



17 February 2014

The Research Director  
Transport, Housing and Local Government Committee  
Parliament House  
George Street  
Brisbane QLD 4000

Dear Research Director

We refer to the decision of the Legislative Assembly on 30 October 2013 for the Transport, Housing and Local Government Committee to inquire and report on options to incentivise the agriculture and livestock industry to utilise rail. The Terms of Reference for the Committee are detailed as Attachment 1.

The following is a submission to this Inquiry on behalf of JBS Australia Pty Limited (JBS):

### **Executive Summary**

Rail and the efficient volumetric movement of agricultural commodities such as livestock are critical to both State and regional economies and to businesses such as JBS and its cattle producer customers. JBS is the major user of livestock rail in Queensland to supply its large Dinmore beef processing facility near Ipswich. We continue to work with our livestock suppliers to deliver full trains from key loading points such as Cloncurry, Julia Creek, Richmond and Hughenden on the northern line and Winton, Longreach and Clermont on the central line. JBS has loaded cattle in the past off Quilpie and Charleville on the southwest line, but due to a number of factors in 2013, no cattle trains operated on this line.

Livestock rail is a critical part of an efficient livestock transport system in Queensland. It provides beef producers and meat processors with an alternative to road transport and the capacity to transport over long distances a large number of cattle or the equivalent of 14 B-Double trucks on one point to point train service.

The State Government through its direct financial investment in the Livestock Services Contract (LTSC) needs to ensure delivery of a competitive, cost effective and sustainable livestock rail service. In our view the current livestock rail service arrangements fall short in a number of areas including competitive pricing, incentive to deliver full trains and flexibility in services.

Importantly, under the current LTSC there is no transparency in pricing and the cost to operate scheduled services (for both the State Government and customers), inflexibility in service delivery to meet demand and incentive to take costs out of the business and also grow the business through transporting more cattle on rail.

Historically, there have been risks and speed restrictions for livestock rail due to aging bridge and rail infrastructure, especially west of Emerald on the central line. JBS acknowledges and supports the State Government's commitment through Queensland Rail to improve this infrastructure west of Emerald and to Clermont through capital expenditure in this current calendar year.

The Government through the negotiation of a new LTSC post 2015 has a significant opportunity to work with the key customers such as JBS and its state wide livestock supplier base to increase the volume of cattle moved on rail and underpin jobs and investment in this State.

As the major user of livestock rail services in Queensland, based on the need to source the cattle numbers required to maintain daily processing at our Dinmore facility, JBS makes the following recommendations to the Transport, Housing and Local Government Committee and the State Government in relation to livestock rail services in Queensland:

- 1. Livestock rail services are a critical part of the freight task in Queensland and must be based around a long term sustainable business model, which grows the business through more cattle on rail and is responsive to opportunities and the impact of seasonal conditions on livestock supply.**
- 2. Through the current Government Expression of Interest process being co-ordinated by the Department of Transport, we need direct engagement between the Department and the major users of livestock rail to ensure a quality, cost effective service is in place under the new LTSC post 2015.**
- 3. A pricing structure for livestock rail services, which reflect rail's competitive advantage over road on long haul, volumetric, point to point services and which does not subsidise less efficient services and loading points.**
- 4. Customers must be incentivised on price to load full trains.**
- 5. There must be consolidation of services around high volume loading points and better cycling of the available trains and wagons to drive down the fixed costs of the service.**
- 6. There must be ongoing investment in rail infrastructure, long term guaranteed access to rail paths for livestock rail services and flexibility to access additional paths across the network based on demand and volume.**
- 7. A clear Government policy position on the arrangements for entry by a new livestock rail service provider, including commercial arrangements for access to existing Government owned livestock rail wagons, surplus locomotives and required rail paths across the network.**
- 8. As a customer we, our livestock suppliers and the State Government require clear and measurable metrics in relation to costs, reliability, and quality of the service under a LTSC and a process to drive ongoing service improvement.**
- 9. Due to the cost of entry and long lead time required for start-up and accreditation a decision on the successful livestock rail freight operator post 2015 must be concluded in 2014.**

## **Background**

JBS is the largest meat and food processor in Australia. The Company operates four processing facilities across Queensland (Townsville, Rockhampton, Beef City-Toowoomba and Dinmore – Ipswich). JBS also operates two feedlots in Queensland at Toowoomba and Mungindi.

