Submission to the NSW Review of the moratorium on Genetically Modified Canola

GrainCorp Operations Limited
31 August 2007

Submission to the NSW Review of the Moratorium on Genetically Modified Canola

Contents

This submission should be read in conjunction with
*"**Delivering Market Choice with GM canola**",*
an industry report which is supported and endorsed by GrainCorp.
Information contained in that document has not been replicated within this submission.

Submission to the NSW Review of the Moratorium on Genetically Modified Canola

GrainCorp

1 Executive Summary

GrainCorp is a leading Australian agribusiness, with extensive bulk handling infrastructure on the east coast and a national and international grain marketing operation. It provides transport and finance services to the rural sector and has a network of farm input service centres.

Our storage and handling infrastructure includes 284 up-country sites and nine port terminals, which have rail and/or road links used to transport grain to domestic and international markets. GrainCorp currently manages more than 50 discrete segregations through its supply chain and has the systems, processes and expertise to manage GM canola to suit any specific market requirements. We will supply the market with supply chain and market solutions for GM and non-GM as demanded.

In NSW, we have 114 country sites and three ports (Newcastle (2) and Port Kembla) with 10.2 million tonnes storage capacity. This is more than adequate to accommodate any segregation needs related to GM and non-GM canola given that NSW total crop production on average is 8 million tonnes, of which canola accounts for 6% of the total volume.
GrainCorp trades grain each year to the domestic market (feedlots, human consumption) and exports bulk canola, barley, sorghum and containerised wheat to up to 10 countries. These countries currently purchase GM canola from other origins and often combine Australian and other origin canola when received at port.

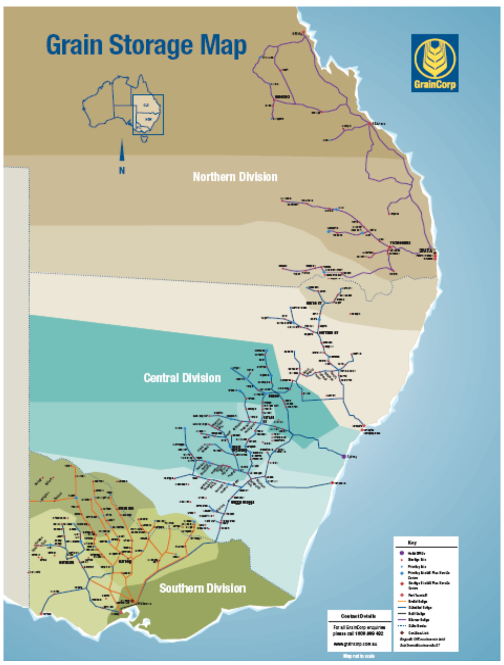
We believe that we can manage the supply chain and segregations as required by our customers; we do this routinely for discrete quality requirements such as Pesticide Residue Free (PRF) grain and malt barley varietal segregations. We also believe that our domestic and international markets will accept GM canola, and where they require non-GM that this can be provided. GrainCorp does not see an impact on trade from the introduction of approved GM canola in Australia, and is confident that customers needs and specifications can be met.

The company supports the introduction of GM crops into Australian broadacre cropping believing this technology can assist increase grain production and improve productivity. We believe that Australia is at a significant commercial disadvantage by not being able to use this technology and that it should be the choice of growers and customers as to whether they use this technology. Given the acceptance of GM in markets, regulatory approval by the OGTR, and confidence that customer requirements can be met through the existing supply chain, there are no trade or market reasons which should prevent a choice to use this technology.

GrainCorp believes that quality assurance, management systems and industry standards and protocols are in place to enable the industry to deliver market choice. Therefore, we support the removal of the GM moratorium in NSW, and other states, and market choice should prevail in relation to the use of this technology.

2 GrainCorp's grain infrastructure

GrainCorp has the largest bulk handling network on the east coast of Australia as shown in figure 1. This network is located across the major crop growing region in these three states and handles approximately 50% of total production.



Through this network, we receive around eight different crops and manage over 50 segregations. Our grain accumulation, storage, handling and transport services enable grain to be managed to meet the specific requirements of individual customers, and our service levels and contractual arrangements provide certainty to the customer in this regard.

