



29 July 2010

Our Ref: 05 006 02 0005

Your Ref: C2008/945-06

Ms G D'Ettorre
Assistant Director, Adjudication
Australian Competition and Consumer Commission
Level 35, 360 Elizabeth Street
MELBOURNE Vic 3000

Dear Ms E'Ettorre

CO-OPERATIVE BULK HANDLING LTD (CBH) GRAIN EXPRESS

Thank you for your invitation to contribute to the review of CBH's Grain Express by the Australian Competition and Consumer Commission (ACCC).

The Western Australian Local Government Association (WALGA) is the voice of Local Government in Western Australia (WA). As the peak industry body WALGA is an independent, membership-based group representing and supporting the work and interests of 141 Local Governments in Western Australia and offshore Territories. WALGA also provides professional advice and offers services that provide financial benefits to Local Governments and the communities they serve.

Local Governments are directly responsible for 72% of the road network in Western Australia. As network managers, Local Governments have a keen interest in providing sustainable, safe and efficient road infrastructure for businesses and communities.

The Local Government sector's interests in the operation of the Western Australian grain supply chain generally and Grain Express specifically arises from their role as:

- a) A local road infrastructure provider; and
- b) Advocate for the interests of local communities potentially impacted by changes in the grain supply chain.

Grain Freight Modes

A recent review prepared for the Freight and Logistics Council of WA ¹ details key points that are important for the consideration of this review.

¹ Strategic Grain Network Review, December 2009 Sd & D Consult

Transport Costs and Prices

The prices charged by road transport operators do not reflect the full costs of road transport as road infrastructure costs, particularly for local roads, are not fully recovered through fuel taxes and vehicle licence fees. When setting licence fees for heavy vehicles, the National Transport Commission currently excludes a significant proportion of the expenditure required on local roads to repair the damage caused by heavy vehicles. The Commission argues that local access costs are more appropriately recovered through Local Government rates. However, this does not recognise that for Shires between grain growing areas and ports or remaining rail heads, the majority of the heavy vehicle transport originates outside of their jurisdiction. A much higher proportion of the total cost of rail transport, including maintenance and renewal of rail infrastructure is captured via charges to rail users. This lack of efficient pricing of road and rail infrastructure and lack of competitive neutrality between the transport modes underpins the transfer of the grain freight task from rail to road.

A lack of appropriate price signals means that new entrants in the grain supply chain are using the 'least cost pathway' road, to transport grain. Volume is critical in keeping per tonne costs for rail. As tonnage leaks from rail to road there is a significant cost to local government in upgrading and maintaining road infrastructure.

Context of Investment in road infrastructure by Local Government

The Strategic Grain Network Review Report, December 2009 indicates that excessive costs are being incurred by Local Government (Finding 22) and that currently many Local Government roads are not of a standard (width and pavement strength) to carry increased grain traffic and warrant new investment in capital and ongoing maintenance costs. (Finding 7). An initial \$50M of new funds to upgrade key strategic local roads was identified in this Report.

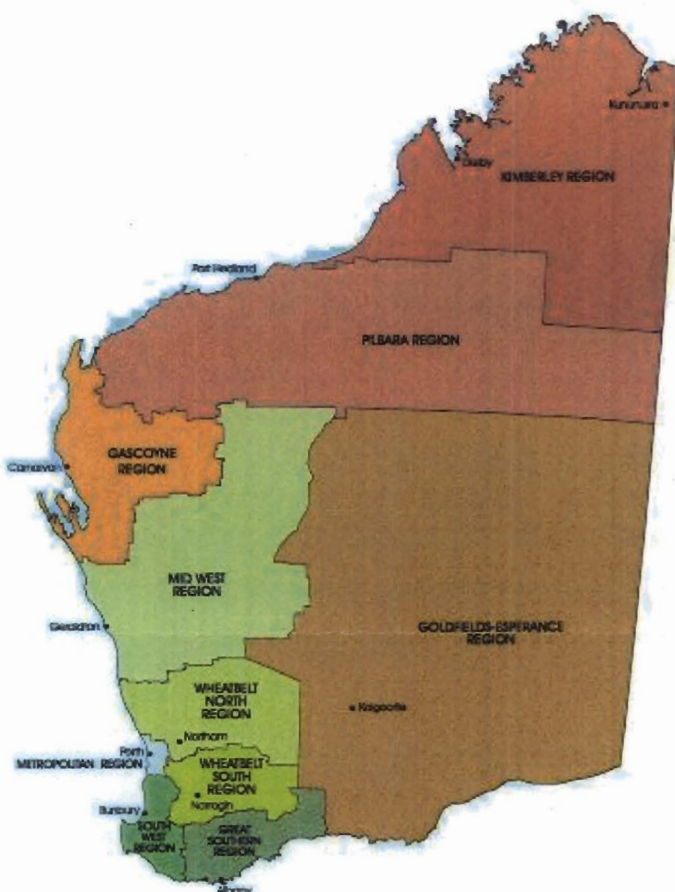
A study undertaken by Parsons Brinkerhoff for the WALGA *Local Government Grain Infrastructure Working Group* identified 3,100 kilometres of roads across 58 Local Government Areas that will require upgrading over the next 10 years in order to meet the projected requirements of the grain freight task. The estimated cost of this work is \$355m in 2008 dollars.

