

AAAC Grain Logistics Forum

16 July 2009

Perth



define
tomorrow
today

Sd+D

CONTACT

Neil Matthews

Managing Director

Ph: +61 2 9868 2590

Email: nmatthews@strategicdesign.com.au

www.strategicdesign.com.au

HEAD OFFICE

Suite 604, 51 Rawson Street Epping NSW 2121

PO Box 1075

Epping NSW 1710

Australia

Telephone +61 2 9868 2590

MELBOURNE

Level 8, Collins Street Business Centre

350 Collins Street

Melbourne VIC 3000

Australia

Telephone +61 3 8605 4831



Sydney | Melbourne

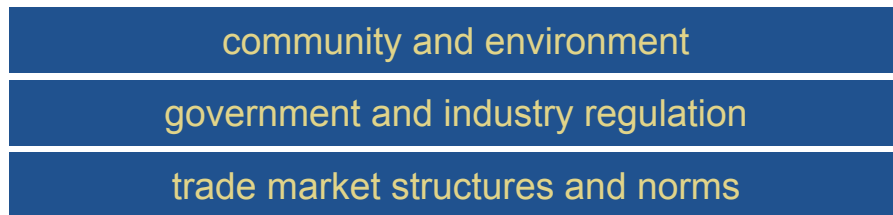
About Sd+D ... A consultancy focussing on strategic, economic and operational analysis of supply chains

- Grain studies
 - *WA Strategic Grain Infrastructure Study*
 - *Eyre Peninsula grains study*
 - *Fischer Review of Victorian branchlines*
 - *New South Wales Branch lines*
- WA studies
 - Intermodal, iron ore, fuel, ports
 - AusLink and WA Corridor studies
- Personally ...
 - *General Manager, Freight Rail Corporation including grain operations*
 - *15 years road freight experience*
 - *Consulting over last 10 years*

A wider view of the supply chain

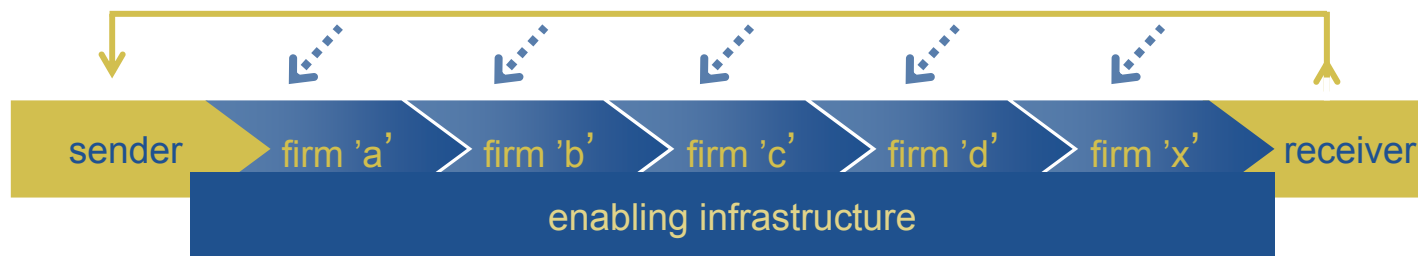
The interaction between supply chain stakeholders is the focus of Sd+D. The movement of people and goods and the ultimate proliferation of financial assets involve complex transactional chains, physical processes and infrastructure. At each point in the chain, value is at stake. From the manufacturing centres to the freight terminals to the rail and road networks, Sd+D is tasked with arranging assets and shaping behaviours to achieve optimal efficiency and value.

Situation, behaviour and strategy



Sd+D plays an integral part in connecting stakeholders.

Our experience has identified that the effects of inter-organisational behaviours are often overlooked when analysing supply chain performance. Sd+D's wider view marries the institutional and organisational objectives, resulting in reports used for lobbying and policy development and solutions formed from the deepest understanding of the commercial and technical impact of each project.



Distribution of VALUE between participants.

The alignment of transactions within the physical and value streams are at the core of the chain. Sd+D engages rigorous diagnostic and management models to refine the interaction of providers and assets and create a value chain across these often volatile segments.

