



LIVESTOCK AND RURAL TRANSPORT ASSOCIATION OF WESTERN AUSTRALIA (INC)

**SUBMISSION TO THE LEGISLATIVE ASSEMBLY ECONOMICS
AND INDUSTRY STANDING COMMITTEE**

ON

**CURRENT LEASE ARRANGEMENTS AND MANAGEMENT OF
THE WESTERN AUSTRALIAN FREIGHT RAIL NETWORK
COMPRISING TIER 1, 2 & 3 LINES**

April 2014





LIVESTOCK AND RURAL TRANSPORT ASSOCIATION OF WESTERN AUSTRALIA (INC)

17th April 2014

Mr Ian Blayney MLA
Chair
Legislative Assembly Economics and Industry Standing Committee
Parliament House
PERTH WA 6000

Attn: Dr Loraine Abernethie, PhD

Inquiry into the Management of Western Australia's Freight Rail Network

The Association is pleased to provide a submission to the above inquiry. Rural transporters are integral to an efficient and competitive grain freight network. Whilst the terms of reference specifically relate to the rail network, decisions made regarding rail will ultimately impact our members. It is therefore important we contribute to debate.

Representatives are available to give evidence to the Committee if considered appropriate.

Thank you for the opportunity to participate in this important process.

Yours faithfully

Darren Power
Vice President

EXECUTIVE SUMMARY

Grain growing, storage, handling and marketing in Western Australia are evolving since deregulation. New entrants to handling and marketing have infrastructure needs unique to their business models which may differ from WA's previous experience. Increasing on-farm storage for later sale and transfer to port may see a shift in freight traffic from traditional routes. Planning and investment decisions need to avoid a long term commitment to one supply chain model that may not service the emerging needs of the grain industry or rural communities.

Much of the discussion to date about Tiers 1,2 & 3 rail has centred entirely on grain freight. A broader and more holistic investigation may well result in the viability of lines being demonstrated that would otherwise be found to be uneconomic if solely focussed on grain. For example mining developers around wheatbelt areas may value investment in rail. It is important however that the viability of lines be assessed. The risk of lines becoming uneconomic in the future should be incorporated into lease arrangements.

Investment in rail is important but it should be targeted. Care must be taken to ensure the continuing competitiveness of road transport to ensure the fleet has ongoing capacity to meet the needs of rural communities and growers.

Decisions about the grain freight network should overtly be planning for the future and be based on economic and scientific projections about emerging trends.

Key Points:

- Rural Western Australia requires a well maintained, safe road network for general freight, fuel and agricultural inputs and products;
- Grain growing, storage, handling and marketing are changing. The freight network must be flexible to meet those changes;
- Rail and road Investment decisions should incorporate a broader range of factors and consider the supply chain for other commodities and goods;
- Planning should consider the potential for climatic changes to affect geographical areas where grain is grown and therefore future freight routes;
- Investment in rail must be targeted and not come at the expense of road investment;
- Maintenance of road transport capacity is essential to ensure efficiency and productivity across the spectrum of commodities transport from and to rural areas;
- Viability must be tested prior to rail investment decisions being made;
- Government decisions should not restrict the flexibility of supply chains to develop to address new trends in the market.

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BACKGROUND

The Livestock and Rural Transport Association of Western Australia (Inc) was incorporated in 1975. It is dedicated to representing transporters who carry products associated with primary production. Members include the majority of WA livestock transporters and a large proportion of grain transporters.

LRTAWA members are valuable contributors to rural economies and as such they are very aware of the importance of ensuring that a safe and well maintained road network is available to transport all goods and services required by local communities not only those used or grown by primary producers. It is also very important that the rural transport fleet is supported by policies that assist in maintaining available transport capacity so that productivity is enhanced and costs to the customer i.e WA growers, are contained. An efficient and responsive supply chain is critically important to the competitiveness of our grains industry.

THE INQUIRY

On 12 March 2014, the Economics and Industry Standing Committee resolved to inquire into and report on whether the current lease arrangements and management of the Western Australian freight rail network comprising Tier 1, Tier 2 and Tier 3 lines facilitate or hamper state development. In particular the Committee will investigate:

- the recent strategic directions and policy decisions relating to the current network lease, particularly in relation to the low-traffic lines;
- the regulatory arrangements in place for the network; and
- the management of the network by the Public Transport Authority.

