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Member Update

Title: DRAFT NACMA Location Differentials for the 2008/2009 season

Update No.: 19 of 08

Date of Issue: 28th June 2008

Distribution

- NACMA Members – primary contact list. Please circulate to all appropriate internal parties

Background

NACMA Member Update No. 5 of 08 sought feedback from industry on potential changes to the Location Differentials for the coming season.

The NACMA Transport, Storage and Handling Committee has met and reviewed feedback from industry on suggested changes to the Location Differentials for the 2008/09 season.

NACMA publishes Location Differentials to enable the upcountry pricing of the NACMA No 2 Contract – the “Track” Contract. Location Differentials are also used to price other contract types.

NACMA Location Differentials are valid for 12 months (effective 1 September 2008) and subject to review annually.

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

The DRAFT Location Differentials can be accessed on the NACMA website.

Process for Implementation

1. Feedback is sought from members on issues listed in this member update and any other issues industry feels relevant to the location differentials for 2008/09.
2. Following receipt of feedback, the Transport, Storage and Handling Committee will consider all issues raised and prepare a final draft of the 2008/09 Location Differentials.
3. The final draft will be presented to the Common Interest Forum preceding the Australian Grains Industry Conference on 28 July 2008.
4. Following ratification by the NACMA Board, the final Location Differentials will be published on the NACMA website and available for industry use.
5. **All feedback from industry on the above issues must be received by NACMA (admin@nacma.com.au) by COB Monday 11th July 2008. In your email message line please put “Submission – Location Differentials 2008/2009”.**

Background to the 2008/09 Location Differential Changes

NACMA called for submissions regarding the setting of the 2008/2009 Location Differentials via Member Update 5 of 08 on 27th February 2008.

In the submissions there was widespread comment that the 2007/08 Location Differentials were significantly lower than the commercial cost of execution and accordingly the relationships between the Location Differentials and the cost of freight execution had become distorted. It is not NACMA's role in releasing Location Differentials to manage the price risk associated with freight - that is the role of the organisation responsible for moving the grain. However, there must be a commercially acceptable relationship between the actual costs and the Location Differentials.

This relationship has become distorted over the last 12 months due to:

1. major increases in fuel and asset maintenance (rail and road) costs which have contributed to increases in costs of grain transportation by upto 25%; and
2. the rationalisation in the rail transport sector.

The Committee considered the submissions that the Location Differentials needed to be increased to be more reflective of the execution costs associated with transporting the grain. This issue was also raised with the Commerce Committee who were in agreement.

Methodologies

The Committee agreed that the Location Differential methodology needed to be transparent and easily followed by industry. Currently, due to the imminent introduction of the Grain Express model in Western Australia, the Committee only considered the review of LDs for QLD, NSW, VIC and SA.

NACMA is awaiting the acceptance of the Grain Express model in WA and a recommendation from the organisations who operate in the WA market prior to settlement of the WA Location Differentials.

These methodologies considered included;

- Method 1. Applying a blanket percentage increase to the current Location Differentials.
- Method 2. Simplifying the Location Differential methodology to a road distance based formula based on the road distance from port. The distance would then be multiplied by either:
 - 2.1 A set cents/kilometre/tonne rate, i.e. one value per kilometre irrespective of distance to port. This method assumes there is no difference in freight costs irrespective of the haul. OR
 - 2.2 A set cents/kilometre/tonne rate in multiples of 50 kilometres with the set rate decreasing with increasing distance to port.

To determine the set rate per kilometre per tonne the members of the Transport, Storage and Handling Committee were surveyed to determine current rates for a range of sites in each state. These rates were then converted to a cents/kilometre/tonne.

These rates were then averaged to determine the rates to be applied.

