

**EYRE PENINSULA  
RAILWAY UPGRADE ISSUES**

**PUBLIC WORKS COMMITTEE  
SUBMISSION FROM LIZ PENFOLD MP  
MEMBER FOR FLINDERS**

**14<sup>TH</sup> FEBRUARY 2006**

**WITH ACKNOWLEDGEMENT**

**Longrun Transport Development Pty Ltd.  
“Eyre Peninsula Track Upgrade” Report  
(September 2005)**

**and**

**Eyre Regional Development Board  
– EP Rail Infrastructure Plan**

## **Executive Summary**

The Eyre Peninsula rail network is considered by growers, industry stakeholders and the community to be a vital component in the movement of grain to the ports. The rail networks isolation from other grain networks allows the stakeholders to contemplate implementation of new ways of delivering sustainable, efficient rail services to the industry.

Over the past two years the Eyre Regional Development Board has coordinated an industry lead investigation with the aim to provide a framework for capital commitment for the upgrade of both the road and rail networks. The aim is to secure funding support to rebuild key infrastructure within the region over a two year period. This plan has involved key stakeholders, AWB, ABB Grain, ARG, Transport SA, Eyre Peninsula Local Government Association and South Australian Farmers Federation.

It must be noted that this is a grain plan and has not taken into account the mineral potential of the Gawler Craton which covers the Eyre Peninsula. The Minister for Mineral Resources Development, The Honourable Paul Holloway, stated in his press release of the 7th February 2006 "The State Government is about to undertake a \$500,000 gravity survey to improve mineral exploration data in part of the highly prospective Gawler Craton. The Gawler Craton remains one of the most prospective provinces in the world for mineral exploration..."

The Eyre Regional Development Board have Chinese interests who are currently proposing to export 10-15million tonnes of iron ore per year via rail from Lock through to Port Lincoln with this and other mineral prospects stretched across the region many within close proximity to the railway.

Rail infrastructure on Eyre Peninsula reached a stage where grain growers and the community were raising concern about the efficiency and safety of rail operations due to a number of derailments. There has only been limited capital provided for upgrades, due to two year haulage contracts and changes in ownership from state governments to federal governments to private enterprise in 1997, and some of the rail assets had reached the end of their useful life.

The region has sought to develop a multi-tiered strategy to recover from the current fragile condition of the network. Whilst a competitive state between the transport modes is essential, an integrated approach has been sought by the key stakeholders to ensure both a viable road and rail transport system on Eyre Peninsula.

The recent rapid evolution of grain industry structures and changing ownership of the rail system has resulted in a loss of focus on the need for continuous infrastructure renewal. It will take new business relationships and the involvement of government agencies to commit to funding support to renew the necessary infrastructure to accommodate the steadily growing exports from Eyre Peninsula.

Grain production on the Eyre Peninsula now averages 2.1 million tonnes (mt) per year but is conservatively expected to continue growing at between 0.5 and 1.0% annually, with underlying continual yield improvements limited by increasing rainfall variability. By the year 2030, average production will be 2.6mt, with occasional peak harvest levels reaching 3.5mt, or possibly even 4.0mt. Export volumes account for an average 97% of Eyre Peninsula's grain production.

The key to grain export infrastructure usage and planning lies in the changing commercial structures for supply chain management. These changes over the last 15 years have affected the viability of rail based export chains in every state of Australia. The rapid privatisation and

