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Independent Price Regulation - Heavy Vehicle User Charges

Co-operative Bulk Handling Limited ("CBH") notes the Department of Infrastructure and Regional Development's Discussion Paper calling for views from stakeholders on establishing independent price regulation for heavy vehicle charges; in particular, seeking input about which entity or entities should perform the function into the future.

CBH agrees with the view of the Department that the present system for setting heavy vehicle user charges is less than ideal and that shifting to an independent price regulator may be a fairer, more transparent method to set prices that would better recover the cost of building, maintaining and operating roads.

In stipulating this sentiment, it is important to note that heavy vehicle haulage forms a critical element of the Western Australian grain export supply chain, with approximately 40% of the average 12 million tonne crop moved to port via road transport; and that the State's rail transport network is ailing and forcing more of those tonnes to road every year.

As an organisation representing Western Australian grain growers and an export industry worth in excess of \$3.5 billion to the State, CBH asserts that there are several fundamental elements that would need to be incorporated into any new charging model if it were to receive the support of CBH and its grower members. CBH would therefore urge Government to ensure that in considering any change to current arrangements, it seeks to ensure that:

- Any new system of price setting and oversight is fair, transparent and independent;
- Its review incorporates an examination of existing heavy vehicle user charges such as fuel excise and vehicle registrations (and their contribution to the cost of building, maintaining and operating roads) prior to any additional charges being applied;
- Wherever possible, revenue raised from heavy vehicle usage is reinvested into key supply chain infrastructure and that there is recognition of the additional revenue that flows to Government by transport dependent industries (such as grain);
- Any additional charges, if applied, assist in driving productivity and/or efficiency gain in the road transport task, such as higher, Restricted Access Vehicle ("RAV") ratings;
- It remains cognisant that the application of any new road user levies has the potential to provide rail providers (particularly operators of below rail infrastructure) with an opportunity to increase access fees to match road rates that become subject to the impost of new road user charges; and
- Ensuring that in raising revenue from heavy vehicle haulage, key export industries such as grain are not rendered uncompetitive with other international origins of grain supply.

In responding to the questions raised in the Discussion Paper that are relevant to the CBH business, this submission seeks to reflect these principles accordingly.

Background - CBH Group

CBH is a unique organisation with a history almost as long as the grain industry it serves. The co-operative's commitment to maintaining a partnership with its Western Australian grain grower members has helped build an industry that has been the backbone of the State's rural economy since the beginning of the bulk handling system over 80 years ago.

This partnership has also been the basis of CBH's strength and success.

CBH has constantly innovated and grown with operations today extending along the value chain from grain storage, handling and transport to marketing, shipping and grain processing. Now Australia's biggest co-operative and a leader of the nation's grain industry, CBH is controlled by 4,200 grain growers.

CBH is Western Australia's largest exporter of wheat, barley, canola and lupins, acquiring and exporting around 50 per cent of all grain produced in WA to more than 30 export destinations and over 200 customers globally.

CBH is a 50 per cent joint venture partner in The Interflour Group (Interflour). Interflour operates 10 flour mills, in Indonesia, Malaysia, Vietnam, the Philippines and Turkey. Interflour has a total milling capacity of more than 2 million tonnes per year making it one of the largest flour millers in South East Asia.

In July 2017, CBH celebrated the opening of Interflour's new USD\$70 million Intermalt facility in Vietnam. Intermalt is located in Cai Mep, Vietnam and will be the largest malting plant in South East Asia.

In a typical year, Deloitte Access Economics calculated that CBH and its grower members contribute almost \$3 billion in gross value-add to the Western Australian economy.

At the peak of harvest, CBH employs approximately 2,700 permanent and casual personnel. These employees are located across the co-operative's 10 regional offices, 150 receival site locations, 4 ports, representative offices in Adelaide, Hong Kong, Japan, and Russia, and a head office in West Perth.

Key challenges for the Western Australian grain industry

Almost 90 per cent of the grain grown in Western Australia is exported; Western Australian growers continue to innovate and create on-farm efficiencies to the extent they are considered among the world's most productive dryland farmers.

Grain growers, however, are under increasing pressure from international competitors operating with the benefit of more favourable grain-growing conditions and access to increasingly efficient, lower cost supply chains.

