Inquiry into National Freight and Supply Chain Priorities

Submission from the CBH Group

July 2017

EXECUTIVE SUMMARY

The Western Australian grain industry is significant to the national economy with up to 50% of total grain exported from Australia originating from the State. Given this export focus, it is essential that Co-operative Bulk Handling ("CBH") and its grain grower members have access to key freight and supply chain infrastructure (rail and road) that enables them to transport their grain to international markets as effectively and as efficiently as possible.

Our grain growers 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. CBH is therefore very supportive of efforts made by the Australian Government to develop a freight system that boosts the nation's prosperity and meets community expectations for safety, security and environmental amenity into the future.

In noting the Inquiry into Australia's Freight and Supply Chain Priorities, CBH would urge Government in its deliberations to ensure that:

- An environment is created that incentivises ongoing investment into agricultural supply chains that increases the sustainability and profitability of primary producers;
- There is a wider understanding and appreciation that agriculture is vastly different to other industry sectors (such as mining) given issues of weather, geography and global markets and must be treated differently if it is to provide an ongoing contribution to the national economy;
- Policy is developed that strikes a balance between creating an incentive for foreign investment, but where that investment involves monopoly infrastructure (railway lines and roads) that the users of that infrastructure have some assurance that they may continue to access facilities with reasonable service and reasonable pricing: and
- Supply chain regulation is minimised where appropriate as it generally leads to increased costs, inefficiencies and market distortion that is all ultimately borne by the grower.

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1.0 INTRODUCTION

Co-operative Bulk Handling Limited ("CBH") notes the Australian Government's inquiry into National Freight and Supply Chain Priorities across a range of key reform areas for action over the short, medium and long term. This review is necessary given Australia's need for a freight system that boosts the nation's prosperity and meets community expectations for safety, security and environmental amenity into the future.

As an organisation representing Western Australian grain growers and an export industry worth in excess of $3.5 billion to the State annually, CBH is well placed to provide input into this inquiry, doing so on the basis that:

- The sustainability and profitability of grain growers is reliant on them having access to supply chain infrastructure that allows for the efficient and effective transport of their grain to local and international markets; and
- This transport infrastructure is efficient to the extent that Western Australian grain growers can be competitive with producers from other international origins of 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.

2.0 BACKGROUND TO CBH

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 and:

- Is Western Australia's largest exporter of wheat, barley, canola and lupins, acquiring and exporting around 50 per cent of all grain produced in Western Australia to more than 30 export destinations and over 200 customers globally;
- Operates a grain storage and handling network incorporating 150 country receival sites, 4 export terminals with a total storage capacity in excess of 20 million tonnes;
- Owns its own rail rolling stock; $175 million of state of the art locomotives and rail wagons;
- 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.
- Recently announced 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.

2.1 The challenge for Western Australian grain growers to remain internationally competitive

Almost 90 per cent of the grain grown in Western Australia is exported with Western Australian growers continuing 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. One of the key current challenges, certainly for the growers of Western Australia is to ensure they have access to infrastructure that enables them to transport their grain to international markets effectively and efficiently.

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 advisors 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. More particularly that:

- CBH farm to port costs including storage and handling, freight and ports costs of $47 per tonne, are $6 per tonne lower than grain logistics supply chains in the Black Sea region, and are faring much better than US and Canadian grain supply chains;
- However, when the full cost of the supply chain is considered – from seed to market (delivered cost) including growing the grain, grain handling from farm to port and ocean freight to major markets, the Black Sea is well ahead of Western Australian (and Australian) supply chains. At the time of study, the delivered cost for growers in the Black Sea region to get grain to South East Asia was $166 per tonne. In Western Australia, that cost was $216 per tonne – a gap of $50 per tonne;
- While this figure will likely change year on year due to the cost of ocean freight and seasonal variations, it is anticipated the value differential will increase on a long-term basis and is a major reason for the need for ongoing supply chain investment to drive efficiencies;
- The primary reason for this significant variance is the ability for growers in the Black Sea to achieve large yields with fewer inputs than growers in Western Australia (given their natural advantages of good quality soil and steady rainfall); and
- In Western Australia, the 3-year wheat yield average is 2.2 tonnes per hectare. That is one of the lowest average yield rates in the world (with a ten-year average of 1.8 tonnes per hectare). By contrast, growers in the Black Sea region are achieving 4.1 tonnes per hectare and the rate of growth in their yield is likely to increase.