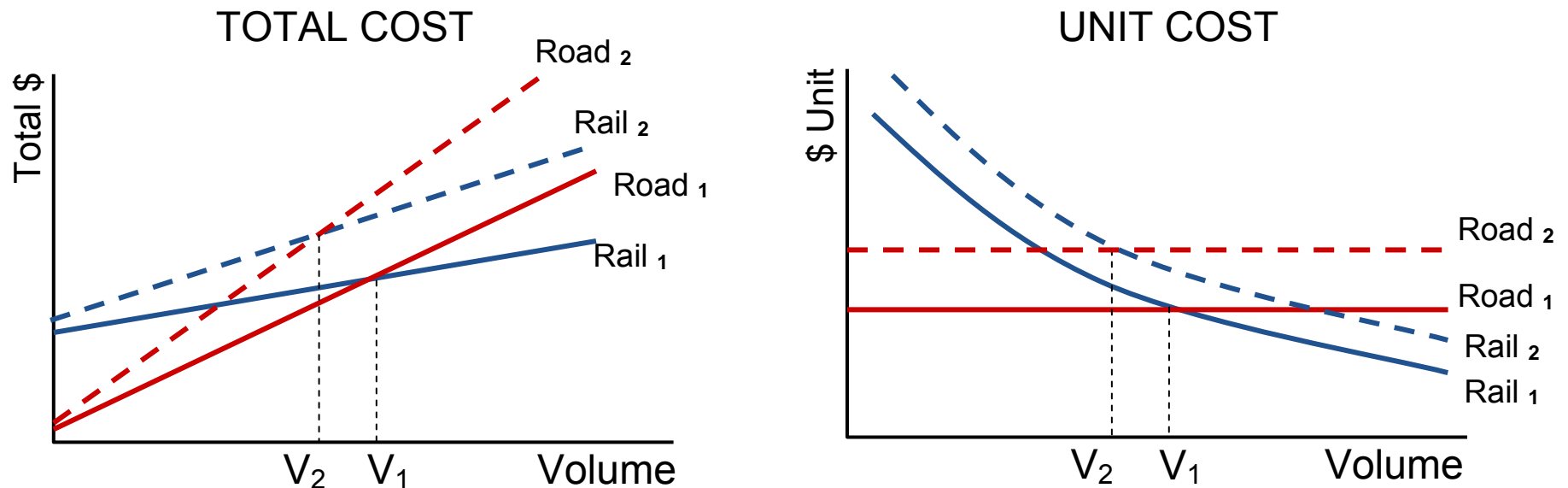
WA grain supply chains ... situation analysis

- Recent focus on some uneconomic branch rail lines
- Strategic Grain Network Review to provide recommendations to Minister for Transport on short, medium and long term network
- A raft of key issues ...
 - *Where should investment be made?*
 - *Reluctance for line closures among some stakeholders*
 - *Suboptimal rail network is not proxy for a regional road policy*
 - *De-regulation and hype-competition as cause of present instability*
 - *We have had one harvest since deregulation, so caution necessary going forward*

Key perspectives worth considering ...