The LRTAWA and its members have a significant stake in ensuring appropriate policy decisions are made with regard to grain freight. A narrow focus to this issue will result in long term implications that could increase the cost of production for primary producers and increase costs to consumers in rural communities. There is also a social dimension associated with higher costs and misplaced investment in infrastructure. Examination of rail and road must take all factors into account – safety, economy, productivity, multiple uses for the infrastructure, maintenance costs, flexibility and ability to adapt to changing market demands and changing geographical areas of production.

Rather than address specific elements of the terms of reference for this inquiry, this submission will focus on the broader aspect of state development and associated strategic and policy decisions highlighted by the Inquiry.

PROFILE OF GRAIN FREIGHT in WESTERN AUSTRALIA

Western Australia is the largest grain production state of Australia. Typically WA exports between 80-90% of its production¹. Harvest usually occurs between October and January. The grain harvest is transported by a combination of rail and road. Of the grain transported under the Co-operative Bulk Handling (CBH) banner rail has approximately a 60% share and road the remaining 40%.

Whilst increased competition is emerging and new business models for storage, handling and marketing grain are developing, the majority of WA grain is currently stored in CBH facilities. CBH operates and manages 20 million tonnes of grain storage via a network of 197 receival and storage facilities across the Western Australian wheatbelt.² The majority of grain is exported between January and April.³ A combination of rail and road transport is used to transfer the majority of grain from up-country sites to four port terminals at Geraldton, Kwinana, Esperance and Geraldton.

CBH reported that the share of road used to transport grain increased to 64 per cent for the year to date (2010), compared with 55 per cent in 2008-09.⁴ These figures do not include transport from farm to bin. A CBH representative stated in a recent radio interview that regardless of the size of the harvest CBH will always receive at least 30% of grain via road transport.

Growers make their own arrangements for grain transport from farm to bin. CBH arranges freight from bin to port and invoices the producer. In theory the producer can organise independent transport however there is little known departure from this practice due to the incentives to remain in the system.

The new bulk grain facility in Bunbury operated by Bunge has an initial storage capacity of 50,000 tonne which will result in increased road transport activity from the Eastern Wheatbelt to Bunbury via the Coalfields Highway. Western Australia's Regional Freight Transport Network Plan notes that the Coalfields Highway corridor will experience significant short term growth as a result of development in the Collie basin and the Shotts Industrial Estate.⁵ This point emphasises the importance of investment in a road network that services a range of commodities that benefit the economy rather than focussing on a single commodity.

¹ The Australian Grains Industry-The Basics; Pricewaterhouse Coopers 2011

² CBH Group; Australia's Leading Cooperative: CBH Gayfer House, 30 Delhi Street West Perth 6005

³ The Australian Grains Industry-The Basics; Pricewaterhouse Coopers 2011

⁴ Wheat Export Marketing Arrangements Inquiry Report; Productivity Commission 28th October 2010

⁵ Western Australian Regional Freight Transport Network Plan; Department of Transport pp28

On-farm storage, whilst not as prevalent in Western Australia as in other states, is increasing as growers in a deregulated environment seek to take advantage of marketing opportunities and price fluctuations. On-farm storage capacity in WA was 2.35 MMT in 2009/10 and was forecast to grow to 4.2 MMT by 2012, or about 35% of average annual production.⁶ Grain stored on-farm is destined for export or domestic use such as in milling and stock feeds. Growers have also entered into contracts with Bunge which involves on-farm storage for later transfer to Bunbury for export. Grain will increasingly be transported throughout the year and it is likely that increased grower choice will result in shifting activity between export departure points.

Heilingjiang Feng Agricultural (HFA) plans to ship grain from Albany in the first instance with plans for other ports in the future. The entrance of this group will provide further options for growers. Grain may be stored on-farm as part of trading deals with HFA and transport will take place between farm and port.

Road Transport Fleet Capacity

Growers and rural communities depend on a competitive and reliable transport network to ensure farm inputs and goods are delivered and outputs are transported to the point of sale.

The rural transport fleet cannot be easily switched on and off to meet market demands. Companies invest heavily in purpose built equipment, systems and processes aimed at servicing rural customers. Reliable and well trained drivers are also scarce and most companies invest time and effort in maintaining an ongoing workforce knowing that it is difficult to obtain good labour at short notice.