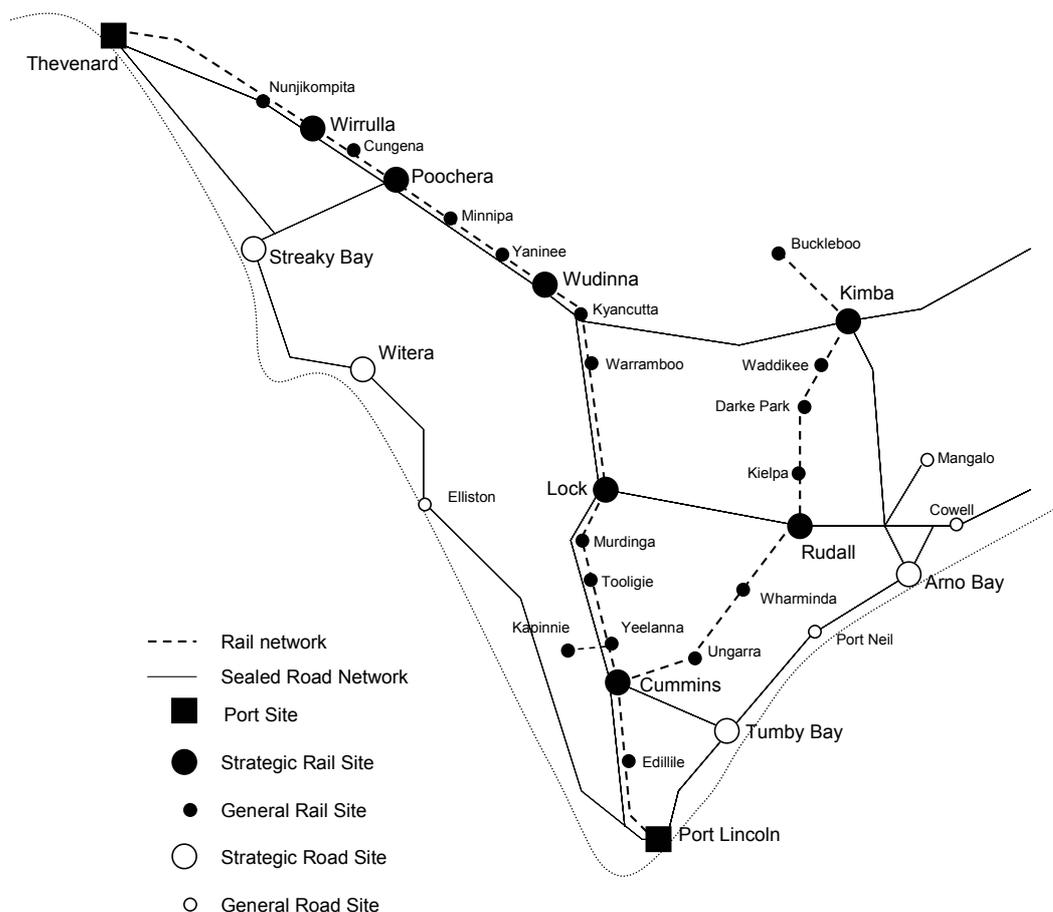
deregulation of grain marketing, handling and transport agencies over that period has thrown the underlying economic condition of each element into sharp relief. This is most telling in the case of rural rail systems as has occurred on the Eyre Peninsula, including both track provision and train operations.

In the pre-competitive era, local, state and federal government authorities were responsible for all services and the infrastructure that provided them, with the partial exception of the bulk handling co-operatives in SA and WA. With privatisation of the railways, responsibility has been taken by governments only for the roads with little consideration given to the impact in road maintenance costs to them if the railways do not continue to be used particularly for heavy grain and mineral freight. And with this the need for governments to help to maintain the railways to save the road costs to the governments in the longer term.

The value of Eyre Peninsula grain is significant part of the state's trade, estimated at \$420 million in an average year. Governments can ill-afford to adopt a passive response to the emerging grains sector trends which will result in an increasing production and under-funded infrastructure. Nor can they afford to ignore the mineral potential of the region and that industry's future need for rail transport on the Eyre Peninsula.

### Eyre Peninsula Current Network- 670 kilometres

Figure 1 – Thevenard/Buckleboo



SCENARIO 1 - CURRENT

## Funding Support

The Eyre Regional Development Board on behalf of the grain industry and the state government has been successful in the attraction of significant funding from the federal government. A total contribution of \$15 million has been secured, on the condition that **matching funding** is received from the industry and state government towards rail infrastructure upgrades.