In mid-2016, CBH commissioned in-depth research to benchmark the Western Australian grain industry against its international competitors including Brazil, Argentina, Russia and the Ukraine. The study, completed by economic consultants Azure Consulting, analysed numerous competitiveness indicators including costs (production, supply chain, shipping fees), potential for return (harvested area, yield) and distance to traditional and emerging markets. It concluded that competitor nations are growing in strength as a result of better yields, improved supply chain infrastructure and record-low ocean freight rates.

Given this international context, Western Australia (and Australia) must continue to introduce a range of measures and efficiencies if our grain industry is to contend with such emerging and formidable competition.

Therefore, it is essential the Australian Government place effort in a system whereby heavy vehicle user charges are applied in a fair and transparent fashion that assists the international competitiveness of key export industries is essential.

Responding to the issues paper¹

Q.1. Do you have any comments, concerns or observations in relation to the transition from the current process to independent price regulation?

- CBH concurs with the Discussion Paper where it stipulates that given a range of emerging challenges, a change in the way that infrastructure access pricing is set and administered is required;
- While CBH is not necessarily in a position to comment specifically how any future pricing model would operate, carefully managing and communicating change to ensure a smooth transition is absolutely critical so that imposition of any pricing regime does not detract from the competitiveness of grain growers;

It should be noted that agriculture is different to other industry sectors (such as mining), and a wider understanding and appreciation of the challenges faced by agriculture, given the volatility in weather and global markets and differing geographies around Australia, is required so that agriculture continues to provide an ongoing contribution to the national economy. In this regard, pricing should be set and administered in a manner that does not hamper the international competitiveness of key export industries such as grain;

- Given the important contribution that the grain industry represents for the Western Australian and Australian economies, where possible, revenue raised from heavy vehicle usage should be reinvested into key supply chain infrastructure that ensures the Western Australian grain industry can remain competitive with other international origins of supply.

This however has not always been the case, for example:

- The Western Australian State Government spends more on roads (\$1.9 billion) than it received from WA motorists (\$1.3 billion);
 - The Federal Government spends less on Western Australian roads (\$780 million) than it collects from Western Australian motorists (\$2.3 billion);
 - Local Governments spend \$842 million on roads – of which \$327 million is from State/Federal grants and \$515 million from its own revenue (rates); and
 - Western Australia currently receives only 48% of the fuel excise paid. This costs Western Australia in excess of \$3 billion over four years.²
- At present, 60 per cent of CBH's in-land grain logistics task is undertaken by rail; road transport providing the only source of competitive pressure on the rail access fees charged by the rail operator Brookfield Rail.³ It is critical therefore that the application of any new road user levies guards against the potential for rail providers (particularly operators of below rail infrastructure) to simply increase rail access fees to match road rates that are subject to the impost of new road user charges. In this regard, CBH notes that there may need to be additional powers to ensure that the addition of the charge is not being unreasonably passed on as has happened when other new taxes have been introduced.

Q.3. In the short term, while the price regulator would only be regulating prices for heavy vehicle charges, could user concerns be adequately addressed through regulatory rules or is an appeal process needed?

- CBH would propose that any new system requires a transparent process whereby key stakeholders can engage with the relevant Regulator regarding concerns they may have relating to the calculation and/or the apportionment of charges. Such a process should provide the opportunity for stakeholders to appropriately engage with the regulator to ensure that pricing and regulatory outcomes are implemented in a suitably effective and efficient way. To the extent that there are transparent processes for setting charges and engagement with stakeholders, the need for appeal processes will be minimised. Ultimately, any appeal process will need to be accessible to stakeholders with a wide range of financial capacities and as such it may not be appropriate to leave appeals and enforcement to stakeholders alone.

¹ Note that CBH has limited its response to those questions noted in the Discussion Paper which are relevant to its ongoing business activities

² ACIL ALLEN Consulting report, Motorist Taxation Revenue and Road Spending - August 2015.

³ Brookfield Rail holds the 49 year Lease for the operation of the Western Australian State Government's Rail Freight Network

Q.4. How important is a nationally consistent approach to the regulation of heavy vehicle charges?

