
Freight and Logistics Council of Western Australia



The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
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Dear Sir

The Freight and Logistics Council of Western Australia advises the Minister for Transport in Western Australia on matters related to policy and planning of infrastructure and operational issues affecting the carriage of freight in the State. We are therefore interested in the proposed revocation of authorisation by the ACCC of CBH service bundling (storage and transport) within its 'Grain Express' system.

Summary of Submission

The bulk of this letter aims to provide background and elaboration for the following points:

- At present the WA grain sector produces average annual harvests of approximately 14 million tonnes, of which 90% is exported through four ports, and of which rail transports 80% measured in net tonne-kilometres (ntk) or 60% by volume. This situation creates large volumes of grain for transport over relatively short shipping periods each year, corresponding intense movement of trains and road vehicles on the system of rail lines and roads, particularly in the Wheatbelt but also in the Perth metropolitan area.
- There is a strong consensus within the grain industry in Western Australia favouring bin-to-bin and bin-to-port movement of grain as far as possible by rail, supplemented where necessary by road transport. This consensus is in part underpinned by wide appreciation that the road system in the Wheatbelt is inadequate to accommodate large flows of grain-carrying heavy combination vehicles, often 'fleeted' in the busy grain season, and the resulting risk of road accidents.
- The State and Commonwealth Governments in collaboration with WestNet Rail, the rail infrastructure provider, have committed to a program of investment to upgrade rail lines assessed as being viable in the long term (referred to below as Tier 1 and Tier 2 lines). Investment has also been provided to upgrade selected roads intended to perform complementary functions.
- Without the bundling inherent in Grain Express there would be a risk that a significant proportion of the harvest would be carried bin-to-bin and bin-to-port by road transport (heavy combination vehicles), as large grain traders newly entered into the market for export grain since deregulation seek to 'cherry-pick' parcels of grain which offer larger than average net returns, throwing the burden of fixed transport system costs onto other members in the CBH co-operative, and diluting economies of scale underpinning the viability of the grain rail network.

- A more satisfactory outcome would flow from a decision by the ACCC to grant a further temporary authorisation for the bundling by CBH inherent in Grain Express, subject to conditions. The main condition for a new temporary authorisation from 2011/2012 would be that any above-rail carrier purchasing access to services of relevant WestNet Rail infrastructure could load grain from designated major CBH silos to port, provided the quantum in each instance was sufficient to make up a full train-load.
- A new temporary authorisation for Grain Express, with this qualification, should be for the period to the end of the 2013-2014 grain cartage season (say 30 June 2014). Further extension of authorisation, temporarily or permanently, should be subject to further review at the end of the 2013-2014 season.

1. Improving efficiency and productivity in the markets for rail transport of grain – State and Commonwealth investment in strengthening rail and complementary road infrastructure

During 2009 the Minister commenced a review of arrangements in the State for transport of grain between ‘bins’ and ports. A key part of this review was preparation of a long-term strategy for investment in rail and road systems in order to accommodate most economically the expected bin-to-port grain movements, taking into account capital, maintenance and operating costs and externalities. To support and provide oversight of this strategic planning initiative, the State’s Minister for Transport established the ‘Strategic Grain Network Committee’ (SGNC) representing all significant private and public sector stakeholders in the grain logistics system, including major growers’ peak bodies, road authorities (local government and Main Roads WA), rail infrastructure and service providers, CBH, the Grain Industry Association, and State and Commonwealth Government departments including the WA Treasury.

The report unanimously endorsed by all members of this Committee was submitted to the State Minister, as requested by him, in December 2009 (*Report Prepared for the Freight and Logistics Council of WA on behalf of the Strategic Grain Network Committee*, December 2009, 87 pp). This report contains Findings, analysis and a list of members of the Committee. It is essential reading.