This funding support provides a major step towards rebuilding specific sections of the regions railway infrastructure, providing security to the regions grain industry that a dual transport system will remain for the longer term

Following the release of funds by the Commonwealth in June 2005, **there has been no additional funding support provided by either ARG or the State Government**, to ensure that the state maximises the opportunity to rebuild infrastructure which is critical to the performance of one of the State's key grain export industries and future mining industry.

**The proposal being presented to the Commonwealth by the State Government seeks support for the capital matching funds of \$5 million direct from the ARG being invested into the rail line west of Ceduna for the gypsum mining operations only, with nil benefit to the grain industry.**

This does not meet the “**spirit of the grain investment plan**”, which has been developed by the grain industries key stakeholders.

The following table provides details of the investment commitment that is currently being proposed.

Organisation	Rail Upgrade (\$m)	Upgrade terminal facilities	Road Upgrade (\$m)	Total (\$m)
Commonwealth	\$15.0			\$15.0
ARG	\$7.0			\$7.0
State Government	\$2.0		\$8.0	\$10.0
EPLGA			\$2.0	\$2.0
ABB Ltd				
Eyre Peninsula Growers	\$1.0		\$1.0	\$2.0
ARG -Gypsum Line	\$5.0			\$5.0
Total	\$30.0	\$	\$11.0	\$41.0

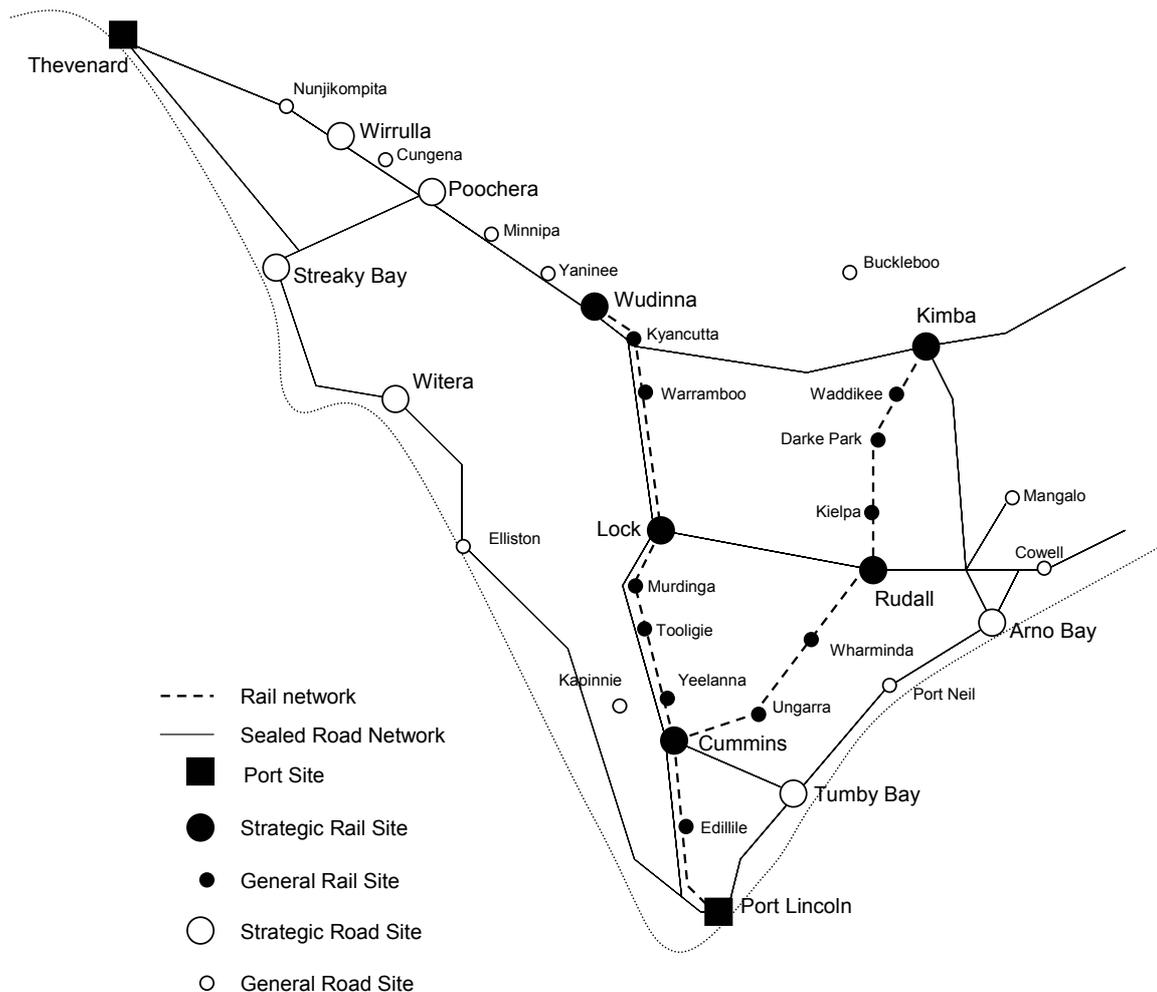
### Moderate network truncation – Wudinna/Kimba