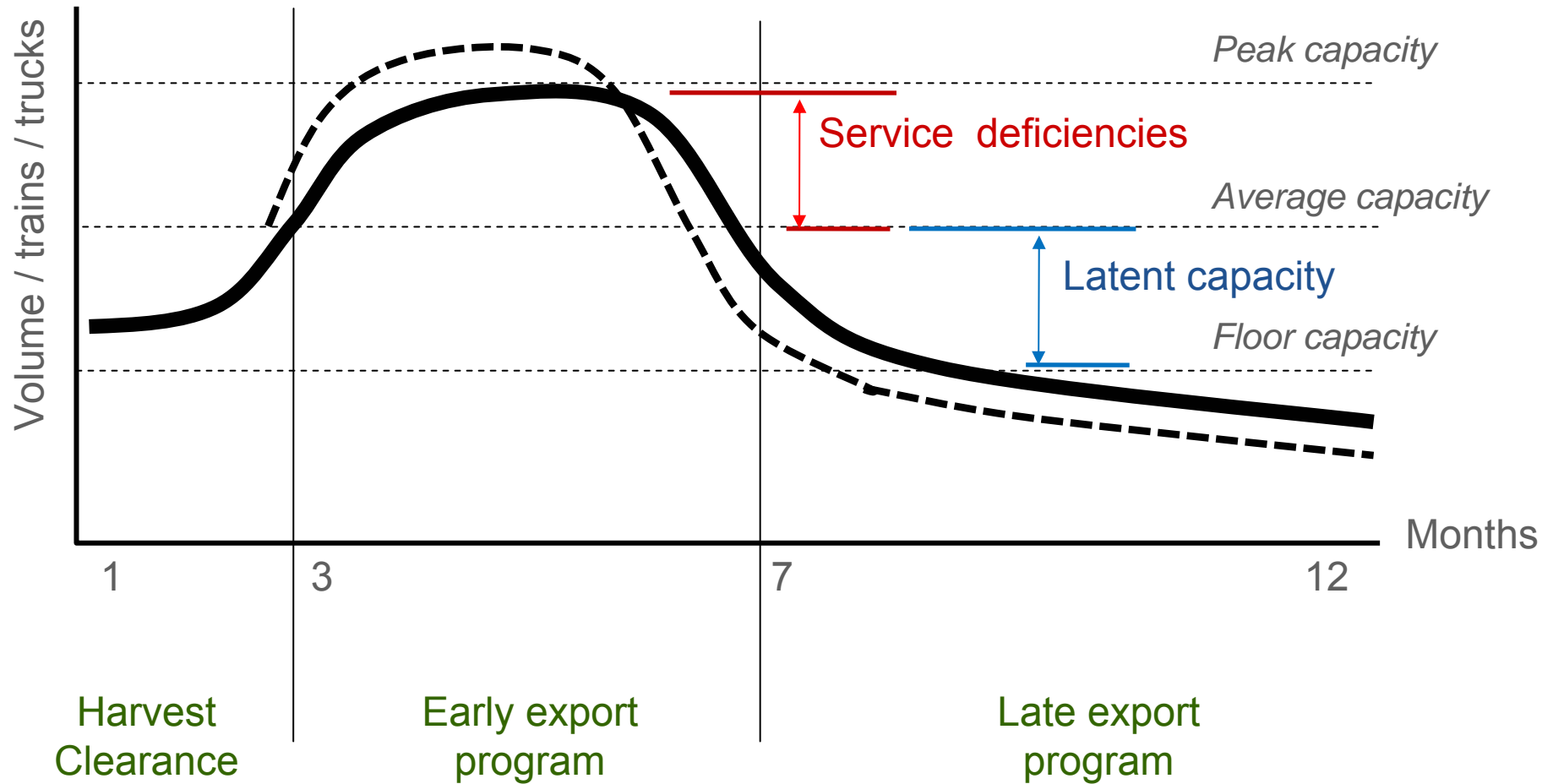
- Mode choice based on '*short run price*' not '*long run cost*'
- New behaviors arising from new trading and freight arbitraging arrangements
- Rail and road pricing parity
 - *what will happen to future road prices if competition from rail is reduced?*
- Investment to address the maintenance debt
- Implications of peak oil, carbon economies and road user charges will significantly change cost relativities of road and rail

Rail and road operations display different economic characteristics



- Peak oil, carbon economies and road user changes will increase road charges by up to 10-15% relative to rail
- For rail having high fixed cost and low marginal cost, it becomes a volume game

Changing demand profile; Where do we pitch rail and road capacity?



There is a need for a long term vision, that encompasses medium term adjustments

- The grain supply chain cannot afford to allow rail network to decline → BUT it must be efficient
 - *Rationalisation and targeted investment*
 - *Axle capacity and track running speeds*
 - *Rapid turnaround at silo and port*
- Need for complementary road network investment and maintenance strategy

Planning horizons within a plan

- Short term (1-2 years);
 - *Stabilisation and urgent investment*
- Long term (20+ years);
 - *What is optimal rail, road and storage network?*
- Medium term (3-5 years);
 - *Regional approach; one size will not fit all circumstances*
 - *Commence transitional adjustments*

Concluding remarks

- One challenging harvest since deregulation does not constitute basis for long term planning
 - *Market consolidation*
 - *Changing road/rail price relativities over time*
- The new market drivers and short-term behaviours may not be productive over the long term
- Need for a plan, then stick to it
 - *Strategic Grain Network Review*
- Cannot afford to get this wrong ... Be wary of lessons from eastern state systems