In Queensland we process 6,000 head of cattle a day and in calendar year 2013, JBS processed 1.4 million head or 37.5 percent of the total Queensland kill.

Across our Queensland business we employ 4,500 people, with many of these located in regional and rural centres.

Around 90 percent of beef product produced from our Queensland processing facilities is destined for export markets all through the Port of Brisbane.

JBS operates 10 processing operations and six feedlots across five Australian States including Queensland.

Our corporate head office operations are located at Dinmore, near Ipswich.

In annual terms the JBS Queensland operations account for \$3.5 billion in combined livestock purchases, wages and beef sales.

### **The Importance of Transport and Logistics in Queensland**

The agricultural industry is a key pillar of the State economy. Businesses such as JBS require clarity in terms of the State's Government's policy on road and rail services and infrastructure in order to invest with confidence.

Queensland has around 50 percent of the Australian meat processing capacity and 50 percent of the national beef herd. The Queensland Beef Industry is a major driver of State economy – production on farm and feedlot, through to processing and export.

Meat processing in the State's largest manufacturing industry. It is an industry, which is heavily export orientated and competes directly for markets against the United States, Brazil, Canada and New Zealand. All of these competitors cost to process a beef animal are significantly lower than those here in Queensland or Australia. It is therefore essential as an export business operating in highly competitive international markets to have efficient transportation and infrastructure systems to deliver cattle in for processing and containers of finished product out to international markets.

A significant number of the 3.4 million head of beef processed in Queensland are bred, fattened and finished for slaughter in this State. However, based on seasonal demand and processing capacity in Queensland cattle are transported direct for slaughter to JBS Dinmore from the Northern Territory and north of Dubbo in New South Wales.

A combination of road and rail transportation is required to ensure the efficient movement of large numbers of livestock annually to Dinmore. In the case of rail, the producer needs to muster the cattle, load on property and transport the cattle direct to a siding for loading on the train.

In the case of livestock road transport, six deck road train configurations are used extensively across the State. In the case of our Townsville, processing facility at Stuart in Townsville we have direct road train access from the west. However, in South East Queensland, where the majority of the processing capacity is located requires the breaking down of the road train into a three deck B-Double configuration.

Importantly, moving cattle is not like transporting bulk mineral product like coal. Cattle can't be stockpiled and they deteriorate on the hoof. Producers and processors alike seek to transport cattle to processing in the least time possible to minimise stress and weight loss and in accordance with established animal welfare standards.

Queensland is the only state of Australia to have livestock rail services. This is due to the large distances required to source and transport cattle for processing in this State. For this reason, rail continues to provide an important long haul, point to point volumetric service for the Queensland Beef Industry.

Each livestock train transports on average 900 head of cattle from loading points located on the North West, Central and South West Queensland lines. In volume terms each train is the equivalent of 14 B-Double trucks, which are being taken off the road network

In our view, an efficient combination of road and rail systems are required to transport cattle the long distances to slaughter in Queensland.

Efficient transport configurations are also required to move the finished beef product in 40 foot containers direct to the Port of Brisbane by road and rail for loading to over 100 export destinations. The Port of Brisbane is Australia's largest beef export port.

### **The Importance of Livestock Rail**

JBS Australia has been a long term user of livestock rail to service its Dinmore processing facility near Ipswich.

At Dinmore we process 3,500 head of cattle per day across a two shift operation and employ 2000 people on site. The site operates a double shift Monday to Thursday and single shift on Friday. Based on availability of cattle the plant also has the capacity to operate on Friday night and the week-end.

Dinmore is Australia's largest meat processing facility and twice as large in throughput terms as the next largest facility in Australia. Dinmore operates 50 weeks of the year and has a large geographical foot print for procurement of cattle.