The proposal that is being supported by the State Government, proposes the railway network being truncated at Wudinna and at Kimba, with volumes from silos located along the Eyre Highway moved by road trains to Wudinna along the National Highway, and the grain from Buckleboo being hauled on a local government unsealed road to Kimba.

The impact on the District of Kimba will be significant, with the loss of the rail service and the social and financial cost being transferred to the local community. ABB Grain estimated following harvest that the grain movement would be 1,850 road train movements alone. This is a major safety concern to both the community and to the growth of the tourism industry that visit Gawler Ranges National Park. A similar scenario will be felt by the District Councils of Wudinna, Streaky Bay and Ceduna.

The grain growers will also be charged an additional double handling fee of \$1.50 per tonne for all silos systems that were previously serviced by rail.

Figure 2 - Network truncated at Wudinna and Kimba



SCENARIO 3 - MODERATE

The Eyre Peninsula region and the grain industry have been successful in the attraction of significant capital from the Commonwealth. The grain industry has only one opportunity to maximise the investment support that is being provided.

The state government is providing a direct allocation of only \$2 million, and ARG \$7 million towards grain related rail infrastructure. The short fall of \$ 5 million has the potential of risking \$5 million in matching contribution from the Commonwealth and should be added in my view to the States contribution bringing it to \$7 million.

However over the next few months the region will be undertaking an extensive consultation with grain growers, on the proposal to introduce a grain grower levy to raise \$ 2million in support of the infrastructure plan.

The state government needs to recognise the importance of ensuring that the Eyre Peninsula region is able to maximise the funding support that is being provided and to ensure that the region's international export competitiveness is secured. Commitment to infrastructure investment is essential to having an efficient transport supply chain that underpins the export success of the region.

The state government's priorities are focused on investment into a \$93 million bridge opening system and an extension of a tram system, at an estimated cost of \$21 million. These provide no additional jobs in the long term and no advantage to the export capability or to the states economy. Funds would be better spent on this regional rail upgrade to underpin the very significant grain and mineral industries that will bring wealth and jobs that will help to bring young people back. I consider the levy on farmers to be totally unfair and believe that the funding required to match the Federal rail funding commitment should be provided by the State Government, particularly in view of the impending mining requirements. This funding would be an investment in the state's future and jobs for its citizens. In my view consideration should be given to connecting the EP rail system to Whyalla with approximately 70km line from Kimba.

Railway infrastructure across Australia is in a comparable substandard condition. NSW, WA, Vic and Tasmania have all contacted the region seeking information on how the region has been successful in attracting funding support from the Commonwealth Government. The State Government and ARG should recognise this financial support and provide an additional contribution of at least \$2.5 million each, and more if required, to maximise the funding being provided by the Commonwealth Government and encourage more funding to be provided in the future for further upgrades.