- It is CBH's view that the application of any heavy vehicle user charge would need to be applied to heavy vehicles operating across all industry classes, nationally.
- The development of a nationally consistent approach to the regulation of heavy vehicle charges is considered important on the basis that a consistent regulatory framework across Australia provides:
 - A transparent and efficient price setting and performance monitoring is ideally one that lowers the regulatory burden on road users and providers;
 - Greater competitiveness for Western Australian grain growers, as well as benefitting a range of both domestic and export industries through a framework that promotes the efficient movement of goods across Australia; and
 - A nationally orientated regulator is far more likely to be appropriately resourced.
- That said, it is important to ensure that any national approach is cognisant of local issues, in particular the way in which revenue is allocated, focusing on the parts of the network that generate efficiencies for key export industries. For instance, care is needed that the road transport efficiencies developed in Western Australia (such as mass concessions, truck configurations and heavy vehicle accreditations) are not lost in the introduction of any new national approach to the regulation of heavy vehicle charges;
- Any national approach would need to have well designed methodologies for engagement with those organisations (such as State and Local Governments) that currently fund and manage a Strategic Road Freight Network ("SRFN") across Western Australia;
- As an example, there is an existing framework of Regional Road Groups ("RRGs") in Western Australia, managed by the Western Australian Local Government Association ("WALGA") that recognise and understand their local community's road needs and have a voice in how the States' contribution to local roads is made.

Q.9 Is a model law the best approach for bringing governments under the same regulatory model.

- At this early stage, CBH would not be in a position to support Option 1 or 2 in the Discussion Paper ahead of the other. CBH would like the opportunity for further consideration on whether it is appropriate for NTC or the ACCC to set heavy vehicle user charges. CBH would support the ACCC having responsibility for ensuring that any heavy vehicle user charge pass through is appropriate and limited to the new charge.
- CBH has this view on the basis that:
 - Since 2013, CBH have been engaged in a below rail access and pricing dispute with Brookfield Rail which has been under consideration by Western Australian Economic Regulatory Authority ("ERA") through the Railway Access Code (Code);
 - CBH is the only proponent to have had input from the ERA on the determination of costs relevant to the grain freight rail network operated by Brookfield Rail, which is covered by the Code. This has given CBH unique insight into the many failures of the Code;
 - The process of obtaining access under the Code has had a significant negative effect on the efficiency of CBH's operations, and has resulted in uncertainty and increased costs for CBH, its members and growers. Not being able to secure long-term access on reasonable terms to a vital part of the grain supply chain has jeopardised the competitiveness of Western Australian grain growers, and their ability to transport their grain to highly competitive international markets efficiently and effectively;
 - Given such a direct impact on the competitiveness of the Western Australian grain industry, significant reform is required in order to ensure that the Code promotes access to the railways covered by it;
 - As a result of the above, CBH holds the view that the development of a national rail access regime, built on strong principles for a clear, transparent and timely regulatory framework would be the optimal approach to provide consistent national rail access to multi-user rail supply chains. Similarly, a national approach for clear road usage price

setting in a timely manner by an independent and appropriately resourced regulator would benefit the national economy.

To conclude

Global competitors currently produce and transport grain to what were once our traditional markets cheaper than Western Australian growers. Developing therefore a funding and regulatory model for the independent price regulation of heavy vehicle charges that assists in the international competitiveness of the grain industry is a critical undertaking and one to which CBH is very keen to contribute on the basis that:

- Any new system of price setting and oversight is fair, transparent and independent;
- Its review incorporates an examination of existing heavy vehicle user charges such as fuel excise and vehicle registrations (and their contribution to the cost of building, maintaining and operating roads) prior to any additional charges being applied;
- Wherever possible, revenue raised from heavy vehicle usage is reinvested into key supply chain infrastructure and that there is recognition of the additional revenue that flows to Government by transport dependent industries (such as grain);
- Any additional charges, if applied, assist in driving productivity and/or efficiency gain in the road transport task, such as higher, Restricted Access Vehicle ("RAV") ratings;
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- Ensuring that in raising revenue from heavy vehicle haulage, key export industries such as grain are not rendered uncompetitive with other international origins of grain supply.

We look forward to the opportunity of participating further in the ongoing consultation process. Our Government and Industry Relations Advisor - Mr Rob Dickie can be contacted on 08 9416 6313, or rob.dickie@cbh.com.au should you require any further information.

Yours sincerely,

For: Co-operative Bulk Handling Limited



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Brianna Peake
GENERAL MANAGER GROWER AND EXTERNAL RELATIONS