Among the twenty-four Findings in this document, the following selected items are of particular relevance to this submission to the ACCC relating to the future of the Grain Express system:

Finding 1: *There is a strong economic rationale – and wide grower support – for maintaining a strong rail network, wherever the sum of long-term ‘whole-of life’ costs for rail infrastructure and operations and ‘external’ costs are less than the alternative road transport.*

Finding 2: *The present grain rail network may be segregated into three parts: Tier 1 ‘core network’ lines [979 km], which are competitive with road transport and will be in future regardless of future probably cost increases (fuel and CPRS) [the report contains detailed analysis of the impact on road-rail competitiveness of potential future cost increases]; Tier 2 ‘viable’ lines [420 km] where rail services are competitive with current rail access prices and above-rail costs; and Tier 3 ‘unviable’ lines [736 km] where volumes are low and rail is already uncompetitive with road transport....*

Finding 4: *Investment in rail infrastructure should aim to enhance economies of scale by increasing or preserving the size of trains (tonnes carried), increasing loading rates at sidings and outloading rates at ports, and reducing cycle times. Where these outcomes cannot be achieved at reasonable cost, there is no case for investment.*

Finding 8: *Governments’ long-term commitment to the rail network serving the grain belt should focus on investment in a core network of Tier 1 lines and selected Tier 2 rail lines where the cost of*

road upgrades and economic disbenefits resulting from rail closure would be greater than the savings available from withdrawing them from service.

Finding 20: *The State Government could provide a stable climate to encourage private sector investment in grain supply chain assets and for local and State road funding by committing to funding its share of recommended investments in the Tier 1 core rail network for a least the next 10 years.*

Finding 22: *Excessive costs are being incurred by local governments to maintain a very large number of roads on which grain trucks are currently allowed to operate under permits issued by Main Roads WA. Heavy vehicle permit policy should be revised by the government and Main Roads WA with input from WALGA [the WA Local Government Association] and CBH to substantially reduce the network of routes used for inter-bin and bin-to-port movements, to reduce local road maintenance costs and 'externality' costs.*

In response to these findings, the State Government prepared a detailed 'business case' to support a package of investment similar to that described in the SGNC report, which was agreed with the Commonwealth. In December 2010, the two governments firmly committed to a total of \$323 million in capital funding for investment in resleeper works and rail siding upgrades on Tier 1 and Tier 2 lines. The State has also committed of \$118 million for capital investment in Wheatbelt roads.

Complementing this, in line with *Finding 22*, WALGA and its member local authorities in the Wheat Belt, in consultation with Main Roads WA, have agreed to a plan for reducing the number of roads on which permits for heavy vehicle bin-to-bin and bin-to-port movements will be granted.

The State Government has also agreed to financially support a strategy (called the 'Brookton Strategy' in the report quoted above) aimed to facilitating the aggregation of grain in a efficient storage bins at Brookton and Kellerberrin (on the main east-west railway) to avoid as far as possible significant 'externality' costs from a large increase in heavy grain-carrying vehicles using the Brookton Highway and connecting roads in the metropolitan area to access the Metropolitan Grain Centre and Fremantle's major grain loading port terminal at Kwinana. Increased 'external costs' – not internalised by commercial road and rail transport operators) would include costs arising from accidents, exhaust emissions, noise, visual disturbance and road damage (discussed and quantified on pages 55-56 of the SGNC report).

Also complementing the Findings of the SGNC report, CBH has indicated it will enter into a new 10-year contract with 'above-rail' service supplier WATCO to carry grain from its bins to port to on the Tier 1/2 rail network, commencing in 2012. CBH has also stated that it will purchase a new fleet of rail hopper wagons for use by WATCO in providing this service.

It was clearly the view of the Strategic Grain Network Committee – and remained so at a meeting held in December 2010 – that as far as economically efficient to do so, based on a benefit-cost appraisal of alternative investment options, bin-to-bin and bin-to-port movements of grain should be carried by efficient rail services. Committed government investments, CBH's announcement that after 2012 it will contract with WATCO to provide rail services for grain, supported by CBH acquisition of new rollingstock will all assist in reinforcing rail's ability to carry out this objective.

