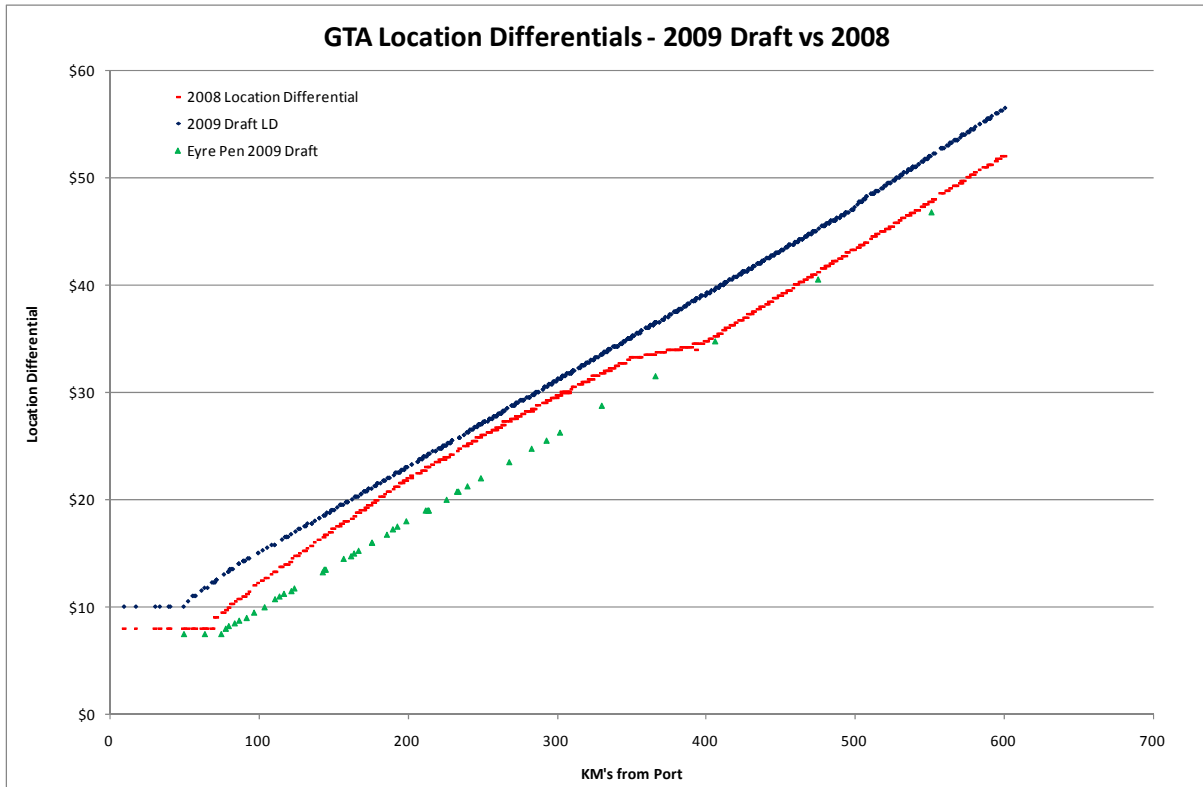
3. Significant changes made in 2008 Location Differentials

- a. Significant changes were made to the GTA Location Differentials in 2008 following widespread comment from members that the Location Differentials were significantly lower than the cost of executing grain movements and that the relationships between the LDs and the cost of freight execution had become distorted.
- b. As a result of this feedback the basis of establishing Location Differentials was changed to a distance formula determined by the km's a location is from port as apposed to the previous historical relationship to the tariff rail rates for each state.
- c. This meant that the 2008 Location Differentials were consistent across Qld, NSW, Vic and SA so locations of the same distance from port would have identical LDs.

4. Supporting Analysis

The Committee conducted a survey of Committee members of their execution costs from 155 sites in order to gauge changes and variability of indicative execution costs from last year. The results showed there was a significant variability between members across most distances. The survey data also showed that the survey data was generally higher than the 2008 Location Differentials and in most cases even the lower survey results were above the 2008 Location Differentials. The survey showed that the differences between the survey data and the 2008 Location Differentials was greatest beyond 350 km.





5. Committee considerations for 2009 Location Differentials

Several propositions were considered for changes to the 2009 Location Differentials based on feed back from the Committee.