Figure 1. GrainCorp's grain storage system

Infrastructure in New South Wales

GrainCorp has a significant investment in the New South Wales grain industry and manage approximately 60% of the NSW grain crop.

GrainCorp receiving on average 5 million tonnes of grain per year into the following facilities:

- 30 primary silos. Most of these silos are located near a rail line ('on rail') and have an average storage capacity of 100,000 tonnes each. These silos are responsible for managing 60% of the country grain received by GrainCorp ('country grain receivals');
- 65 major and custom silos; and
- 4 sub-terminals at Werris Creek, Parkes, Temora and Junee. The sub-terminals have a combined capacity of more than 1.2 million tonnes.

3 Supply Chain Confidence

GrainCorp operates in the most diverse market in Australia given the mix of domestic and international customer we service and has a robust supply chain with high level capacity to meet market requirements. Our supply chain is underpinned by:

- Certification /accreditation to ISO9001 and ISO17025 for relevant parts of the business
- Detailed procedures and practices
- High level of expertise, and
- Research & development capacity.

Each year we receive on average close to 10 million tonnes of grain, which is managed through a mixed supply chain i.e. all crops use a common supply chain. To ensure customer requirements and quality specifications are met, GrainCorp provides appropriate segregations and handling regimes. These are outlined below along with details about handling costs and some specific case studies which have application for the GM and non GM canola. GrainCorp is confident we can handle and manage any segregation and provide the traceability at the sites of any GM crops in the handling system as required.

3.1.1 Segregations

GrainCorp handles over 50 segregations each year throughout its network, and each site manages multiple segregations.

Given that the supply chain is already able to manage discrete segregations, GM and non-GM segregations will be catered for according to demand.

The industry standards for GM / non GM segregations would be set in accordance with market and government requirements. A specific GM standard would be added to this schedule if required. In addition to this, individual customers may also have particular specifications which will be met through the appropriate management.

3.1.2 Pricing

The pricing for grain storage and handling in GrainCorp's network is determined each harvest and tariff rates are published. There are standard fees (e.g. receival, storage and outturn etc) that are payable by all customers, and then a range of other charges which a customer may incur depending on their specific requirements.

The same standard charges would apply for GM and non-GM canola alike, and customer requirements re: segregation, thresholds etc would determine what if any other costs would be incurred.

For example, where a customer required grain to be kept at a separate site, the factors likely to influence pricing would include:

1. Current utilization of site and any rehabilitation/preparation costs with the site eg un-mothballing an unused site
2. Lost opportunities costs at site or within site (if mixed site would still require separate handling system (grain paths)) within site, and
3. Possibly some extra training/resourcing and surveillance to cater for extra risk

It is estimated that the segregation cost is in the range of a few dollars per tonne.

3.1.3 Grain consignments

GrainCorp manages particular consignments of grain which have relevance to the issue of the supply chain's ability to manage GM canola. The three examples outlined below include PRF grain, organic wheat and quarantine shipments of GM canola.

3.1.3.1 Pesticide residue free

GrainCorp currently manages 1 million tonnes of pesticide residue free (PRF) grain each year.

GrainCorp uses contact insecticides and fumigants for insect control within its handling system. If we were handling a 10 million tonne crop, about 2 million tonnes is treated with contact insecticides typically organophosphate insecticides where the common treatment rate is 10mg/Kg. The balance of 8 million tonnes is treated with by phosphine fumigation, thus GrainCorp has a series of treatment profiles (treated and PRF) on grain that have to be managed to meet customer requirements.

Of the above GrainCorp routinely supplies the market over a million tonnes of Pesticide Residue Free (PRF) grain (this also includes canola) a year. PRF grain has a market specification of having less than 0.1mg/Kg of the above insecticides.

PRF is sourced from Phosphine treated grain and supplied to the market via common grain paths; elevators, conveyors, silos, road/rail trucks etc. These grain paths carry grain treated up to 10mg/Kg and PRF without any special conditions such as cleaning or other actions between handling treated and PRF commodities for example treated grain will be transferred through an Export Terminal and PRF grain ran through the same grain path without cleaning. For sensitive markets such as Japan, additional tests to ensure PRF levels have not been breached are conducted prior to export as final quality assurance check.

