



**WALGA**

12<sup>th</sup> January 2011

Our Ref: 05 006 02 0005  
Your Ref: C2008/945-06

Mr Gavin Jones  
Director, Adjudication Branch  
Australian Competition and Consumer Commission  
Level 35, 360 Elizabeth Street  
MELBOURNE Vic 3000

Dear Mr Jones

**DRAFT NOTICE TO REVOKE NOTIFICATION: CO-OPERATIVE BULK HANDLING LTD (CBH) GRAIN EXPRESS**

Thank you for your invitation to provide comment on the ACCC's draft notice proposing to revoke the immunity provided by CBH's exclusive dealing notification.

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.

Western Australian Local Governments have a strong interest in this matter before the ACCC from their perspective as:

1. managers of the local road network;
2. local community representatives and advocates; and
3. key stakeholders in regional economic and social development.

The operation of the grain supply chain has a strong impact on each of these important matters to Local Government which is discussed in detail below.

**1. Local Roads**

Approximately 95% of the Western Australian wheat crop is exported. The average annual export task is over 11 million tonnes. Road and rail modes compete to transport grain from country receival facilities to ports for export.

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Local Governments manage 72% of roads in Western Australia. Current funding for the road network is inadequate. There was shortfall in 2008/09 of \$150.9M to maintain the local road network in its current condition. This was due in part because the cost of maintaining the road network is increasing at a faster rate than road funding.<sup>1</sup> This context of inadequate funding for local roads provides an important landscape for grain transport in WA. Additional truck movements will cause additional wear and tear to local roads. This will reduce pavement life. The concern is that Local Governments and their communities will be expected to either fund this increasing shortfall or have a deteriorating road network.

While the rail infrastructure provider charges and receives direct payment for the provision of infrastructure services, the provider of road infrastructure (primarily Local Government) does not have the legal capacity to do so and consequently there is a weak link between the road upgrades and increased maintenance required to provide safe and fit for purpose roads and funding available to achieve this.

The user charges currently imposed on road freight (primarily vehicle licensing charges and fuel excise) do not accurately reflect the full costs incurred for the provision of infrastructure to support road freight for grain. Most local roads are not designed for extensive use by heavy vehicles, and the comparatively low traffic volumes make the provision of suitable infrastructure costly relative to the freight task. Furthermore, those costs that are paid by the road transport industry are not fully returned to infrastructure providers to fund road infrastructure. This has been recognised by the Productivity Commission and COAG. A range of policy reforms attempting to address this are being considered (e.g. COAG Road Reform Project).

#### **Local Government – Strategies to Target Grain Transport and Investment**

Grain transport operators are seeking least cost pathways to transport grain from farm gate to bins and to port. There is enormous pressure on Local Governments to open up their permitted heavy vehicle network to larger and heavier vehicle combinations. The majority of these local roads were not designed for high volume, heavy freight movements

WALGA commissioned Cardno Eppell Olsen to undertake a Local Government Grain Freight Network Heavy Vehicle Strategic Pathway Mapping and Access Policy Project. The aim of this project is to develop a network map of strategic local government roads across the grain growing region to deliver an efficient, integrated grain freight network for bin to bin and bin to port cartage that supports shifting freight from the local to the State road network or to rail.

This work is currently underway. Preliminary work has identified approximately 2,160km of strategic local roads for the transport of grain from bin to bin and bin to port – identified for intensive transfer tasks in excess of the background usage for farm gate to bin freight movements.

Based on a nominal desired road cross section of a 7m seal on a 9m foundation this equates to an indicative cost of an additional \$210M required for local roads with an annualised replacement cost of \$14.2M per annum over 20 years.

WALGA supports the retention of grain on rail and if rail is to close has called for adequate new road funding for roads to meet an increased freight task. In December 2010 the State Government through a Grain Assistance Package committed funding

<sup>1</sup> Report on Local Government Road Assets and Expenditure 2008/09, WALGA 2009, p3.

for wheatbelt roads impacted by the closure of rail lines. Approximately \$42M has been allocated for local roads. Whilst this funding is welcome it is inadequate. Also there is a critical need for time to ensure that roads are upgraded to meet the freight task before services cease on any rail. The State's Grain Assistance Package has provided funding for rail upgrades. There is a need to enable these upgrades to occur supporting the development of a more efficient rail service without further leakage from rail to road transport undermining the future viability of rail transport.

