GOVERNMENT OF WESTERN AUSTRALIA

Submission to the

Wheat Export Marketing Consultation Committee

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Department for Planning and Infrastructure

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TABLE OF CONTENTS

	EXECUTIVE SUMMARY	1
1	INTRODUCTORY REMARKS	3
2	EXPORT MARKETING NEEDS OF WHEAT GROWERS	5
3	THE VIEWS OF INDUSTRY PARTICIPANTS	7
4	PREFERENCES FOR EXPORT MARKETING ARRANGEMENTS	9
5	CORE PRINCIPLES	11
6	CONCLUSIONS	12

EXECUTIVE SUMMARY

This submission provides a Western Australian Government Planning and Infrastructure perspective on the issues of concern to the Committee, which are summarised below.

Export Marketing Needs of Wheat Growers

Number of Grain Marketers

A decision to allow no more than a manageable number of marketers nationally and a smaller number to operate within any single State, coordinated through an agreed process or mechanism, might be seen as providing a degree of competition without compromising existing storage transport and handling networks. This avoids unnecessary duplication of such networks.

The Single Desk

It is recognised the Single Desk for wheat marketing in Australia is likely to change. Complete deregulation would not be the preferred option. Some form of partial deregulation could occur under the following possible models:

- Government coordinating body (eg WA Grain Licensing Authority model)
- Wheat marketing divested to a manageable number operating within three regions (West, South, and East Australia).

Under partial deregulation or even if the Single Desk is retained in some form, there is value in a transport and handling logistics coordination mechanism being established within each region with a mandate to minimise supply chain costs through the scheduling of shipping, storage and transport services to achieve uniform storage and transport flows thus enhancing the efficiency of the supply chain.

Regional WA – a Thin Market

In Western Australia it is not reasonable to expect regional farming communities to meet the total capital cost of land transport Infrastructure (both rail and road) given the long distances and small populations involved.

The Views of Industry Participants

Transport Cost Recovery processes

The grain marketing organisations can play a significant role in the implementation of cost recovery processes on behalf of the grain industry for contribution towards required transport infrastructure investment. One example would be agreeing to collect a levy applied to all tonnes transported, either for local or export consumption. Such a levy could be in the form of a small charge per gross tonne kilometre with a differential rate applying between road and rail. The amount collected annually, in conjunction with identified local, state and federal government funding would form the basis of a long-term infrastructure investment plan.

Preferences for Export Marketing Arrangements

Impact of Removal of Single Desk

Removal of the Single Desk without a logistics coordinating mechanism or changes to transport licensing / regulation or cost recovery principles, will see new entrants “cherry picking” and transporting grain using road haulage from locations where transport and handling costs can be minimised.

Core Principles

Competitive Neutrality in Transport

Addressing competitive neutrality between road and rail transport represents one of the most significant opportunities for future reform and can and has been influenced by the operation of the grain marketing system.

Coordination of Shipping

The coordination of shipping requirements for export grain by an appropriate logistics coordinating mechanism at the service of a small number of grain marketers should improve supply chain logistics and avoid unnecessary duplication of assets and foster the efficient use of existing infrastructure and investment in new infrastructure to meet expected growth.

Railway Profitability in Grain Transport

Regional rail lines can operate successfully when there is sufficient volume to generate the revenues needed to make the service both safe and viable when compared with a competing road service. The result of significant grain freight on rail at competitive and sustainable rates meets the needs of all stakeholders – Industry, Government and Community.

Conclusions

To achieve what growers want (maximum earnings for product delivered at minimum cost) requires an approach that recognises all elements of the supply chain and a process that embodies the user pays principle.

Where Governments deem that it is in the community interest for users to be assisted then this assistance should be rendered in ways that treat competing interests on an equal footing.

Decisions on how grain is to be marketed will impact significantly on supply chain costs for the delivery of grain to consumers. While there is a requirement for some choice and a degree of competition this must be counterbalanced by the need to avoid the unnecessary duplication of transport storage and handling assets and to promote their efficient usage.

1. INTRODUCTORY REMARKS

Maintaining international competitiveness requires continuous improvement in efficiency, safety and environmental sustainability. Addressing competitive neutrality between road and rail transport represents one of the most significant opportunities for future reform and can and has been influenced by the operation of the grain marketing system.

A competitive road and rail transport sector is essential to the efficient operation of the export-oriented grain industry in Western Australia. Road and rail generally compete in relation to the carriage of grain. The transport demands for grain are largely determined by the shipping arrangements made by the grain marketing organisation(s) and directly impact on supply chain costs throughout the entire supply chain including:

- Port selection
- Storage type and location
- Mode choice
- Route choice, and
- Timing.