2.2 Responding to the Discussion Paper

The Western Australian grain industry is significant to the national economy with up to 50% of total grain exported from Australia originating from the State. Given Western Australia's export focus, it is essential that CBH and its grain grower members have access to key freight and supply chain infrastructure; in particular an efficient and cost-effective transport network (rail and road).

3.0 WHAT INFRASTRUCTURE? - RAIL

Around 60% of CBH's freight task is transported by rail to CBH's 4 port facilities or the company's inland grain terminal (the Metro Grain Centre) making it a critical element of CBH's supply chain. To this end, CBH utilises the state-owned grain freight rail network ("WAGFRN") operated by Arc Infrastructure (formally Brookfield Rail - part of the Canadian based Brookfield Asset Management Group) under a lease until 2049 (see Image 1).

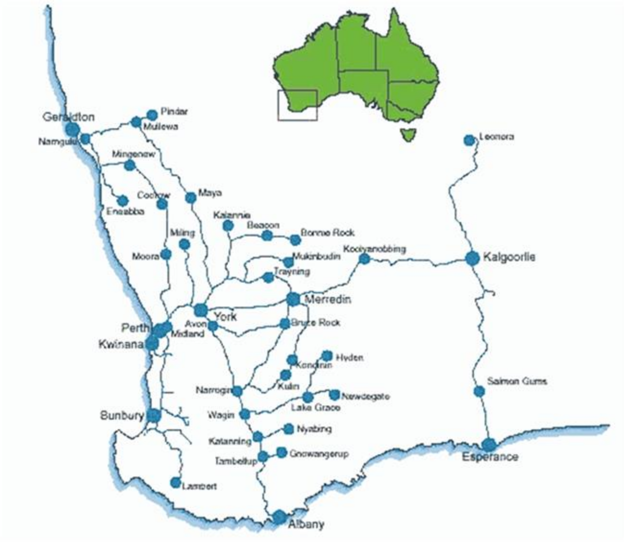

Image 1 - Arc Infrastructure's network[1]

Arc Infrastructure operates the network as an open-access, multiuser asset incorporating track infrastructure and train control services. Arc Infrastructure is also responsible for negotiating commercial access with end users and above-rail service providers.

CBH is one of the largest users of the WA rail network with operations including:

- Loading grain products onto rolling stock at the CBH loading facilities located on various routes on the grain rail network;
- Operating rolling stock on the grain rail network for the purpose of hauling grain products; and
- Unloading grain products from rolling stock at the CBH unloading facilities located on the grain rail network.

In 2010/2011, CBH made a decision to pursue enhanced above rail efficiencies, by investing $175 million in new rolling stock (locomotives and wagons) to be operated by a new above rail operator (Watco Companies) for the dedicated service of grain haulage in Western Australia. With this decision, CBH for the first time had full exposure of Arc Infrastructure's approach to management of the WAGRFN including the application of its below rail costs.[2]

3.1 Issues and required change

3.1.1 The ongoing management of the WAGFRN

While Arc Infrastructure's involvement was welcomed by the Western Australian State Government, it soon became apparent to industry stakeholders that Arc Infrastructure's commercial objectives were increasingly at odds with the users of the WAGFRN; the growers of Western Australia and the State's $3.5 billion grain industry.