The volume of grain production is not constant and therefore the transport fleet must have the capacity to respond to greater or lesser demand as the case may be. A lack of reasonable certainty in availability of work will result in capacity being diverted to another market or industry. Inevitably it will then not be available when needed in the rural market. This type of negative externality could ultimately lead to market failure.

WA growers benefit from the lowest grain transport costs of all Australian states. Grain transporters backload with farm inputs such as fertiliser. Not only are economies passed on to the producer, infrastructure is more efficiently used as return journeys are not made with an empty truck and a separate forward journey is not needed for the inputs.

It is important to recognise that all grain produced in WA travels on road at some point (farm to bin) and sometimes twice (bin to port). Grain handlers seeking to

⁶ CBH Group Submission to the Rural Affairs and Transport Committee Inquiry into Operational Issues Arising in the Export Grain Storage, Transport, Handling and Shipping Network in Australia dated August 2011

maximise returns on infrastructure will make commercial decisions about the location of receival centres. There is the potential for the distance from farm to receival site to increase in the future. A well maintained road network that is capable of carrying high productivity vehicles is vital.

The Productivity Commission noted in 2010 that greater investment in transport infrastructure is likely to be required in the future and that when making investment decisions governments and the wheat industry need to examine the effects on the entire supply chain and links with other industries. The Productivity Commission also highlighted the importance of long term investment decisions avoiding 'locking in' supply chains and restricting the development of other supply chains.⁷

Care must be taken to ensure that over time rural road transport is not priced out of the market. This will have a negative impact on efficiency and productivity as there will be a reduced fleet to service the rural sector and to cope with any peak demand which will ultimately affect growers.

Geographical Changes in Production

Changing climatic patterns suggest there will be a decline in yields over certain areas of the wheatbelt and an eventual shift in wheatbelt growing areas. Grain production in Western Australia is predicted to decrease by 9% and 14% by 2030 and 2070 respectively.⁸ Based on Department of Agriculture and Food modelling, Figure 1 illustrates predicted changes in wheat yield (assuming no adaption strategies or improved technology) in a 30 year period. Climate change effects are predicted to be greatest in the eastern parts of the northern wheatbelt with 10-30% yield decreases. Cropping could be expanded east of Cranbrook and near Williams.⁹

A reduction in wheat yields is predicted throughout the northern agricultural areas (north of Northam) and south of Lake Grace and Katanning principally due to a predicted decline in rainfall. It should be noted that the modelling behind these predictions is offered as a guide only as the impact of temperature on yields is still being debated.¹⁰ It is generally accepted however that there has been a discernible change in yields and it is suggested that geographical yield data should be analysed to inform future investment in supply chain infrastructure. A comparison between figures 1 and 2 illustrates a misalignment between potential high wheat yield areas and Tier 3 rail lines.

⁷ Wheat Export Marketing Arrangements Inquiry Report; Productivity Commission 28th October 2010

⁸ Climate Change 2013 Strategy Review; Wheatbelt Natural Resource Management

⁹ Climate change effects on WA grain production; Dennis van Gool, Western Australian Department of Agriculture and Food