## **Background**

### **Eyre Peninsula Grain Transport Integration and Investment Plan**

In accordance with the outcomes of the Eyre Peninsula Grain Transport Summit held on October 2003, the project partners jointly funded a study by consultants Sd+D (Strategic design + Development) to develop an Eyre Peninsula Grain Transport Integration and Investment Plan.

The study defined the logistics task and identified the issues that influence the sustainability of the EP rail system in particular. It defined the grain production and distribution patterns on Eyre Peninsula, forecast future production and export

tonnages as well as grower delivery patterns and their influence on the road and rail transport tasks.

The viability of the rail system was modelled under a range of network rationalisation and upgrading scenarios and seasonal types. Results were expressed both in terms of annualised operating profits and financial investment returns.

The study was built around the results of a comprehensive rail-costing model, customised for the Eyre network. Conclusions drawn centre on model results, which identified the profitability of the rail system under various network rationalisation scenarios.

The study and the work beforehand provided the basis for a comprehensive, industry-endorsed investment plan, including industry agreements under which transport infrastructure could be sustained and optimised into the future. The investment plan proposed in the study was to:

- a. Fully upgrade the railway from Port Lincoln to Wudinna and Kimba, estimated by ARG to cost \$24m;
- b. Partially upgrade the railway between Wudinna and Poochera and between Kimba and Buckleboo (estimated \$3m);
- c. Investment by ABB Grain Ltd at Wudinna, Kimba and other key rail loading points to enhance transfer capacity and fast efficient loading (estimated \$3m)
- d. Complementary road widening and/or sealing program to improve access to major rail loading sites for safe road train operations (\$10m).
  - i. Lincoln Highway
  - ii. Cleve to Arno Bay Road

### **Freight Contract**

Freight contracts have previously operated under a joint party agreement between the grain marketing companies, AWB, ABB Grain and the rail and road transport operators.

Previous contracts have only operated under a two year agreement arrangement, however the new contracts which have been signed in November provide for a five year contract term.

This new contract encourages capital investment commitment by both private enterprise and governments into infrastructure and equipment, with companies being able to plan for the longer term.

### **Australian Railroad Group (ARG)**

The rail operator owns the track assets, though leases the land on which they are fixed from the government. It owns all the trains, though out-sources all maintenance functions. The company is a joint venture between Wesfarmers Group and the Genesee and Wyoming Railroad, (the original purchasers of the Australian National Railway from the Federal Government).

ARG acquired a rail network in South Australia which was in a deteriorated condition. Investment in track improvement since acquisition has been minimal. Track expenditure on

the Eyre has been generally limited to the Cummins-Port Lincoln section, which carries the most traffic, suffers the most derailments and has the most chance of long term survival.

ARG is committed to operating grain services where it is financially viable. Internal investment hurdle rates, however, are not sufficiently low for major rail-related capital projects. ARG has sought the support of a financial assistance from the State Government for a \$40m contribution to Eyre Peninsula track upgrade, or dramatically reduce the service provided to Lock and Rudall. The impact on the Eyre Peninsula growers and the community would be significant, with transfer of cost to the local community and rate payers, and to state government.

The growth in road train haulage would increase by an estimated 130%, impacting on maintenance and traffic congestion on state government roads and within the City of Port Lincoln.

### **Eyre Peninsula Growers**

Growers are generally strongly in support of the continued operation of the rail network, particularly along the central spine of the grain belt. Rail is critical for the movement of large volumes to port quickly. Trucks perform a peripheral role but could not manage the entire export task. Rail is also useful for clearing grain from sites during harvest to prevent them filling and closing. Growers also fear deterioration of road quality and safety.

Conversely, there is little enthusiasm for any restriction of road transport permits. The two modes of transport provide competition, providing growers with the best available freight costs. Loss of the rail system could lead to an increase in road freight rates, as extra demand soaked up trucking capacity.