Indeed, Arc Infrastructure and CBH have fundamentally different positions regarding the operation of the WAGFRN. Arc Infrastructure is seeking to operate the rail network in order to maximise profit on behalf of its shareholders notwithstanding that its profit maximisation results in a comparatively greater economic loss on the Western Australian economy. Meanwhile, CBH and the growers of Western Australia, as users of the track, are seeking the most efficient and effective transport network possible in order to transport grain to their local and international markets at competitive rates.

It has become increasingly obvious that the objectives of Arc Infrastructure and growers, as track users, are mutually exclusive; for example:

- Arc Infrastructure has closed those sections of the WAGFRN on the basis they are not meeting Arc's targeted financial returns, without surrendering them to an alternate user, on the basis that it can

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[1] Source - https://www.erawa.com.au/rail/rail-access

[2] Previously below rail access charges were "retailed" without transparency to freight acquirers via the previous above rail operator; ARG (now Aurizon)

continue to increase revenue and margins from a reduced section of the rail network without increasing its own productivity.

This behaviour is indicative of a true monopoly asset, as it can be run without regard to the interests of its customers. These closures were sought despite those assets remaining an important component of the local supply chain, the use of which would avoid increased costs being passed onto the community;

- Rail performance standards are decreasing while access fees are increasing:
  - Below rail track access constitutes around 50 per cent of a grower's freight costs; average access cost are $7-8 per tonne across Western Australia;
  - Western Australian grain growers are paying around 4-5 times what growers in eastern Australia pay for track access (on tracks that have higher speeds/mass);
  - Freight rates in Canada and USA are 30-50 per cent lower than Western Australia; and
  - Despite track closures and operating restrictions, Arc Infrastructure has proposed significant increases in access fees.

3.1.2 The challenges of gaining access to the rail network

The Railways (Access) Act 1998 ("Act") was established to provide third parties seeking to access the rail network with '*effective, fair and transparent competition*'. Under the Act the Regulator:

a) is responsible for monitoring and enforcing compliance by railway owners with this Act and the Code; and

b) also has the functions given by particular provisions of this Act and the Code.[3]

The Railways (Access) Code 2000 ("Code") places a narrower requirement of administering those functions on the Regulator, the Economic Regulation Authority ("ERA"). The ERA appears to take direction from the Code rather than the more broad scope of the Act.

The Code provides for a negotiate/arbitrate framework to determine the various terms and conditions (such as price). If parties cannot agree to terms and conditions to access the network via direct commercial negotiations, an access seeker may make a proposal for access under the Code.

Between March 2012 and June 2014, CBH accessed the grain rail network under an interim commercial track access agreement with Arc Infrastructure. CBH's "above rail" operator, (Watco) held an operational track access agreement with Arc Infrastructure covering the same period. In the lead up to the expiry of those agreements in June 2014, CBH engaged in extensive good faith negotiations with Arc Infrastructure to reach an acceptable replacement agreement.

Despite CBH's best efforts, CBH and Arc Infrastructure were unable to reach agreement and CBH considered it was highly unlikely that an agreement could be reached by commercial negotiation. CBH therefore made the decision to negotiate access to the rail network under the Code, formally submitting its proposal for access on 10 December 2013.

CBH made its submission to the ERA as one of only three proponents to have sought access under the Code. CBH is also the only proponent to have progressed through the process to a point of an ERA determination of costs relevant to the grain freight rail network operated by Arc Infrastructure. This has given CBH unique insight into the many failures of the Code.

Since lodging its proposal, CBH was forced to seek injunctive relief in the Supreme Court to enforce its rights under the Code (which was ultimately settled with Arc Infrastructure before trial), and then had to commence arbitration proceedings which took over nine months to resolve a preliminary issue about capacity.

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 and its grower members. Not being able to secure certainty over 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, therefore impacting the grain industry's significant contribution to Australia's economy.