Over \$200 million has been invested in the JBS Dinmore processing facility to build the scale to compete internationally.

In 2013, the total cattle numbers slaughtered at Dinmore represented 9.25 percent of the total Australian kill.

Cattle are transported long distances for processing at Dinmore. Based on seasons and the time of the year cattle are transported to Dinmore from the Northern Territory, North West and Central Queensland as well as South West Queensland, the Channel Country and New South Wales. For example, the distance from Cloncurry to Dinmore by rail is 1600 kilometres and the journey take around 3 days including an overnight spelling at Townsville.

A total of 160,000 head were transported by rail to Dinmore in 2013. Cloncurry on the northern line, and Winton, Longreach and Clermont on the central line are the key loading points for JBS.

Under the current scheduled livestock rail services, Cloncurry loads to Dinmore on Tuesday and Saturday, Clermont on Friday and Sunday and Winton on Tuesday and Friday.

Each livestock wagon is known as a 'deck'. A deck holds on average 22 head of cattle. There is the capacity to take 53 decks off Cloncurry to Townsville, 45 decks Townsville to Dinmore and 44 decks out of Central Queensland to Dinmore.

There is also a difference in locomotive weights per rail line – 60 tons between Quilpie and Charleville and 90 tons from Charleville to Brisbane, 90 tons between Winton and Emerald in Central Queensland and 110 tons on the Northern and North Coast lines.

In 2013, no cattle services operated off the South West line from Quilpie to Brisbane.



Rail is a critical in delivering the numbers of cattle throughout the year required to maintain processing operations at Dinmore and ensuring the continuity in employment for 2000 full time employees.

Based on seasonal conditions such as heat and rain along with livestock supply, rail services on the northern line operate usually between April/May to October, whilst the Central line operates February to November/December. This is important, as seasonal conditions drive and impact on the volume and services for livestock rail services in Queensland.

Historically the 'peak season' for livestock volumes moving to slaughter is between the periods April to October each year.

JBS works closely with its livestock supplier base to co-ordinate the loading of the cattle with the objective to deliver full trains from point of loading to Dinmore.

It is important for the Committee to understand that over a decade ago the Company invested significantly in dedicated livestock yards and unloading facility at Dinmore. This infrastructure at Dinmore provides for full trains to be directly unloaded off the main Ipswich to Brisbane line either at night or during the day.

To effectively use livestock rail as an end customer requires adequate unloading infrastructure. This infrastructure is expensive to support the unloading of full trains and requires ongoing volume to justify the upfront capital and recurrent costs.

### **The Current Livestock Service**

The issues relating to moving agricultural commodities on rail in Queensland are many and varied.

The current LTSC and the Regional Freight Services Contract (RFTSC) expire in 2015. In relation to livestock freight Aurizon is the current service provider.

The LTSC and State Government subsidy provides for 264 scheduled services and access to 325 paths to allow for additional services during the year. In 2013, we understand that around 225,000 head of cattle were transported by rail in Queensland. All of these cattle were transported from point of loading direct to processing facilities.

Importantly, JBS Dinmore accounts for approximately 70 percent of total cattle moved on rail in Queensland during the year.

The 325 livestock freight paths available in 2013 represented the equivalent of 4,500 B-Double movements. This is a significant as this is volume that was displaced from road.

There is no doubt there are considerable savings to all levels of government from livestock rail through reduction in the capital and recurrent costs of repairing damage to roads. Also, through livestock rail there are less vehicle numbers travelling through regional centres such as Toowoomba to the west of Brisbane and those towns and cities on the Bruce Highway through to the Brisbane metropolitan area.

In 2013, we saw the number of services and deck utilisation rates from its Cloncurry, Winton and Clermont loading points suffer due to a combination of dry conditions, resumption of live cattle exports, increased slaughter cattle numbers moving outside Queensland for processing and a late start and early finish to the season.