¹⁰ Climate Change 2013 Strategy Review; Wheatbelt Natural Resource Management

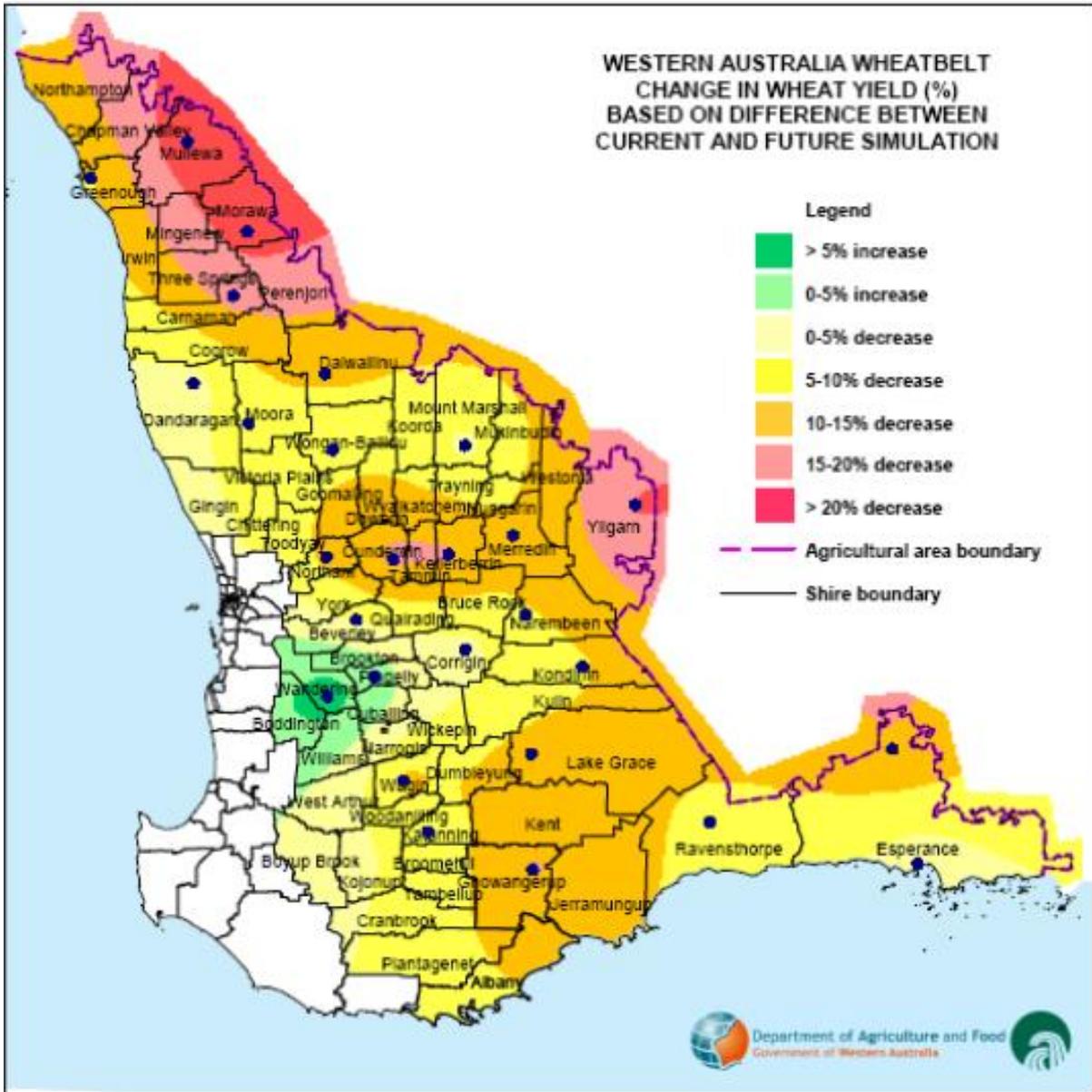


Figure 1: Western Australia Wheatbelt Change in Wheat Yield

Source: WA Department of Agriculture and Food

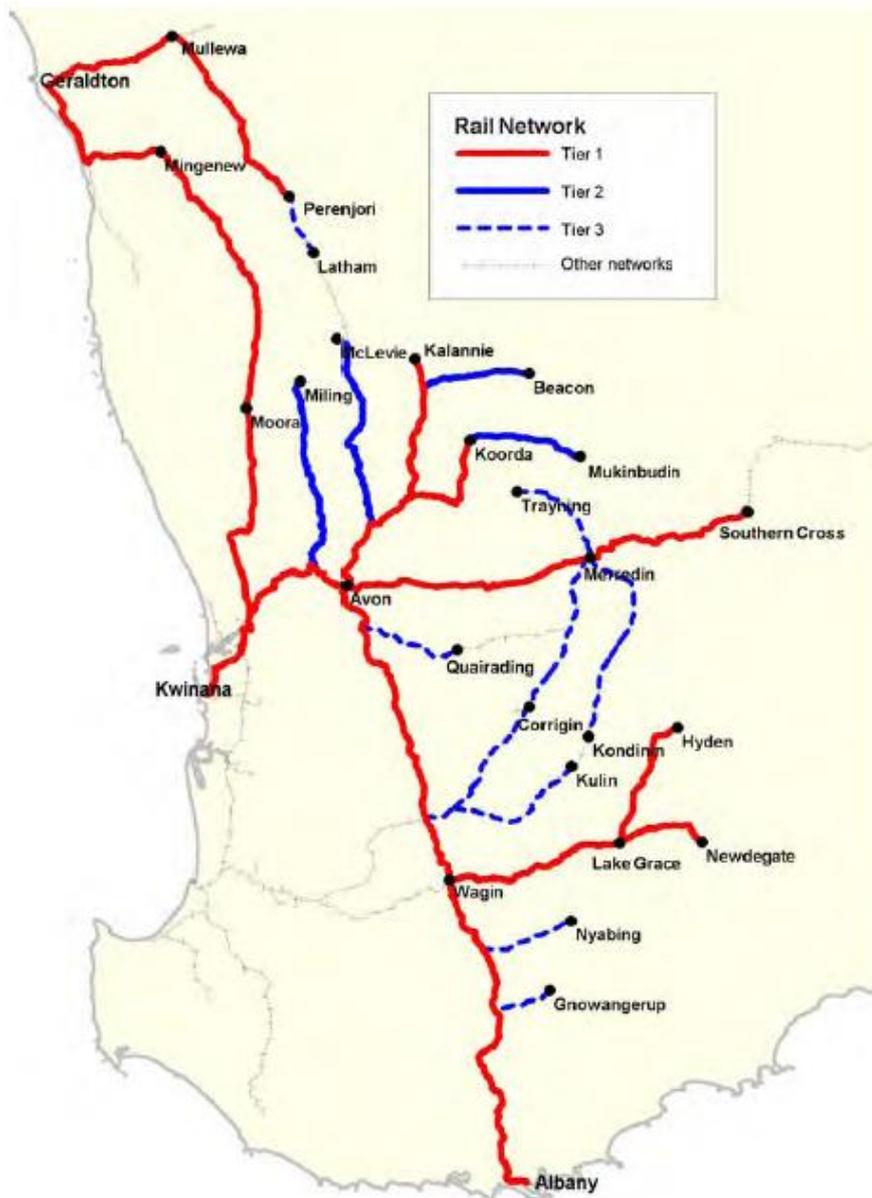


Figure 2: Tier 1,2 & 3 Rail Network

Source: Report prepared for the Freight and Logistics Council of WA on behalf of the Strategic Grain Network Committee by Sd&D; December 2009

The Broader Picture

The narrow focus in the discussion about grain freight ignores the fact that to achieve maximum value, important investment decisions must be made on a broader range of factors. Freight networks play a fundamental role in economic activity and development. With scarce financial resources it is important that they are spent with an eye well into the future and with the capacity to spread the benefit of the expenditure as widely as possible.

The commitment the current government made leading up to the 2013 election was to “identify commercially viable Tier 3 lines for further investment if required.”¹¹ The LRTAWA has always supported investment in rail and road infrastructure to ensure there is safe and efficient network to transport not only WA's harvest but other agricultural products and inputs. It has always been the Association's view that investment decisions should bear in mind that rural areas need a flexible transport network to enable adjustment to changing market conditions. Investment in rail should not be made at the expense of investment in the road network therefore with limits on spending it is crucial that viability be a determining factor in expenditure decisions, particularly when rail is used for a single commodity. Without the viability test there is a risk that scarce government funds will be spent on infrastructure with limited return.