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[3] *It should be noted that the Regulator does not have the power or scope to control the lease holder's management of the track and overall performance standards of the network. Rather, this is controlled by the State Government's Public Transport Authority ("PTA").*

CBH's experience as an access-seeker is that the provisions of the Code do not give effect to the Competition Principles Agreement ("CPA"). Significant reform is required in order to ensure that the Code promotes access to the railways covered by it, and the need for change is urgent.

CBH has communicated the specific nature of this required change by way of a detailed submission to the ERA on its current review of the Code.

Fundamentally, the Code does not effectively constrain the monopoly power of railway owners, and therefore does not deliver efficient access outcomes. This is on the basis that:

- The process under the Code is slow and provides a railway owner many opportunities to delay progress. This is compounded by the fact there are no "transitional" provisions that provide "default" access until the process (which may include multiple arbitrations, and potentially litigation) is completed. As a result, CBH has had to negotiate 4 interim access agreements with Arc Infrastructure while under the Code process causing significant uncertainty for the industry and rural communities regarding additional road transport movements;
- The access pricing outcomes under the Code are highly uncertain, which fundamentally undermines the utility of the process. The gulf between the floor price and ceiling price (which set the parameters for access pricing) is so large it essentially provides no real limit or guidance on pricing outcomes. In the case of CBH's access proposal, the "global" annual ceiling price is $526 million higher than the global annual floor price. Such a price range provides little real guidance as to the appropriate access price. This is compounded by the "pricing guidelines" in the Code, which provide considerable scope for argument about where, and how, the price should be set;
- The Code does not address the inherent "unevenness" of information between a railway owner and an access seeker. The lopsided nature of this relationship is fundamental to a railway owner's ability to take advantage of its natural monopoly over below-rail services. The Code needs extensive and immediate reform to address this problem;
- CBH is concerned about the difficulties with enforcement of the Code, and submits that the ERA's, and an access seeker's, ability to effectively enforce the Code is significantly limited because the Code can only be enforced by an injunction obtained by the ERA or an access seeker from the Supreme Court, or through arbitration. This stands apart from other regimes, which grant the ERA the power to impose infringement notices, and pecuniary penalties (among other remedies) for breaches; and
- The Code currently provides a railway owner with numerous opportunities (should it wish to use them) to delay and hamper the process by committing repeated "small" breaches of the Code, which have a significant cumulative impact.

Indeed, a range of key stakeholders consider the Railways Access Code (2000) provides little effective oversight having been:

- Found deficient by the National Competition Council (NCC) stating in 2011 that "*the Regime does not provide for a consistent approach to regulation of third party access to railways in Western Australia;"*
- Criticised by the 2013 Western Australian Auditor General's report Management of the Rail Freight Network Lease: Twelve Years Down the Track as lacking *"… the requirement to meet the needs of rail users;"* and
- Considered by the Western Australian Legislative Assembly Economics and Industry Standing Committee in its Report into the Management of Western Australia's Freight Rail Network Report as "*not having allowed the government's vision to be realised due to deficiencies in the lease instrument, the regulatory regime and the Public Transport Authority's (PTA's) management of the lease*."

Opportunity for a national approach to access regulation

Australian rail networks need a consistent regulatory framework ensuring more efficient price and performance setting. It is CBH's strong view that an opportunity exists to resolve these rail access issues in such a manner that will provide effective regulation for both users and operators.

On the basis that ACCC's oversight of the Australian Rail Track Corporation ("ARTC") rail network been well regarded generally by industry participants throughout southern and eastern Australia, CBH considers that a similar ARTC rail access regime should be introduced into Western Australia. [4]

3.1.3 A lack of sufficient incentives to invest in the rail network

As outlined in section 3.1.1, CBH has for some time now expressed reservations regarding the manner in which Arc Infrastructure has operated the State's grain freight rail network. This includes Arc Infrastructure's:

- 2013 decision to close Tier 3 lines;
- Imposition of operational restrictions on the Tier 2 Miling Line; and
- Forecasting the Miling Line closure on the basis that they (Arc Infrastructure) were not able to generate sufficient profit from the ongoing operation of those line sections.