### **Eyre Peninsula Local Government Association (EPLGA)**

The EPLGA represents the views and interests of the District Councils in support of community aims for the regional economy, environment, amenity and provision of government services.

The EPLGA supports the continued use of a viable rail system for Eyre grain exports. Its member councils often do not have the budgetary ability to maintain their road systems at present and this situation would worsen without the rail network. The majority of council road kilometres (96%) are unsealed and subject to rising damage bills with declining use of rail.

Rural councils have a total annual revenue base of \$26m, up to 50% of which is spent on road maintenance.

### **Production Volume**

The Eyre Peninsula grain industry is significant to the states economy producing in excess of a third of the South Australian grain crop every year. The short term (4 year) average annual volume of this crop (all grains) is currently 2.1 million tonnes (mt), though a peak of 2.75mt was reached in 2001/02.

Wheat is the dominant crop, amounting to an average 65% of total EP grains tonnage. Barley makes up a further 27%. The remaining 8% is mostly oats, canola, lupins and field peas.

On a regional basis, wheat is dominant in all districts, accounting for over 70% of production in both eastern and western divisions, and 60% in Lower Eyre. Barley is concentrated in the Lower Eyre region (35-40%) making up less than 20% of production in the dryer areas. 90% of canola and lupins is produced in Lower Eyre, and nearly all the oats production is in the western district.

Table 1 - EP grain production average 1998-2004

EP region	hectares ('000)	tonnage ('000)	Ausbulk receivals	yield (t/ha)
Lower	287	683		2.38
Eastern	462	719		1.55
Western	453	517		1.14
Eyre total	1,202	1,918	1,861	1.60
SA total	3,562	6,397	5,781	1.80

The Eyre Peninsula, like most of southern and western Australia, has experienced steady production growth over the last three decades.

### Port Lincoln Zone

The majority of Eyre Peninsula grain is exported via Port Lincoln. Between 2000/01 and 2003/04 seasons, an average of 91% of exports (ie 1.82mt) was moved through Port Lincoln. This port is served by 3 major freight corridors

- the Lincoln Highway serving the east coast road sites;
- the Flinders Highway serving the west coast road sites; and
- the rail system, serving the central region

The Lincoln Highway brings approximately 450,000 tonnes per year into Port Lincoln, including 50,000 tonnes delivered direct from farms to the port.

The Flinders Highway services about 90,000 tonnes from the western sites south from Streaky Bay, and also carries about 170,000 tonnes of short haul off-farm tonnage. The Flinders Highway reaches the port via the western port access route.

The rail network carries the majority of the bulk grain with average 1.2mt per year.

### Thevenard Zone

Thevenard is a small grain port, commanding an area producing around 370,000 tonnes of grain on average. This area extends into a narrow strip from Pintumba to Minnipa and Witera.

In practice, however, only about 180,000 tonnes is delivered to Thevenard for export, of which 130,000 comes direct off-farm. Most grain originating south of Streaky Bay and Nunjirkompita is directed towards Port Lincoln by the application of Port Charge Differentials (PCD) by the marketers. Through this mechanism, a cost penalty to the order of \$10/tonne is levied on deliveries to Thevenard, compared to those into Port Lincoln.

The Port of Thevenard primarily serves the Australian Gypsum mine at Kevin. Approximately 1.5 mt per annum of gypsum is exported through the berth, along with around 160,000 tonnes of grain.

The export of grain through this terminal defrays some capital and operating cost for Ausbulk, but is of marginal benefit to the industry as a whole, given the short-comings of the port. Consequently its main purpose is to provide a low cost delivery option for grain growers on the marginal country west of Ceduna.

Should the channel ever be deepened to cater for Panamax vessels, the marketers' PCD values would be adjusted to reflect shipping efficiencies. This could result in grain from as far east as Minnipa being attracted to Thevenard.