Western Australia's Regional Freight Transport Network Plan, a 20 year projection of policy, planning and project priorities for regional freight, identified Albany, Brookton and Coalfields Highways as requiring upgrades. The importance of these networks to agriculture, tourism and mining in the case of Coalfields Highway was noted. Interestingly whilst upgrades to Tiers 1 and selected Tier 2 rail lines was supported as part of the plan, no commitment to Government investment in Tier 3 lines was made. Continuing discussion with stakeholders was supported. A program of roadworks on roads in the grain freight network was also identified as necessary.¹² It is significant that a comprehensive review of WA's freight needs for the next 20 years that placed an emphasis on economic development did not provide evidence of the need for further government intervention in Tier 3 rail lines.

The strategic grain network report presented to the Government in 2009 recommended that significant investment (up to \$320m) be made in road corridors to complement the long term rail network including roads not fit for purpose for use by heavy grain haulage trucks. It noted that some roads will be impacted by cessation of uncompetitive rail services.

Increased road investment was welcomed by rural transporters. The road works have commenced but questions have been raised about the quality of some of the road works undertaken. If wheatbelt roads are to service growers and communities efficiently they must be maintained to a high standard. If road works do not stand up to the traffic volumes they will be in a constant state of deterioration and the public and industry will not be satisfied. This risk of this situation occurring is greater if investment is expected in both a rail and road system.