This review is timely as Western Australia is currently experiencing unprecedented economic growth, which is exerting tremendous pressures on the State's transport infrastructure. The transport industry in Western Australia has changed rapidly over the past three decades and Western Australia has not been averse to making changes to improve its land transport systems (Refer Appendix 1 History of Transport Policy in Western Australia).

The projected doubling of the State's freight tasks over the next 15 years (including the potential for bumper grain harvests in excess of 16 million tonnes per annum) will provide significant challenges to the government and industry in facilitating an efficient, safe and competitive cost recovery system for transport infrastructure which takes into account Western Australia's unique circumstances.

Western Australia has a progressive regulatory regime in relation to road transport. The charges paid by heavy vehicles are cross-subsidised across the State. This subsidisation extends to the grain producers through the current system of investment and cost recovery in road transport. Similarly, subsidies used to be extended through rail transport when the railway was government owned (through the cross subsidisation of Westrail losses by other rail traffics and the funding by government of any losses or required investments that remained). With privatisation of rail required investment and any subsidisation needs to be achieved through alternative means if a sustainable rail sytem is to be provided into the future.

Maintaining international competitiveness requires continuous improvement in efficiency, safety and environmental sustainability. Addressing competitive neutrality between road and rail transport represents one of the most significant opportunities for future reform and can and has been influenced by the operation of the grain marketing system. In the past the grain marketing organisation has taken advantage of the cross-subsidisation available on the road transport network to drive down rail prices to levels that are no longer sustainable. The resultant leakage of grain from rail to road transport has further eroded the viability of the rail system for the transport of grain.

The following comments have been provided against the Committee's Terms of Reference. The Western Australian Government would be prepared to send a representative to support this submission in person if required.

2 EXPORT MARKETING NEEDS OF WHEAT GROWERS

A decision to allow no more than a manageable number of marketers nationally and a smaller number to operate within any single State, coordinated through an agreed process or mechanism, might be seen as providing a degree of competition without compromising existing storage transport and handling networks. This avoids unnecessary duplication of such networks. The coordinating mechanism has a mandate to minimise supply chain costs through the scheduling of shipping, storage and transport services to achieve uniform storage and transport flows thus enhancing the efficiency of the supply chain.

General Disposition:

Western Australian growers, in their interactions with Government, have indicated that:

i) As business people they want to maximise the returns they obtain from their farms. This means aiming to sell their produce for the highest possible price and having their produce delivered to their customers at the lowest possible cost.

ii) As citizens they want to access the same or similar services to those that are available to city dwellers ie affordable housing, good and safe roads (reasonable access), Utility (gas, water, transport, and electricity) and Government (Health, Education, Law and Order) services and reasonable access to sporting and recreational facilities – even if it involves travel for longer distances.

iii) As individuals they also may show a concern for the environment and for community welfare and safety. Generally, regional communities are tightly knitted together.

Regional communities are reluctant to give up services that they have (eg access to rail services) but like to have the freedom to choose from different alternatives that may be available (ie they are averse to dealing with a monopoly provider out of fear that they may be taken advantage of). Thus there is generally a resistance, for example to accepting rail branch line closures, while at the same time use is made of road transport and not rail if it is perceived to be “cheaper”.

The AWB Iraq scandal and subsequent Cole Enquiry has accentuated the distrust of many growers in the Single Desk marketer. CBH Group, the monopoly grain handling authority in WA partially escapes this distrust because of its status as a Cooperative.

Decision to remove the Single Desk marketing of grain from AWB

Many growers will see this as advantageous particularly if and when grain marketing competitors can offer a higher price in the short term. Others will be more concerned with long term implications and price stability from year to year.

A decision to allow no more than a manageable number of grain marketers nationally and a smaller number to operate within any single State, coordinated through an appropriate mechanism, might be seen as providing a degree of competition without compromising existing storage, transport and handling networks. This avoids unnecessary duplication of such networks.

The coordinating mechanism has a mandate to minimise supply chain costs through the scheduling of shipping, storage and transport services to achieve uniform storage and transport flows thus enhancing the efficiency of the supply chain.

3 THE VIEWS OF INDUSTRY PARTICIPANTS

The grain marketing organisations can play a significant role in the implementation of cost recovery processes on behalf of the grain industry for contribution towards required transport infrastructure investment. One example would be agreeing to collect a levy applied to all tonnes transported, either for local or export consumption. Such a levy could be in the form of a small charge per gross tonne kilometre with a differential rate applying between road and rail. The amount collected annually, in conjunction with identified local, state and federal government funding would form the basis of a long-term infrastructure investment plan.