A case in point is The Town of Kwinana. This Town has a length of road 2.2km that transports grain to Kwinana's CBH sea export facility. The Town of Kwinana has highlighted to State and Federal Transport Ministers that, *The Town wants to provide a valuable service to these grain transport road users, grain is an important and valuable export for the state and the nation, all components of the grain industry provide employment across the whole of Australia, valuable taxation revenues are also earned by all levels of government, but is quite unfair to require the Town of Kwinana to be responsible for ensuring continuous truck access to one of CBH's primary export facilities when other higher level governments are making policy decisions that encourage increased truck traffic volumes (and greater overall tonnages) along a local government road*<sup>2</sup>.

The expectation from industry is that local roads, as a public good, should facilitate access to vehicles. WALGA is working with Local Governments to develop heavy vehicle access policies that will encourage grain transport onto these strategic routes. As outlined there is a cost to upgrade these roads to meet an increased grain freight task. The question of who reaps the benefits of this level of road investment and who should bear the cost needs to be considered from a local government perspective.

Where road freight is the preferred (or only) option for transporting grain from a receival facility to port, CBH is working with WALGA and Local Governments to agree a road route which offers the highest suitability and least safety and community impacts. This route will then be specified in the tender for road transport services. This arrangement, which is evolving, aims to encourage targeted and therefore more efficient public investment in roads.

WALGA has been liaising with the Australian Road Research Board (ARRB) to determine the marginal cost in terms of damage of additional tonnage on local roads. ARRB have advised that there is not much published work on marginal costs. Key issues such as the fragility of the assets, whether the road is sealed or unsealed, is well engineered etc will impact on deterioration and the marginal cost. ARRB have broadly estimated, based on work undertaken in Queensland<sup>3</sup>, a total marginal cost of 6 cents per tonne/km to 12 cents per tonne/km. If the marginal cost in terms of road damage from a tonne of freight transported on a rural road is 6c per kilometre and a result of disallowing Grain Express an additional 0.5 million is transported 300 kilometres to port by road, this will impose a cost on the community of \$9 million per annum in terms of road damage. If the marginal cost is 12c per kilometre this equates to \$18M. While the freight operator will contribute a portion of this through fuel excise charges, only a proportion of this is ultimately returned to fund road infrastructure and not specifically to the communities incurring this cost.

<sup>2</sup> Town of Kwinana, Correspondence to The Hon Anthony Albanese, 24<sup>th</sup> November 2010.

<sup>3</sup> Thoresen, M., Clarke, T., Hore-Lacy, W., (2010) Estimating the Marginal Cost of Road Wear on Australia's Sealed Road Network, HVT11: International Heavy Vehicle Symposium, 2010, Melbourne, Victoria, Victorian Transport Association, Melbourne Vic,

The avoidance of these costs is a public benefit that arises as a result of the existence of Grain Express. There is a need to estimate the costs incurred as a result of any lessening of competition as a result of the notified conduct which has not been set out in publicly available materials to date. There is also a need to consider the distribution of the costs and benefits as a result of any changes to the way in which grain is transported from receival facilities (or farm) to port.

The market prices for road freight do not reflect a range of other externalities including road crashes, loss of amenity and environmental impacts. In response to prices (rather than costs) there has been a shift of the transport task from rail to road.

The share of the grain export freight task served by rail in Western Australia is already the lowest of any Australian jurisdiction.

	Share Transported by Rail (%)	
	Volume	Tonne-kilometres
New South Wales	95	97
Victoria	80	85
Queensland	100	100
South Australia	70	82
Western Australia	65	79
TOTAL	75	86

Source: Productivity Commission, 2010. *Wheat Export Marketing Arrangements Inquiry Report*

Because of the costs imposed on both Local Governments and the broader community, Western Australian Local Governments have endorsed a policy position supporting the use of rail for the transport of grain for export.

In reviewing submissions to both the ACCC inquiry into this notification and the Productivity Commission Inquiry into Wheat Export Marketing Arrangements WALGA has not identified any proponent (apart from the incumbent CBH) proposing to use rail to transport grain to port. Consequently we would conclude that any additional competition will be from road transport which represents a further externalisation of costs and the imposition of these costs on both the local and broader communities.

Local Government contends that with a much larger number of individuals and organisations arranging freight from receival facilities to port the ability to direct the task to the most suitable roads and focus investment in these roads will be lessened. The alternative option open to Local Government to direct the heavy transport task onto strategic roads, restricting access to the larger vehicle classes, will impact on the efficiency of other lower volume transport tasks such as the delivery of fertiliser, fuel and general supplies.