The WALGA Report on Local Road Assets and Expenditure 2008/09 indicates the percentage that the following Regional Road Groups of Local Governments in grain growing regions would need to spend of their **entire** revenue capacity on road preservation to make up the difference between their road preservation needs and the road grants they receive for preservation:

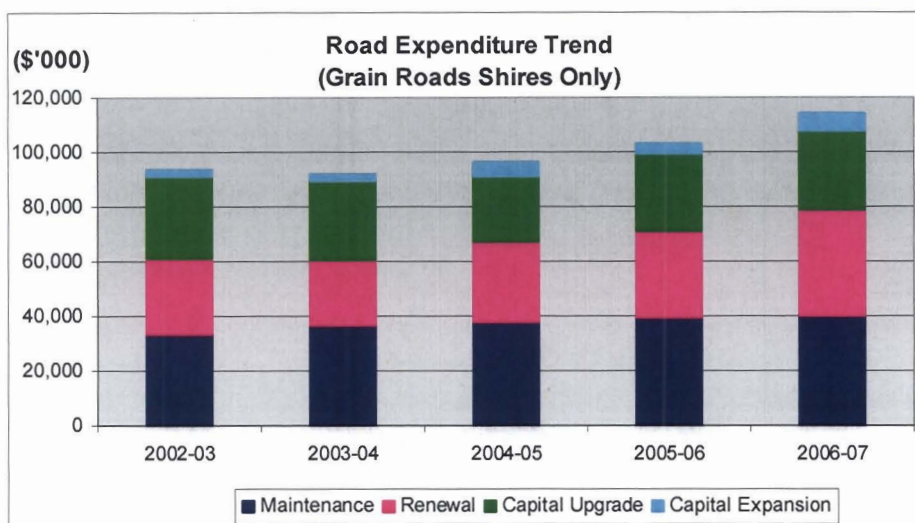
- Wheatbelt South 96%
- Wheatbelt North 81%
- MidWest 56%
- Great Southern 65%

This compares to 21% for Councils in the metropolitan region. The following map indicates the location of these regions.

Map: Location of Regional Road Group regions in Western Australia



This investment in local roads needs to be considered in the context of current levels of investment in road infrastructure for these 58 Local Governments. The 58 Local Governments affected by grain freight spent a total of \$114m on roads in 2006/07. There has been a 22% increase (nominal) in road expenditure by these Local Governments over the 5 years, reflecting nominal growth of nearly 5.5% per annum. Over the past five years between 30.2% and 35.0% of annual road expenditure has been capital upgrade and expansion. On average 32% of total road expenditure amongst these 58 Local Governments is capital upgrade and expansion. At the current level of investment in roads and the average proportion of this allocated to capital upgrade and expansion, upgrading the identified roads identified in this study would take 11.1 years assuming the shires concerned carry out no other capital upgrade and expansion work on their road network.



For 21 of these Local Governments, the required work equates to less than 5 years of their average capital upgrade and capital expansion investment in roads and if a high priority at a local level would potentially be able to be funded under the current funding regime.

For 18 of these Local Governments the proposed work equates to more than 20 years of capital investment at current rates. These shires are:

Morawa	Tammin	Perenjori
Kulin	Koorda	Quairading
Narembeen	Mukinbudin	Kent
Corrigin	Trayning	Yilgarn
Wandering	Kellerberrin	Kondinin
Wickepin	Wongan-Ballidu	Carnamah

Road Safety

One 600m long train is the equivalent to 50 trucks on the road. The provision of safer roads and roadsides in line with Towards Zero, the WA Road Safety Strategy, is a critical issue for Local Governments. The fragmentation of the market and increased transport of grain on road has road safety implications. Larger vehicle combinations and increased truck movements through town centres, past schools on roads that were not designed or maintained for the number and type of heavy vehicle combinations and axle loads is of concern to Councils.

Conclusion

In its initial decision the ACCC believed there were likely to be significant efficiency benefits under Grain Express as a result of the central coordination of grain storage, handling and transportation in Western Australia. Following the deregulation of bulk wheat exports the number of accredited exporters attempting to make their own storage, handling and transport arrangements within the grain supply chain substantially increased.

Local Government supports the utilisation of rail infrastructure for grain transportation. Increased grain cartage by road and a failing rail network will have a critical impact on Local Government finances as Local Governments face greater costs to upgrade and maintain local road infrastructure to accommodate an increasing grain freight task. Also the impact on the safety and amenity of regional communities is comprised through more truck movements.

The impact of deregulation of the wheat market and the growth in up country storage on local road infrastructure is significant. Pricing distortions have created transport inefficiencies, placing additional costs on Local Government to upgrade and maintain their roads which are a critical component in the grain supply chain.

From our perspective, the ACCC's review needs to be considered within public benefit context of keeping grain freight on rail and ensuring Government works with industry to provide adequate investment in rail and road infrastructure and pricing signals that address current distortions. Whilst the true cost of road infrastructure provision is not reflected in the price of road transport and Local Governments are not funded for a shift of grain freight from rail to road we support grain being kept on rail.

For enquiries please contact me on 089213 2031 or mmackenzie@walga.asn.au.

Yours sincerely



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