### Rail Revenue Issues

The Eyre Peninsula system is a comparatively small railway system, with limited further revenue earning potential from grain but massive potential from the mineral resources that remain untapped. There is approximately 650km of track serving the grain ports. The average journey for a tonne of grain to port is 170km. In an average year, the current grain task generates an estimated gross revenue figure of \$10.1m (\$9.28 per tonne), based on tonnage figures provided by Ausbulk and published AWB pool freight deductions.

There is a considerable variation in rail tonnage between peak and poor harvest years. The two recent extreme years delivered rail revenue results similar to those in Table 5.1

Table 2 - Illustrative impact of task variability on rail revenue

year	production (tonnes)	rail task (tonnes)	avge rate	revenue total
0102	2,767,000	1,400,000	\$10.00	\$14.0m
0203	1,285,000	600,000	\$8.00	\$4.8m

### Freight Contracts

New Joint Freight contracts were signed in December 2005 between AWB, ABB Grain and ARG, extending the previous contractual period from two years to a five year period. This provides a new commitment to re-establishing rail for the longer term and provides a framework for longer term capital commitments from ARG, state and federal governments.

There are issues under the new contract as the rail company ARG has introduced a fixed and variable contract component. The marketing boards have sought to

distribute the cost of the fixed component across all Eyre Peninsula Grain Growers, which is estimated at \$0.50 to \$1.00 annually.

In addition growers within silo systems located on the truncated rail network will incur an additional fee from double handling of \$1.50 / tonne. This has a significant impact on EP Growers located at Buckleboo, Minnipa, Poochera, Wirrulla and Nunjirkompita.

### **Local Road Impact**

The changed present freight movements under the new arrangement will impact on the local road network, with additional heavy vehicle traffic on the National Highway, between Ceduna and Wudinna, as grain is being hauled under a road rail combination.

In addition the Buckleboo to Kimba road will be severely impacted, with freight task being transferred from rail to road which is predominately unsealed. The road is under the care and control of the District Council of Kimba, and the burden of the cost transfer of maintenance is estimated at \$150,000 per year.

The safety concerns are a real concern, with the heavy vehicle movements required during the driest period of the year, impacting of viability on a road also used by school buses, local traffic and tourists.

The Council is seeking support for sealing the remaining 32 km's of road at a cost estimated to be \$3.8 million.

1,850 road train movements are required to shift the 46,000 tonne storage capacity at Buckleboo alone, in addition to the transport tasks required during harvest.

### **Eyre Peninsula Grower Levy**

As part of the proposed funding investment package, the region will be seeking to secure the support from EP Grain Growers for the establishment of an EP Grain Levy, to raise the required \$ 2 million.

The levy will be imposed on growers and seeks to secure a contribution of \$0.50 cents/tonne, over a period of two years.

The planning and consultation process will be undertaken in March and April with three regional workshops being formulated, ensuring that the regions farmers have an opportunity to provide input into the establishment of the levy.

The ERDB will then be providing a submission to the Minister of Agriculture, Food & Fisheries seeking support for the Grower Levy over a specific period of two years on all export tonnage shipped from the region.

I will not be supporting the introduction of this levy. This region has pulled above its weight in grain export earnings for many years and should now be financially supported

with infrastructure upgrades that were not undertaken by State and Federal Governments in the past. There is the additional consideration of the future mining industry requirements. The proposed development of an iron ore deposit near Lock by the Chinese producing 10-15 million tonnes per year within the next few years is only the beginning. There are numerous other valuable mineral deposits located in the vicinity of this rail line. The current upgrades should take these into consideration and planning should be undertaken now for the future.

### **Issues**

1. Matching funding support for rail
2. Spirit of the Submission - Grain Transport
3. Buckleboo to Kimba, Unsealed Road - 32 kms, estimated cost \$3.8 million
4. EP Grain Grower levy- \$2 million
5. Double Handling charge- \$1.50 / tonne
6. Port Capacity at Thevenard- \$10.60 two port differential charge
7. Potential mining industry use.