A fee of $1 per tonne, above standard costs, is payable on all grain shipped as PRF.

Managing to this standard is similar to managing to the existing adventious presence standards for GM of 0.9%.

3.1.3.2 Organic wheat to the UK

GrainCorp has managed the accumulation organic wheat and shipment to the UK.

In 2004, GrainCorp shipped containers of organic wheat to the United Kingdom. This wheat was stored at a single site within the network. GrainCorp received and handled this segregation at Balranald, Moura and Pinkenba for export to the UK and demonstrated that organic wheat moved through the system without incident.

The costs associated with this included:

- Segregation fees of approximately a couple of dollars a tonne, and
- Additional shipping related costs were incurred reflecting clean down, swabbing, chemical testing, segregation and special treatment costs eg Nitrogen or CO_2 for insect control.

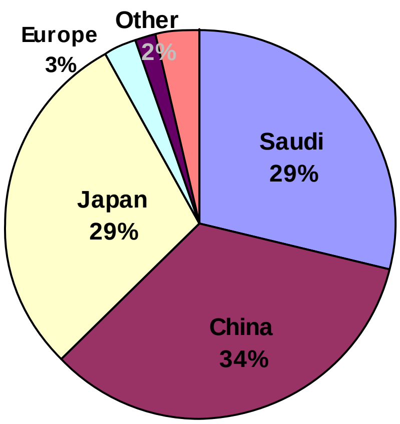
*3.1.3.3 **Quarantine shipments, including GM**.*

GrainCorp has successfully managed GM canola imports into Australia in accordance with AQIS protocols...

Operating the majority of grain port terminals on the east coast, GrainCorp is routinely required to manage quarantine shipments, we have decades of experience in successfully managing these imports through our ports in Brisbane, Newcastle, Port Kembla and Geelong. These imports are highly sensitive and often include GM material.

In December 2006, GrainCorp managed a shipment of GM canola, which was imported from Canada given the domestic shortfall caused by the drought. This vessel was discharged at Newcastle, NSW. We are still supplying our customer with this canola from our storages to their processing plant in accordance with AQIS requirements.

4 Impact on markets



GrainCorp sells canola, wheat, barley and other crops to over 100 domestic traders and customers and to key international customers (see graph) in 10 countries. We do not receive a price premium for non-GM in any of these markets. Our expectation is that customers are unlikely to pay a premium, except in niche markets, for non GM grain. This is reinforced by the current practice of these customers to comingle other origin GM canola with Australian canola at port i.e. GM and non GM is treated as the same canola by the customer.

Our customer's currently accept GM from other countries.

- Japan takes our canola and requests non GM but it takes up to 1.8 million tonnes of canola each year with most of this from Canada which is GM canola. Japan has a market for a genuine 50,000 tonnes of non GM canola but the rest is usually blended at the crushers in Japan.
- China has a process in place to take GM canola from Canada and Europe is on the way to opening up its market to GM canola as the market has outgrown the supply of Non GM with Spain now growing GM corn.
- The Sub Continent (Pakistan and Bangladesh) has no problems using GM canola with the majority of its supply currently coming from Canada.

GrainCorp believes there are no trade or market issues that justify the GM moratorium and the market can already cater for choice.

It is the market that will decide if there is a premium for non-GM.

5 Removal of the GM moratorium

It is important to recognise that changes have occurred since the introduction of moratorium in 2004. These have enabled market, trade and supply chain management issues to be examined and analysed closely by industry and government representatives. During this period the following have also occurred:

- The establishment of adventious presence thresholds for the presence of GM traits in Australia and key trading partners
- Specific protocols developed eg AOF standards, market choice protocols
- Industry support for the commercialisation of GM canola in a manner that:
  - Maintains or enhances trade in Australian canola
  - Enables market choice along the supply chain
  - Is open and transparent
  - Provides confidence to all stakeholders, particularly to customers, consumers and government.

This is demonstrated in the report *"Delivering market choice with GM canola"* and the supporting document "*Principles for process management of grain within the Australian supply chain – a guide for industry in an environmental where GM and non-GM grain is marketed*".

GrainCorp supports the removal of the GM moratorium in NSW, and other states, and is confident that the Australian grains industry has the capacity to deliver market choice through the existing supply chain.