That key pieces of supply chain infrastructure can be placed into care and maintenance and denied to others has been of significant detriment to CBH, its grain grower members and the Western Australian grain industry. Since then, Arc Infrastructure has shown little interest in a range of proposals to re-open these selected line sections, despite the clear benefits they provide the Western Australian grain industry.

These closures are illustrative of a broader issue in the management of Western Australia's key supply chain infrastructure; more particularly that the structure and function of current below rail arrangements offers little incentive for the track operator to operate the network in such a manner that create enhanced efficiencies for the network users including grain growers (such as increasing capacity, increased axle weights and/or removing existing speed and mass restrictions).

Indeed, the Western Australian State Government's Economics and Industry Standing Committee's inquiry into the management of the WA freight rail network (Report No. 3 dated October 2014) came to a similar conclusion; the Committee was highly critical of the way the railway network has been managed under the privatisation lease arrangements, and expressed concerns about the ongoing safety and viability of the arrangements.

<u>The need for Federal Government investment</u>

Given Arc Infrastructure's shareholder profit motives, the likelihood of Arc Infrastructure making an investment into the below rail network to the extent that it would enhance efficiencies for users, would appear remote. It is therefore likely that any future productivity upgrades for the WAGFRN will require direct Government investment in order to provide enhanced export pathways for the State's grain growers; thereby generating substantial value to the state, the grain export industry and the regional communities that depend on it.

This might entail:

- An investment by the Federal Government to reopen targeted line sections or to increase track productivity. Not only would this undertaking increase grower competitiveness by reducing freight costs, facilitating faster transport of grain to port (allowing growers to capitalise on market offers of higher prices for their grain), it will allow more grain to be transported by rail; a safer, cheaper and faster mode of transport than by road;
- Given industry's ongoing reservations regarding Arc Infrastructure's current management of the network, this new arrangement should be directed through the track owner (the State Government) and structured in a manner to ensure every dollar invested is allocated to infrastructure enhancement; not to management fees or shareholder dividends.

CBH would propose that very specific measures are taken to ensure these conditions are met. This would include agreement regarding how, where and with whom the funds are spent and the outcomes expected to be achieved including improvements in track performance standards following any investment.

[4] ARTC is a Federal Government owned corporation, established in July 1998, that manages most of Australia's interstate rail network

Reduced tonnes on road reduces government maintenance burden, improves safety

The most significant impact to State and Local Governments arising out of the closure of the Tier 3 network has been the increased number of heavy truck movements on local roads, and the attendant implications for safety and maintenance.

Despite an overwhelming preference for rail where economically viable (CBH operated at a 97% rail utilisation for nominated rail sites over the 2016 calendar year), limitations of Arc Infrastructure managed infrastructure mean rail capacity is increasingly constrained. While road freight will continue for those communities that do not have rail capability, in an average harvest CBH believes a targeted investment into selected parts of the rail network has the capacity to shift approximately 1 million tonnes off road and onto rail.

Re-opening selected line sections provides a range of benefits including:

- A reduction in trucks on regional roads will serve to decrease a significant safety hazard. According to the RAC, the Wheatbelt has the highest road fatality risk of all the regions in Western Australia, with drivers 11 times more likely to die on the roads in the Wheatbelt that in Perth; and
- Reduced tonnes on road directly lessens Government maintenance spend required on freight routes incurred from heavy haulage - a funding impost that often falls to Local Government.[5]

3.1.4 The need for enhanced scrutiny on the privatisation of key supply chain assets

In raising concerns regarding the manner in which the WAGFRN is operated, it is important to note that CBH is in no way opposed to foreign investment or organisations seeking to make commercial returns for their owners or shareholders; on the contrary. The Australian grain industry like any sector needs access to appropriate levels of capital and corporate ambition to facilitate industry expansion and growth. However, with investment comes the requirement to understand an investor's commercial goals and the extent to which these are complementary to local industry (such as the Western Australian grain industry).