JBS purchases around 90% of the cattle it slaughters in Queensland on a weight and grade or direct to works basis. Legal ownership of the animal transfer from the producer to the processor

after it has passed over the hot weight scales after slaughter. The producer is paid on performance of the animal against the requirements of the processor. Beef producers and processors alike have the clear objective to deliver the animal in the best quality possible for slaughter.

Using livestock rail requires producers to load cattle on property and road transport to the rail yards. This takes time, co-ordination and resources. JBS works in conjunction with its producer customer to co-ordinate effective transport arrangements from property to loading at the siding and delivery to Dinmore.

JBS has the capacity to book cattle with Aurizon on its ledger on behalf of customers. Alternatively, a number of the major cattle companies and producers have their own ledger account with Aurizon. This system works well and is more effective than a multitude of producers having their own ledger account with Aurizon.

In the past, there was a multitude of ledger holders with the capacity to book trains direct. This led to service inefficiencies (less than full trains) and cancellations. The service operating under this model resulted in poor levels of capacity utilisation and placed additional costs structures on the livestock rail business. It also diminished through inefficiencies the value received from the Government's financial support through the LTSC.

Rail doesn't take a direct route like road. Cloncurry to Dinmore by rail takes 3 days and Winton to Dinmore 1.5 days. In the case of Cloncurry to Brisbane, cattle are spelled overnight at the Julago siding at Townsville. In comparison road from Cloncurry to Dinmore takes 2 days including a spell and from Winton it takes 20 hours including a driver change at Mitchell.

At the end of 2013, the livestock rail travel times to Dinmore were – Townsville (Stuart) 27.5 hours scheduled – 27 hours actual, Winton 35 hours scheduled – 35.5 hours actual, Clermont 24 hours scheduled – 25.5 hours actual.

Historically, train delays occur due to loading delays, speed restrictions, infrastructure, derailments, train crew availability, delay in entering the Central Queensland network owned and managed by Aurizon and delays in the North Coast and Brisbane network.

Improvements were made to travel time in 2013 through capital investment in infrastructure, asset maintenance and improved communication between Queensland Rail, Aurizon and JBS.

Based on experience, livestock rail has an advantage both in costs and benefits for the animal over road on the long haul point to point services (loading points in Northern and Central Queensland). Cattle travel well on rail over these long distances. Performance of the animal and its welfare are supported in accordance with established animal welfare standards.

Aurizon and the State Government have acknowledged the inflexibility in the current service agreement (LTSC) around the scheduled services and difficulties and costs to reposition locomotives, rolling stock and crews around any changes to scheduled services. This is a major impediment to growing the business under the current arrangements and increasing volumes on rail.

The challenge as expressed by the current rail operator is how to invest in what is deemed a 'loss making livestock rail business'. However, there is no capacity or transparency under the LTSC to

verify the financial and commercial performance of the livestock rail service and the level of capacity to re-invest in the livestock rail business.

The weakness of the current LTSC is that there is no capacity for the State Government and major customers such as JBS to drive improvement in services, negotiate incentives to fill full trains, have flexibility in services and deliver value for money for the State Government through their investment in the LTSC.

This presents risks to our business through uncertainty in ongoing services post the current LTSC is the level of new investment required in the business (locomotives/rolling stock), level of ongoing State Government financial support, availability of services and the costs of a new service model.

Another problem is that investment in rail infrastructure can also be the responsibility of either Aurizon or Queensland Rail based on the location within the State. This also presents problems in terms of justifying the capital expenditure required to improve infrastructure especially in locations such as west of Emerald and the South West.

### **Issues for Consideration**

Based on discussions with the State Government, there appears to be an imputed subsidy through the LTSC of approximately \$100 per head (based on 225,000 head of cattle transported in 2013). In addition, the livestock producer also pays \$100 per head from loading points such as Cloncurry to Dinmore. What are unknown are the costs to operate these services and where are the options to improve the costs to operate, grow the business and implement an improved service for the customers. Unfortunately, in our view as a customer, under the current LTSC there is limited incentive to take costs out or drive efficiencies through increased volumes and flexibility in service delivery.