2. Potential for loss of rail productivity and competitiveness and risk to public safety in the market for grain transport

Coming to the proposal for termination of ACCC authorisation for bundling of CBH and related rail services within the Grain Express arrangement, there is a significant risk that this will cause a significant 'break-out' of grain movements from the rail-based system to road transport, resulting in unacceptable levels of 'external costs', especially arising from road accidents, from increased

movements of heavy combination vehicles carrying grain through Wheatbelt towns and the Perth Metropolitan area.

It has not been possible in the time available to the Freight and Logistics Council to estimate the scope of this 'break-out' referred to above, or the magnitude of external costs resulting. However, there are several factors which suggest that the magnitude of the break-out and its effects on the efficiency of the grain logistics network could be significant:

- Loss of grain volume from rail to road transport will diminish the scale economies available to rail transport (see Finding 4 in the SGNC report quoted above). This will be aggravated by the reducing the scale economies available through CBH 'cargo aggregation'. Currently, it is understood that when CBH receives a request from a number of individual growers to transport specified quantities grain of a specified quality (grade) for shipping from a specified port, it aggregates wagonloads (where possible trainloads) of all such requests from grain stored across the network, regardless of its origin, thus maximising the efficiency of cargo assembly and efficient utilisation of equipment and infrastructure. If in the absence of Grain Express, traders acting in response to similar individual grower requests seek to load (fully or partially) wagons will be loaded on request only with grain stored at specified locations, and productivity and efficiency will be significantly reduced.
- The effect of the above will be not only to reduce the efficiency of individual movements, and significantly reduce rail's competitiveness in respect of each such movement, but also degrade rail's productivity overall. The 'losers' will be grain growers, even though some individual growers and traders could benefit from 'cherry picking' of this kind.

3. Enhancing competition in the market for above-rail services

There is a view by a minority in the grain industry that gaining access for road transport to loading from CBH silos for onwards movement by road to port terminals would enhance competition in the market for transport of grain. As indicated above, the opportunities for 'cherry picking' of individual loads would in some instances give an advantage to a few large growers/traders, but the aggregate effect across the industry would be to degrade the productivity of grain logistics in the State, raise total resource costs, pose continual risks to public safety on Wheatbelt roads and ultimately reduce grower returns.

Through WA's Rail Access Regime the market for rail transport is already structured to provide for competition among rail service providers. However, the 'bundling' characterising the current Grain Express arrangement effectively negates this opportunity. This has in the past been of no significance, as there has been only one rail service provider on WA's country rail network. The long-standing incumbent above-rail operator, ARG (successor to the Westrail/WAGR government-owned rail authority) has been without any actual competitor in the market for intrastate rail transport, except though CBH's tender process. As indicated above, the outcome of this process, in which WATCO has been appointed to be CBH's contracted rail carrier, will be to displace the incumbent rail carrier ARG from this role, make it unable to provide services as envisaged by the WA Rail Access Regime, and make its rail-wagon fleet currently used for the grain task redundant in WA.

This suggests that an alternative to simple revocation of the ACCC's temporary authorisation of 'bundling' would be to:

- Extend the current temporary authorisation until the end of the 2013-2014 grain season (i.e. for two years into the term of a new contract between CBH and WATCO); and

- Make this temporary authorisation conditional upon permitting any rail carrier able to negotiate with WestNet Rail for access to the infrastructure services of the rail network to carry train-load lots of grain from CBH bins to port terminals or other bins.

These conditions would preserve the economies of scale offered by rail and resulting efficient cost levels for growers across the system. They would also provide for additional competition within the market for grain transport, without degrading returns to growers in the CBH cooperative, and without creating public safety risks from large numbers of additional trucks on Wheatbelt and metropolitan area roads.

We look forward to exploring the ideas in this submission at meetings scheduled to occur in the week commencing 20 January 2011.

Yours sincerely



Dr Fred Affleck
Chair, Freight and Logistics Council of Western Australia

12 January 2010