As a provider of land transport infrastructure (roads and lessor of the below rail network) the Government of Western Australia is a major stakeholder and has the following concerns.

Transport Infrastructure

The review of the WA grain logistics system, recently undertaken by the WA Grain Infrastructure Group identified that the operation of the grain supply chain in its current circumstances does not provide sufficient returns to railway service providers to warrant reinvestment in long term track maintenance on most tracks in the grain network.

On top of climatic variation and operational complexity, competitive forces and rationalization processes within the grain industry in recent times have increased the diversion of export freight to the road sector, further weakening the economics of maintaining a sustainable rail system.

A sustainable rail system is deemed by government and industry to be in the interests of growers and the rural and urban communities.

WA has a different context for grain transport than some other States, particularly due to vast distances, small population base, a large export economy, a large road network and required infrastructure investment, dramatically increasing transport demands, very efficient road transport and a lack of rail as an alternative to road transport in remote areas. The State's small population base, along with the growth in transport demand over the next fifteen years, means that any recommendations from the Committee need to take into account the limited capacity of Western Australia's remote and rural communities to pay for, or readily adjust to, a cost-reflective pricing regime without adjustment support or funding from the Commonwealth.

Competition between Road and Rail Transport Modes

The unbalanced mode competition with respect to the transport of grain is reflected by the continued growth of road transport and the continuing erosion of rail mode share in grain freight in Western Australia. This erosion is also of growing concern to the government and local communities because of the pressures for increased road funding estimated to require of the order of $50 million for state highways and roads in conjunction with the rail system, $200 million for state highways and roads separate from the rail system and up to $200 million in local government roads over the next ten years. The costs associated with road accidents involving large combination vehicles are also a concern because it is at twice the Metropolitan level in Wheatbelt areas.

This trend occurs because the pricing of road transport services does not require the customer to provide for a return on the capital invested in the road network that is comparable to the return expected from rail or to cover the externalities generated. This anomaly creates an uneven playing field between the land transport modes that favours road transport over rail transport and leads to wasteful use of transport infrastructure.

Privatisation of railway infrastructure has further exacerbated the inequality between the competing land transport modes both in terms of the returns expected from the infrastructure capital investment and the means by which this investment is recovered from users and the community. As a result, the long-term future for rail infrastructure appears to be at risk, unless measures are taken to redress the issue.

Funding Transport Infrastructure

The under recovery from the users of the heavy haulage for grain is also potentially large in Western Australia due to the long distances involved. Regional roads need to be able to cater for heavy haulage vehicles in the community's interest. At the same time the community will not be able to pay fully for these roads and does need to be subsidised. The same applies for rail. In some cases where both rail and road are necessary the infrastructure cost is doubled. Thus, cost recovery for the grain industry in Western Australia needs to be different from the cost recovery for other metropolitan or regional community locations.

The grain marketing organisations can play a significant role in the implementation of cost recovery processes for the grain Industry by agreeing to collect a levy applied to all tonnes transported, either for local or export consumption. Such a levy would be in the form of a small charge per gross tonne kilometre with a differential rate applying between road and rail. The amount to be collected annually would be that agreed between the parties who commit to ten year infrastructure plan for the Industry.

No transport task would be exempt. This ensures that unnecessary transport movements are avoided.

4 PREFERENCES FOR EXPORT MARKETING ARRANGEMENTS

Removal of the 'Single Desk' without a logistics coordinating mechanism or changes to transport licensing / regulation or cost recovery principles, will see new entrants "cherry picking" and transporting grain using road haulage from locations where transport and handling costs can be minimised.

There are numerous options available and no doubt this Committee will explore growers views on all of them.

The WA Government's view is that any changes to the Single Desk is likely to have the following consequences:

(1) Unless controlled, there will be multiple applications for a license to export wheat.

(2) Without a logistics coordinating mechanism or changes to transport licensing / regulation or cost recovery principles new entrants will "cherry pick" and transport grain using road haulage from locations where transport and handling costs can be minimised. The consequences of this in the absence of any response by government would include the following.

- Leakage of freight from rail to road.
- Viability of rail being further reduced.
- Wear and tear on roads increased with significant impact on future road maintenance and capital expenditures.
- Loss of an integrated supply chain with the economies of vertical integration, therefore higher total cost of service delivery.
- Higher road freight charges to users as additional demand for road transport will push up prices.