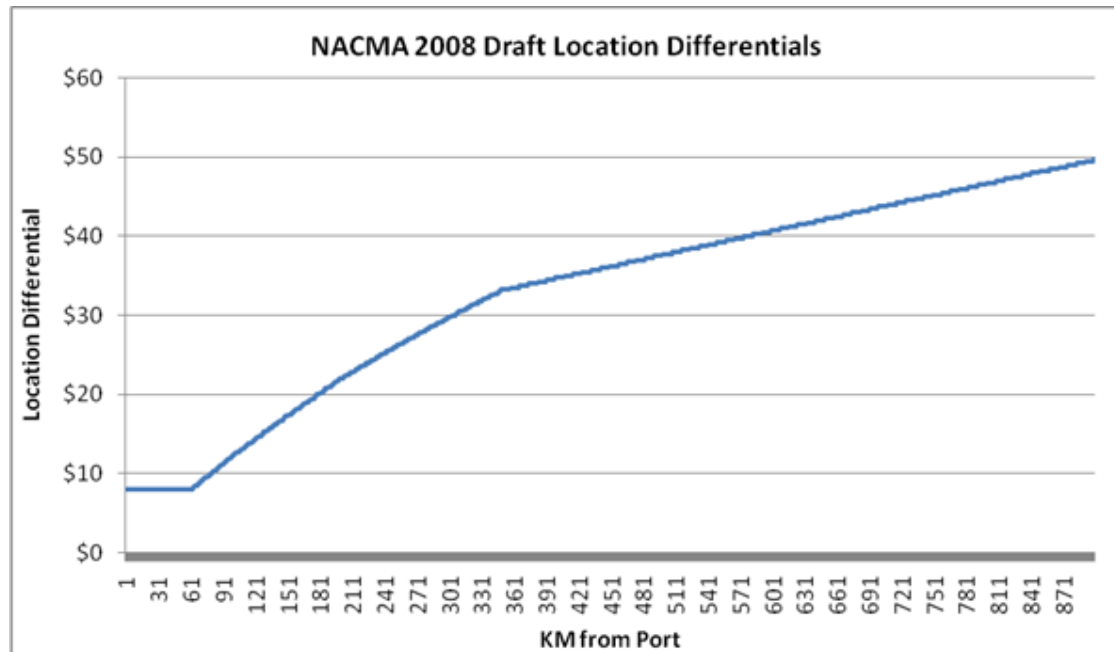
Result

Following this analysis, the Committee agreed that Location Differentials should be determined by Method 2.2. This formula would be the same across all states for where the Location Differentials would apply, i.e. Queensland, New South Wales, Victoria and South Australia.

The Committee explored different cents per km rates over the various distances and agreed that steeper increases would apply for the 0-350 km distances and the extent of the increases would taper off with larger distances – refer Graph 1.

There is a minimum \$8 flag fall for all locations for the first 63 kilometres – refer following table.

KM	LD	KM	LD	LD	KM	LD	KM
63	\$8.00	300	\$29.75	550	\$39.25	800	\$46.75
100	\$12.25	350	\$33.25	600	\$40.75	850	\$48.25
150	\$17.25	400	\$34.75	650	\$42.25	900	\$49.75
200	\$22.00	450	\$36.25	700	\$43.75		
250	\$26.00	500	\$37.75	750	\$45.25		



Graph 1

Benefits

Using Method 2.2 will simplify Location Differential as sites that have the same distance from port will have the same Location Differential.

The proposed Location Differentials are intended to be closely aligned to the commercial costs of execution but are not intended to reflect the actual costs of road or rail transport. There are several reasons for this;

1. transport rates are dynamic and change over time and by region,
2. every organisation that moves grain will have different freight rates dependent on their logistic requirements.

Analysis required

Members are strongly advised to compare the proposed Location Differentials for the locations of interest to their activities against the:

1. actual costs of execution to determine their "freight basis" and manage this accordingly; and
2. natural terminal port (NTP) for each location.

Special note

NACMA relies on information provided by the respective bulk handlers in regards to the rail/road mode. Members will need to make their own enquiries in regards to the accuracy of this information with their respective bulk handlers.