A survey was conducted of the Committee members to assess the execution costs of transporting grain from various sites to determine the absolute changes from last year's survey. The Committee considered the following proposals;

a. That the 2009 Location Differentials remain unchanged - REJECTED

Although there was broad satisfaction with the 2008 Location Differentials this position was not accepted by the Committee as some changes to the 2008 were necessary after their first year of use.

b. Introducing a two tiered system - REJECTED

There was some support across the Committee to introduce a two tiered system of Location Differentials that would reflect a nominal cost difference between execution from efficient rail lines and less efficient rail lines and road sites. The Committee identified 'main line' sites as the tier one sites with the 'branch line' and road sites considered as the second tier. Under this proposed system the second tiered sites would receive a higher location differential than a tier one site with the same distance to port to reflect the higher execution costs associated with the branch line and road sites. This proposal was rejected by the Committee on the grounds that it would add another level of complication to the Location Differentials and that companies were already making commercial adjustments on the price they were posting at different sites to reflect differences in the cost of executing grain from these sites.

c. Minor adjustments to 2008 Location Differentials - ACCEPTED

Committee members proposed that concerns with the 2008 Location Differentials could be addressed with some minor adjustments to last years numbers. Several liner formulas were used as the basis for the adjustments to eliminate any 'cliff faces' between the various distances brackets. Specific areas of were adjustments were made;

- (i) increase in the flag fall from \$8 to \$10 to better reflect execution
- (ii) Slight increase in short to medium distances (80 to 350km) to better reflect execution costs
- (iii) Larger increase in medium to longer distances (350 plus) to better reflect execution costs



The following table details the changes when compared to the 2008 LDs

| KM | 1 | 50 | 100 | 150 | 200 | 250 | 300 | 350 | 400 | 450 | 500 | 550 | 600 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2008 LD | 8.00 | 8.00 | 12.25 | 17.25 | 21.75 | 26.00 | 29.75 | 33.25 | 34.75 | 39.00 | 43.50 | 47.75 | 52.00 |
| 2009 Draft | 10.00 | 10.00 | 15.00 | 19.00 | 23.00 | 27.25 | 31.25 | 35.25 | 39.25 | 43.25 | 47.50 | 52.00 | 56.50 |
| Change | 2.00 | 2.00 | 2.75 | 1.75 | 1.25 | 1.25 | 1.50 | 2.00 | 4.50 | 4.25 | 4.00 | 4.25 | 4.50 |

d. Introducing regional differences in Location Differentials - ACCEPTED

This proposal was considered by the Committee to reduce anomalies in specific regions where the physical costs of executing grain is significantly different from other areas and the changes would not adversely impact Location Differentials in other regions. In particular there were a number of concerns with the 2008 Location Differentials for the Eryre Penninsula in South Australia where the cost of execution was lower than the Location Differentials.

The Committee agreed that the circumstances on Eryre Penninsula were significantly different from other areas and they warranted the establishment set of regional Location Differentials that were lower than Location Differentials used in other areas.

| KM | 1 | 50 | 100 | 150 | 200 | 250 | 300 | 350 | 400 | 450 | 500 | 550 |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2008 LD | 8.00 | 8.00 | 12.25 | 17.25 | 21.75 | 26.00 | 29.75 | 33.25 | 34.75 | 39.00 | 43.50 | 47.75 |
| EP Draft | 7.50 | 7.50 | 9.75 | 13.75 | 18.00 | 22.00 | 26.25 | 30.25 | 34.25 | 38.50 | 42.50 | 46.75 |
| Change | -0.50 | -0.50 | -2.50 | -3.50 | -3.75 | -4.00 | -3.50 | -3.00 | -0.50 | -0.50 | -1.00 | -1.00 |

e. Use ABB Export Select rates the basis for SA Location Differentials - PENDING

A proposal was put forward to use the ABB Export Select freight rates as the basis for the SA Location Differentials for 2009. This would be similar to the situation in Western Australia where the CBH Grain Express rates are the basis for the Location Differentials for that state.

This proposal had broad support from the trade and farmers but also had some difficulties that needed to be overcome to progress the proposal. Specifically these were; the establishment of Location Differentials to non ABB sites and catering for potential changes to the ABB Grain Express rates through the season. The Committee is seeking further information on these issues before making a final decision on this proposal.

6. Natural Terminal Port (NTP)

Last year the Committee clarified the term Natural Terminal Port following the significant changes to the Location Differentials in 2008.

The Trade Rules definition of NTP requires that a site must have access to rail. Last year the Committee interpreted this as meaning NTP will be the port with the lowest LD with rail access. Where there is no rail access it will then be to the port with the lowest road based LD.

For example, Moree has a lower LD to Brisbane than to Newcastle, the next lowest LD. However, there is no rail access from Moree to Brisbane so the NTP will remain as Newcastle. Whereas Delungra, has a lower LD to Brisbane than to Newcastle but the site has no rail access therefore the NTP will be Brisbane.

It should be noted that the Committee has revised the Mode status (Road or Rail) in South Australia and this has changed the NTP of several locations.