Importantly, we have seen the cost advantage of rail over road diminish over the last 10 years to today, based on the LTSC livestock rates rail and road are line ball when also factoring in weight loss of the animal in transport and time delays in transport.

We are commercial operators and understand that service providers need to make a profit. However, we are of the view that rail in volumetric long haul point to point services must be a more cost effective option than road. Unfortunately, the freight rates that we are currently locked into under the existing LTSC do not reflect this advantage rail has over road.

What needs to be established through the Expressions of Interest process is whether we currently have a high cost livestock freight model where a lower cost more flexible model is required in Queensland?

### **More Cattle by Rail**

The facts are that as detailed in this submission, due to seasonal, weather and supply conditions livestock rail services start and finish at different times each year. Livestock rail is not a 52 week of the year operation and nor will it ever operate this way due to seasons and livestock supply.

However, even with these challenges, JBS is of the view that there are opportunities to move more cattle on rail.

To achieve this in our view requires more competitive pricing based on volumetric long haul point to point services. In addition, it requires the ability to increase train services from high volume loading points (full trains) along with a greater flexibility in rail services as these must be the drivers to move road volume to rail.

Clearly, our view is that there must be an incentive in price to load full trains off one point of loading, rather than the costs and logistics associated with a series of inefficient loadings required to fill a train. There also needs penalties for not filling or cancelling services.

JBS is of the view that the model for a strong and sustainable livestock rail is based on more competitive pricing of a small and select number of loading points to deliver volume and high cattle train service utilisation rates. In our view this strategy will move cattle from road to rail.

Importantly, JBS is committed to continuing to work with the Queensland Government and the rail provider to move more cattle by rail. However, in our view the current scheduled services and freight rates are inflexible and do not provide the ability to move more cattle by rail nor negotiate better freight rates to incentivise producers to use rail. There must be an ability to change this well before the end of the current LTSC in 2015.

We also need to address the risks and costs associated with longer journeys and delays for livestock rail. These include:

- Infrastructure issues including status of bridges especially west of Emerald.
- Loading delays and impact on entering the Central Queensland network.
- Provision of longer passing loops on the Northern line.
- Guaranteed slots on the lines to mitigate the impact of mineral volume increases on rail.
- Provision of unloading points due to breakdown, track closure (i.e. washout, derailment) and animal welfare issues.

There also needs to be the ability to move cattle across the Northern line to consolidate in Winton to load on rail direct to slaughter without having to dip for ticks. This requires changes to State legislation.

There also needs the capacity to get a better asset utilisation through flexibility in turn around and better repositioning of trains and crews.

### **Services to the South West and better use of assets**

The fact is that in 2013 there were no cattle rail services out of the South West.

JBS has held discussions with the South West Mayors and interested groups about the issues around livestock rail services and ideas to improve the uptake of services by producers.

The Channel Country historically has had productive seasons for producing fat grass fed cattle two in every five years. Over 2013, fat cattle for slaughter went to South Australia and southern processing operations from the Channel Country in large numbers. Cattle slaughtered in Queensland from the Channel Country were transported on road, which has improved considerably with the growth of coal seam gas development. Cattle in the Northern part of the Channel Country were in some cases transported by rail from Winton or Longreach.



Over the past number of years the Channel Country and the South West areas have turned greater numbers of grass fed cattle off at a lower weight for the large feedlot sector in South East Queensland. These are transported by road.

JBS are of the view if the South West services are not used then the livestock assets (locomotives, wagons, crews and paths) should be redeployed for use in the high volume Central corridor.

## **Conclusion**

JBS sees a clear future for livestock rail in this State. It is a strategic asset underpinning a significant investment by the Queensland Beef Industry and processing companies such as ours.

We have a major investment in Dinmore and as Australia's largest meat processing facility requires on going access to an efficient rail service. However, at the same time under the expression of interest process for rail freight service including livestock being co-ordinated by the Department of Transport, we must achieve a better service outcome (price/volume/incentive/flexibility) under the next LTSC.