Into the future, it is critical that the problematic arrangements such as those arising out of Arc Infrastructure's lease of the WAGFRN (as outlined in section 3.1.1) are not repeated. To this end and in seeking to privatise key public assets, Government needs to strike a balance between creating an incentive for investment (including foreign investment), and where that investment involves true monopoly infrastructure (railway lines and roads) ensuring that the users of that infrastructure have some assurance that they may continue to access those facilities with reasonable service, pricing and appropriate regulatory oversight. This doesn't mean a lack of returns, but it doesn't mean monopoly profits either.

Given this context, Government can assist export industries such as grain by:

- Ensuring an appropriate policy framework exists in Australia that strikes a balance between creating an incentive for investment by allowing adequate returns versus ensuring market participants have access to essential infrastructure (specifically that which cannot be duplicated) at a reasonable rate of return. In the absence of a true monopoly asset, the market is the most efficient way to determine an efficient allocation of assets and to provide competition that values Australian grain grower's agricultural products; and
- In determining whether and how to regulate access, the relative incentives and constraints on participants needs to be carefully considered (with attention paid to the identity of benefiting stakeholders in determining whether regulation is needed to offset commercial imperatives that would otherwise harm grain growers). Governments should facilitate and encourage stakeholders who re-invest into the Australian supply chain and have an ongoing focus on driving productivity improvements to ensure the sustainability and profitability of Australian agriculture.

In a broader context, CBH considers it incumbent on Government to generally aim to minimise supply chain regulation as it leads to increased costs, inertia, inefficiencies and market distortion, the adverse effect of which is ultimately borne by the grower. Likewise, poor or ineffective regulation in the absence of effective constraints can also result in poor economic outcomes for Australia. This is particularly the case where the

[5] Note that separate to this submission, CBH has held preliminary discussions with a range of Federal Government stakeholders (Departments and Members) regarding the imperative for greater supply chain efficiencies. There is broad acknowledgment of the significance of Western Australia's agriculture contribution and support for measures that would improve the industry's ability to compete in international markets. Given this sentiment, and Government's imperative to establish key supply chain priorities CBH will continue to engage with Federal Government stakeholders to firm up this understanding.

interests of the monopoly asset holder diverge from those of the users of services provided by the monopoly assets.

4.0 WHAT INFRASTRUCTURE? - ROAD TRANSPORT

The second key element of the Western Australian grain supply chain is road transport; both growers delivering grain into the CBH storage and handling network during the harvest period and CBH in turn transporting that grain to port (around 40% of the annual crop); utilising a combination of State and Local Government roads.

Main Roads WA ("MRWA") as the relevant State agency responsible for the provision and maintenance of Western Australia's roads, developed in consultation with the Department of Transport and the WA Local Government Association, the Restricted Access Vehicle ("RAV") Network Access Strategy. A Restricted Access Vehicle (RAV) is a heavy vehicle that requires approval from MRWA to operate on the public road network.

The Strategy is aimed at establishing and maintaining a Strategic Road Freight Network ("SRFN") that will carry the bulk of heavy vehicle movements and ensure the regional road network receives adequate funding to sustain the volume of heavy vehicles.

4.1 Issues and required change

CBH remains very supportive of the RAV Network Access Strategy as a means of directing heavy vehicle movements and ensuring Western Australian roads receive targeted funding to sustain the volume of heavy vehicles, however due to budgetary constraints in managing and maintaining the road network, to the level required to sustain the volume of truck movements, inefficiencies can often occur in the road transport supply chain; for example:

- Western Australian growers frequently encounter issues associated with the first and last segments of freight journeys where the RAV rating for local road segments are inconsistent with the RAV rated roads that form part of the SRFN (that growers use for the majority of the freight journey). For instance, the entry or exit point of their farm may be located on a local road that does not have the same RAV rating as the nearest connecting road to the SRFN.