The Auditor General's 2013 report into the management of the rail freight network lease recommended amongst other things that a risk assessment be undertaken

¹¹ The Liberal Party (WA Division) Transport Policy 2013

¹² Western Australian Regional Freight Transport Network Plan; Department of Transport; 2013

that considered the short and long term objectives of the rail network.¹³ The report also highlighted the importance of lease arrangements reflecting risks on specific lines becoming uneconomic. The Auditor General observed that an unprofitable grain rail line could become more profitable if a mine opened nearby.¹⁴

Safety

Increased safety risk is cited as one of the exogenous costs of heavy vehicles on wheatbelt roads. Whilst safety is not directly relevant to this inquiry, it is considered important to counter the inaccurate and emotive assertions made at times by groups promoting increased government investment in Tier 3 rail.

It is often claimed that closure of Tier 3 rail will result in an additional 85,000 trucks on the road. Given that approximately 12% of the state harvest is transported by Tier 3 rail even with a bumper crop it is likely there would be an additional 32,000 trucks spread over a 12 month period. In this context the reference to “truck” or “truck movements” refers to the same vehicle on its outward and inward journey.

The impact on the metropolitan area of closing Tier 3 lines is minimal as the majority of grain is transported by road to large regional storage depots that are on viable rail lines where it would be stored until shifted to Forrestfield or Kwinana by rail. Changing dynamics in grain handling may well result in grain being transported along alternative routes.

It should be noted that the size of the grain freight task is unlikely to significantly increase. Unless heavy vehicle access is reduced and smaller combinations are required the number of trucks on the road is unlikely to change in general terms.

According to Office of Road Safety statistics the majority of serious crashes on wheatbelt roads are single vehicles that have either run off the road or collided with an object (not another vehicle) and rolled over.¹⁵

Road trains are the predominant combination used to transport grain in WA. Road trains are a safe combination and transporters make significant investment in additional safety systems. WA has mandatory heavy vehicle accreditation for permitted heavy vehicles. The scheme is managed by Main Roads Western Australia covers Maintenance Management and Fatigue Management and is independently audited.

¹³ Management of the Rail Freight Network Lease:12 Years Down the Track; Western Australian Auditor General 2013

¹⁴ Ibid.

¹⁵ Office of Road Safety; Statistics Wheatbelt South and Wheatbelt-North

Future for Grain Freight in Western Australia

There has been considerable commentary about the decision making leading to the lease of state owned rail to a private rail operator, the management of that lease and whether there should be ongoing government investment in rail lines that have questionable viability. As the Association representing rural road transport companies it is not within our brief to make substantial comments on the lease arrangements except insofar as they may impact on road transport. In addition the policy and strategy applied to decision making on grain freight will inevitably impact our members whose interests have largely been overlooked in the debate.

Given the comments throughout this submission there are several fundamental overarching aspects to sound decision making regarding this issue. These are:

- A traditional financial viability test must be applied to decisions about future investment in rail. Lease arrangements should reflect the risk of specific lines becoming uneconomic in the future;
- Assessing viability should include a comprehensive analysis of fluctuations in activity over a number of years e.g. 10 years. This analysis should review truck usage by CBH, activity by volume and timeframe at each railhead along the rail lines and predications of changes in yield by geographical area. For example figures from radio interviews with CBH personnel suggest there have been large fluctuations in the number of trucks used during harvest from 180 in 2009/10 to 140 in 2012 to 90 in 2013. Activity along Tier 3 lines is variable with one section only being operational for approximately 30 days per year;
- Policy and strategy should concentrate on planning for the future. Decisions need to tap into the market evolution. On-farm storage is increasing. More independent receivers will enter the market. Growers responding directly to overseas markets will result in a less seasonal approach. Production will shift generally closer to ports. Will a rail network be able to respond to these shifts and will the road network be adequate? Lack of investment in road infrastructure will be highly visible and problematic if the areas of production shift to areas that have been ignored in infrastructure expenditure decisions.
- The broader needs of rural communities should be taken into consideration. Focussing on one commodity risks overlooking the economic and social requirements of the wider rural community. Whilst investment in rail is important it should be targeted and should not occur at the expense of road investment which has the potential to benefit a far greater number of people and economic interests;



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