(3) The government's response may range from the following options.

i. Do nothing – approve heavy road vehicle licenses under existing conditions.

ii. Provide heavy road vehicle licenses on a full cost recovery basis. This strategy in part has been adopted in the Midwest region of WA for the bulk transport of iron ore by road.

iii. Subsidise rail access to those locations where rail struggles to compete with road because of the unlevel playing field that exists in order to capture the freight to rail.

iv. Capture road cost recovery at the port through a differential (additional) levy applied to all tonnes received at the port when delivered by road with a rebate to growers designated to be operating in road only serviced areas.

v. Re –regulate the transport of bulk freight such as grain given the inability of the current transport pricing regime and cost recovery mechanisms to provide a level playing field for rail and road for the haulage of bulk grain.

All of the above options represent costs to industry and government.

Options (ii) and (iii) and (iv) provide a level playing field for rail with road.

Option (ii) would be the most explicit but least acceptable formulation (Industry required to pay a large portion, even though there are other users of the road system).

Option (iii) can be achieved via the below rail access charge and is effectively what state governments have always provided by way of subsidising certain losses through its government railways.

Option (iv) is a more explicit variation of (iii) with industry contributing more, but not the full amount as in (ii).

There are no doubt other flow-on effects not included in the above.

5 CORE PRINCIPLES

The coordination of shipping requirements for export grain by an appropriate logistics mechanism at the service of a small number of grain marketers should improve supply chain logistics and avoid unnecessary duplication of assets.

In Western Australia it is not reasonable to expect regional farming communities to meet the total capital cost of land transport Infrastructure (both rail and road) given the high costs, long distances and small populations involved.

Regional rail lines can operate successfully when there is sufficient volume to generate the revenues needed to make the service both safe and viable when compared with a competing road service.

There are a number of core principles that underpin this Government's position.

Freight Logistics

- An efficient supply chain for grain is best obtained through the coordinated use of the land Tratnsport, storage and handling system devoid of unnecessary duplication of assets.
- Such a system becomes possible through the coordination of shipping requirements for export grain.
- This role can be performed by an appropriate mechanism at the service of a small number of grain marketers with an agreed defined protocol for priority allocation.
- The number of grain marketers should be such that the risk of unnecessary duplication of assets is avoided.

Grain Transport Network Cost Recovery and Operation

- In Western Australia it is not reasonable to expect regional farming communities to meet the total capital cost of land transport Infrastructure (both rail and road) given the high costs, long distances and small populations involved.
- Regional rail lines can operate successfully when there is sufficient volume to generate the revenues needed to make the service both safe and viable when compared with a competing road service. Where such lines exist roads should be used predominantly for community access and the transport of other products and not for bulk grain transportation.

6 CONCLUSIONS

To achieve what growers want (maximum earnings for product delivered at minimum cost) requires an approach that recognises all elements of the supply chain and a process that embodies the user pays principle.

Where Governments deem that it is in the community interest for users to be assisted then this assistance should be rendered in ways that treat competing interests on an equal footing.

Decisions on how grain is to be marketed will impact significantly on supply chain costs for the delivery of grain to consumers. While there is a requirement for some choice and a degree of competition this must be counterbalanced by the need to avoid the unnecessary duplication of transport storage and handling assets and to promote their efficient usage.

Appendix 1: History of Transport Policy in Western Australia

The regulation of transport services in Western Australia dates back to the State *Transport Co-ordination Act 1933*. Through the 70's and 80's and into the 90's a program of deregulation of freight transport transpired and competition between the land transport modes was encouraged.

These included:

1970s	*Major policy review recommended removal of regulations restricting competition between road and rail*
1980s	*Deregulation of the transport of general freight, wool, public freezer/chiller road transport services and removed previous 9 tonne limit from most road haulage of many loads within the deregulated zones*
1990s	*Deregulation of the transport of grain, fertiliser, minor bulks, bulk fuel, timber and major bulks*

Other reforms to improve the efficiency of land transport followed:

1992	*Agreement between WA and the Commonwealth for National Rail to operate on the Kalgoorlie to Kwinana line*
1996	*Nationally consistent road charging for heavy vehicles*
1996	*Amendment to the Government railways Act to enable Westrail to enter into access arrangements under Section 61 of the Act*
1998	*Interim rail access arrangement for interstate operators on the standard gauge railway line between Kalgoorlie and Kwinana*
2000	*Sale of the Westrail "Above Rail" freight services and leasing of the "Below Rail" infrastructure to the vertically integrated Australian Railroad Group (ARG).*

Since then competitive market forces have led to:

2006	*The on selling and splitting of the ARG railway business with the "Above Rail " operation purchased by Queensland Rail and the "Below Rail" infrastructure lease purchased by Babcock and Brown Infrastructure (operating as WestNet Rail).*