  This creates considerable loss in productivity for grain growers by having to use a lesser RAV rated vehicle to ensure their freight journey remains legally compliant. Similarly, costs may be imposed on Local Government in having to assess and spend capital on having these local roads assessed and improved to meet the higher RAV ratings required for growers to achieve the necessary efficiencies in road transport; and

- There are examples where the RAV rating of a road can differ between one Local Government area and another. This too translates into lost productivity on the basis that growers and CBH's road transport providers are obliged to utilise the lower rated RAV vehicle for the freight task in order to remain legally compliant.

CBH understands the challenges associated with maintaining the State's road network and seeks to support the planning and investment process where possible. In April 2016 CBH released its storage and handling "Network Strategy" which included a program of sites to be rationalised alongside $750 million of investment to transition from the network that we have today to the 100 sites that represent the optimal future supply chain.

The Network Strategy was developed through considerable analysis of future grain production and supply chain efficiency, to provide a clear plan for the future for CBH's grower members. It also allows CBH to provide certainty to government and policy developers on the needs of the grain industry, to help inform planning for road infrastructure into the future.

4.1.1 Enhanced funding for the Western Australian road network

Managing this expansive road network requires significant resources and collaboration between the three tiers of government. CBH is supportive of the efforts of State and Local Government to ensure a continued level of funding for local roads (including the efforts of the Regional Road Group (RRG)). Given the important contribution that the grain industry represents for the Western Australian and Australian economies, revenue raised from heavy vehicle usage should, where possible be reinvested into key supply chain infrastructure that ensures the Western Australian grain industry can remain competitive with other international origins of supply.

However this 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 by Western Australian transporters and motorists. This costs Western Australia in excess of $3 billion over four years.[6]

In line with CBH's recent submission to the Department of Infrastructure and Regional Development's Review into establishing independent price regulation for heavy vehicle charges, it is considered that the current system for setting heavy vehicle user charges and allocating funds is less than ideal and that shifting to a more transparent method to set prices that would better recover the cost of building, maintaining and operating roads would be beneficial.

5.0 PROTECTION OF INDUSTRIAL/TRANSPORT LANDUSE

CBH notes the comment in the Discussion Brief that *"…two thirds of the value of Australia's international trade flows through the four largest cities, Sydney, Melbourne, Brisbane and Perth"* and that "…*Such large increases in the freight task mean that to avoid future land use conflicts."*

It is CBH's long held view that appropriate buffer and separation distances should exist or be preserved between industrial land uses, rail and road transport corridors and residential developments in order to minimise adverse impacts, cumulative effects and non-compatible land uses. In particular any encroachment of sensitive land uses (including residential) within existing port operations; the area must be protected from the encroachment of sensitive land uses, (such as residential) as these uses have the capacity to constrain operations within the area.

6.0 CONCLUSION

While CBH invests heavily in grain supply chain infrastructure (in particular its storage and handling network) and seeks to provide Western Australian grain growers with access to an efficient, world-class value chain, CBH would welcome increased collaboration with Government to ensure that:

- An environment is created that incentivises ongoing investment into agricultural supply chains that increases the sustainability and profitability of primary producers;
- There is a wider understanding and appreciation that agriculture is vastly different to other industry sectors (such as mining) given issues of weather, geography and global markets and must be treated differently if it is to provide an ongoing contribution to the national economy;
- Policy is developed that strikes a balance between creating an incentive for foreign investment, but where that investment involves monopoly infrastructure (railway lines and roads) that the users of that infrastructure have some assurance that they may continue to access facilities with reasonable service and reasonable pricing: and
- Supply chain regulation is minimised where appropriate as it generally leads to increased costs, inefficiencies and market distortion that is all ultimately borne by the grower.

7.0 FOR FURTHER INFORMATION

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