The key requirements in JBS view for a sustainable and cost effective livestock rail service are in no order of priority as follows:

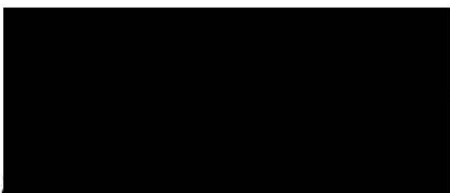
- Freight rates, which reflect the competitiveness rail has over road on long haul point to point services.
- High volume loading points filling full trains supported by efficient cycling of the trains to drive down the fixed costs.
- Services which operate on time and do not compromise the quality and welfare of the animal.
- Cost reduction plan for the livestock rail business based on increased asset utilisation and growing the business through moving more cattle.
- Flexibility to meet demand and opportunities and options for improvements in turnaround time of services.
- No cross subsidisation of services.
- Performance metrics around the service which drive improvements.
- Pricing to incentivise full trains and also penalties for not delivering full trains and also cancelling trains at short notice.
- A proactive operator responsive to major customer requirements.
- Owner/operators who want to grow a long term sustainable and viable business.
- Better return for State Government investment under the LTSC.

Importantly, we along with our key livestock supplier base who are solid rail users must have direct involvement in the expression of interests being managed by the Department of Transport. We must have a clear position, which supports the continuation of livestock rail services.

If rail assets and resources can be better utilised then we also need the incentive and flexibility to have livestock rail move more cattle on full trains. A move to less than full trains and the return to a service where we try to be all things to all people are neither sustainable nor viable and will cause significant commercial dislocation especially for the JBS Dinmore business and our livestock customers who support rail.

We look forward to appearing before the Committee during the public hearing process.

Yours sincerely



**John K Berry**  
**Director and Head of Corporate and Regulatory**  
**On behalf of JBS Australia Pty Limited**

## Inquiry into rail freight use by agriculture and livestock industries

### Referral

On **Wednesday, 30 October 2013** the Legislative Assembly agreed to a motion that the Transport, Housing and Local Government Committee inquire and report on options to incentivise the agricultural and livestock industry to utilise rail.

The Terms of Reference provided to the Committee are as follows:

- Identify opportunities to enhance coordination and collaboration across government, transport industry and primary producers about rail freight;
- Provide future direction for enhancing the utilisation of the rail system for primary producers and their freight needs including the demand for freight, including future volume, nature, timing and frequency;
- Identify the characteristics of the future transport system for primary producer freight needs;
- Identify a broad range of options, including appropriate risk sharing amongst supply chain participants, for delivering freight solutions for primary producers;
- Optimise the capacity and performance of the rail system for freight;
- Plan a rail system that is positioned to exploit future freight, particularly export, opportunities; and
- Develop sustainable long-term solutions for freight movement by rail for the agriculture and livestock industry.

Further, that the committee consult with key industry groups including AgForce; Queensland Farmers Federation; Cane Growers Australia; Meat and Livestock Australia; GrainCorp; Cotton Australia; and rail managers and operators including Queensland Rail; Aurizon and Pacific National.

The Committee is to report back to the House by **Tuesday, 10 June 2014**.

### Timeline

Referral Date	Wednesday, 30 October 2013
Close of Submissions	<b>5pm, Friday, 21 February 2014</b>
Reporting Date	Tuesday, 10 June 2014

### Public Hearing

The Committee will hold a number of hearings in relation to the Inquiry into rail freight use by the agriculture and livestock industries:

#### Brisbane:

- 25 February 2014
- 5 March 2014

Time and venue **"to be advised"**.

A transcript will also be published to the website as soon as practicable.

Members of the public are welcome to attend as observers.

### **Hearing and briefing**

The Committee held a public departmental briefing on **Wednesday 12 February 2014** with the Department of Transport and Main Roads (TMR), Queensland Rail (QR) and Department of Agriculture, Fisheries and Forestry (DAFF). Please find the public briefing program **here**.