The ACCC has expressed concerns that the current arrangements may encourage over-investment in on-farm storage as growers seek to by-pass the CBH system. Kwinana port has the lowest port storage capacity relative to export volumes and is by far the most dependent on rail to deliver grain to port. Consequently the ability to deliver (and despatch) sufficient grain through Kwinana during large harvests when there is price pressure to reach market quickly is likely to be stretched. The degree to which this problem should be addressed by port storage versus increased transport

capacity to further increase stock-turns (bearing in mind that it is already three times that typically achieved in Geraldton and Esperance) requires detailed examination.

Export Port	Port Storage Capacity ('000t)	Average Annual Export Volume ('000t)	Stock-turns	Delivered by Rail (%)
Kwinana	1,014	6,000	5.9	90
Geraldton	1,067	2,000	1.9	50
Albany	474	2,000	4.2	50
Esperance	826	1,500	1.8	10

The Western Australian Government has entered into arrangements with CBH to subsidise the transport of some grain on rail, in recognition of the significant economic (particularly road damage and congestion) costs and social impacts of a large increase in grain deliveries to port through the Perth metropolitan area. Given the economies of scale in rail operations, it would seem that the subsidy required per tonne diverted from road to rail will increase with decreasing volume of grain on rail. Consequently the public will incur a similar (or potentially higher subsidy cost) in addition to the cost of increasing tonnes of grain transported on road. If similar arrangements are negotiated with a range of grain accumulators, marketers and growers the transaction and compliance / enforcement costs will be significantly higher.

There is already significant on-farm grain storage. While CBH has total storage capacity of some 20 million tonnes, it estimates that this equates to an effective storage capacity of around 15 million tonnes after allowing for carry-over stocks and loss of capacity due to segregation of different types and grade of grain. Supporting this it is estimated that there is 2.6 million tonnes of grain storage capacity on-farm<sup>4</sup> with an estimated 0.5 million tonnes of this capacity required for seed storage. This provides significant capacity to target domestic and niche markets unsuited to the bulk export system.

## 2. Community Impacts

Local communities are acutely aware of the safety implications of an increase in heavy vehicle traffic, particularly on unsuitable rural roads. Around 250 people die each year on Australian roads in crashes involving heavy vehicles<sup>5</sup>. The total cost of all vehicle crashes is estimated at \$18 billion dollars per annum, and on average heavy vehicle crashes cost 50% more than other crashes at the same level of severity<sup>6</sup>. This economic impact estimate does not seek to quantify the social and personal impacts of deaths and serious injuries caused by heavy vehicle crashes.

The grain transport task is seasonal and often undertaken in campaigns so as to minimise operating costs at country receival facilities. The impacts increase exponentially moving from farm to major country receival facilities or the port. Frequent truck movements potentially operating over 16 hours per day (or 24 hours

<sup>4</sup> Australian Bureau of Statistics Cat No 7121.0 Principal Agricultural Commodities Australia 2009.

<sup>5</sup> Bureau of Infrastructure, Transport and Regional Economics, 2010 Fatal Heavy Vehicle Crashes Australia, Quarterly Bulletin

<sup>6</sup> Bureau of Transport Economics, 2000. Road Crash Costs in Australia Report 102

per day in some situations) are common when receival bins are being emptied. The impact of this on communities has not been well quantified, but is certainly not included in the cost considerations by the grain marketer or handler when evaluating transport options.

### **3. Economic and Social Development**

Some 100,000 people live in the Western Australian wheat growing areas and the livelihood of these people is directly or indirectly dependent on grain production.

An efficient supply chain to enable the delivery of grain to competitive export markets is essential to enable the grains industry to survive and thrive into the future.

Consequently Local Governments would need to consider the consequences of taxation measures to increase the price of road transport to match the inefficiency that has resulted from many years of under-investment in rail freight by both the public and private sector.

Local Government is keen to support a strong competitive rail and road transport system. Rail currently faces many institutional and historical barriers to more efficient operation. These need to be addressed, rather than taking actions which make it even more difficult for rail to deliver a cost and price competitive option.

There is currently competition between road and rail transport as well as between road operators. Attempts to foster increased competition in above rail service providers have so far failed due to rail and road pricing not being a level playing field, although it will be interesting to see the result of the recent arrangements announced by CBH to acquire its own rolling stock and engage a new service provider. The loss of competition from the rail service may have negative impacts on the overall competitiveness of grain transportation services.

### **4. Conclusion**

From WALGA's 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.

WALGA looks forward to attending the pre-decision conference in Perth to discuss the CBH exclusive dealing notification. For enquiries please contact me on 089213 2031 or [mmackenzie@walga.asn.au](mailto:mmackenzie@walga.asn.au).

Yours sincerely



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