



Submission on

Inquiry into the Australian Grains Network

Submitted to:

Senate Rural and Regional Affairs and Transport Reference Committee
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Background

The Western Australian Farmers Federation (Inc.) (WAFarmers) welcomes the opportunity to comment on the Grain export networks, in particular the:

- a) Principles and practices underpinning an efficient supply chain of grain from farm-gate to port.
- b) Grain marketing and export arrangement and their impact on farm-gate returns.
- c) Competition constraints on grain transport, storage and handling services.
- d) The extent to which transport, storage and handling arrangements are transparent and accountable.

As background, WAFarmers is the state's largest and most influential rural lobby and service organisation. WAFarmers represents more than 4,000 Western Australian farmers from primary industries, the majority of whom are grain growers. Collectively, our members are significant contributors to the \$5.5 billion gross value of production that agriculture, in its various forms, contributes annually to the Western Australian economy.

Additionally, through differing forms of land tenure, our members own, control and capably manage millions of hectares of the State's land mass and are therefore responsible for maintaining the productive capacity and environmental wellbeing of that land. The information is included in order to provide a clear understanding of the numbers and capacity of grain producers represented in the following submission.

The Western Australian grains industry is the State's largest and most valuable agricultural sector contributing exports worth more than \$4.5 billion to the WA economy each year. Such export levels place the WA grains industry among the State's top export earners.

WAFarmers supports promoting a competitive and sustainable industry for Australian grains producers. WAFarmers appreciates the extension that was granted until August 8, 2014. The following points have been derived after discussion with our members.

a) Principles and practices underpinning an efficient supply chain from farm-gate to port

Western Australia exports more than 80% of its grain,¹ making a cost effective and efficient supply chain from farm to port essential for keeping the WA grains industry competitive in the global market. This includes processes making up:

- o Storage
- o Handling
- o Freight
- o Shipping
- o Financing
- o Regulatory requirements and
- o Quality testing

Therefore, it is vital that the supply chain:

- i. **Provides the least cost pathway from farm-gate to port** if growers are to increase their on-farm productivity and take advantage of growing markets such as Asia. The estimated supply chain costs are at 30% of cost production and generally represent the largest cost item for grain producers in a typical year.² In Western Australia, Co-operative Bulk Handling (CBH) offers services to growers at a lower rate than other comparable grain bulk handlers in Australia.² Maintaining competitiveness at the farm-gate and supply chain is critical for meeting customer requirements and securing new markets in the future.³
- ii. **Consists of proficient and cost-effective infrastructure for transport** in order to support movement of large volumes of grain, especially during peak season. Efficiency in the transport and handling sector is essential if Australian growers are to remain competitive internationally.⁴ This includes

¹ Department of Agriculture and Food, Western Australia (DAFWA), 2013, Growth, Profitability, and Sustainability in WA Agriculture Final Report.

² Australian Export Grains Innovation Centre (AEGIC), 2014, An Information Paper.

³ Agriculture in Focus, Australian Grains – Competitive Strain Report, 2013, Rabobank Agriculture in Focus.

⁴ Grains Research and Development Corporation (GRDC), 2005, Grain Market Lingo Report.

minimising transport delays and optimising infrastructure from up-country storage to port.³ Freight rates in Canada and USA are 30-50% lower than Western Australia. In addition, track access fees in WA make up a considerable component of grain producer's freight rates, approximately 45 – 55%, or an average access \$7-8 per tonne. This cost imposed on grower is not sustainable if the longer term aim is to increase efficiency in the supply chain.

WAFarmers has long advocated the benefits of grower owned co-operatives and has strongly supported CBH's role in the WA supply chain and their ability to return value to members by keeping storage, handling and freight charges as low as possible and continuing to invest (in excess of one billion dollars)⁵ in maintenance and upgrades of the storage and handling network.

Over the past 33 years, productivity in the grains industry has largely been driven by technological advances such as larger, more efficient machinery and advances in cropping technology.⁶ Farmers have made significant investments in these technologies; into machinery, vehicles, maintenance, and land and labour in order to improve their productivity, and are entitled a reasonable return on their capital investment to further drive innovation and continue their farming businesses.

The infrastructure restrictions in WA are in the ability to efficiently move grain from upcountry storage to port. It is in the best interest of WA growers, traders and the economy of the state, to move grain to port as soon as possible during the busy harvest periods for reasons stated below:

- Unlike WA, the Eastern state's relies less on the export market, consuming approximately two thirds of its grain domestically,⁷ thus it is essential that WA growers take advantage of upsides in the market i.e. when the market most values the grain.
- Modern machines have provided the capacity to harvest 300-400 tonnes per day and it is in the best interest of WA growers to move their crop from farm-gate to port in order to avoid weather damage,

⁵ CBH, Annual Report, 2013.

⁶ GRDC Annual Report, 2012-13.

⁷ (ABARES, 2011).

fluctuating harvests, market instabilities and seasonal risks, thus rely on effective processes making up the supply chain.

- Growers are aware of the effects of harvest and storage practices on grain quality (moisture, damage and desiccation),⁶ and a number of growers cannot emanate the high quality storage facilities offered by CBH's innovative central storage system. It is therefore important that growers are able to clear up-country grain as soon as possible. If stocks are not cleared before the following season, growers may incur price penalties resulting in economic loss to the community and introducing overall inefficiencies in the supply chain.
- During 2013, the growers of WA invested more than \$100 million to build and develop storage and port capacity.⁸ Other than improvements created by growers and their co-operative, there has been no growth in the below rail (track) network and rail performance is continuing to decline.
- The road network which transports grain has restrictions on vehicle weight and length and WA's rail track network is severely limited by axel limits, heat restrictions and speed restrictions, with insufficient investments in rail line upgrades. The road and rail network linking up country to port needs to expand in order for growers to provide their grain to the market in a timely manner when it is most valued.

b) Grain marketing and export arrangement and their impact on farm-gate returns.

The ability to expand markets and create new and diversified opportunities at the domestic and international levels is fundamental to the economic growth of the state.⁹ Since the WA grains industry is export orientated, it is important that growers are able to transport and export their grain as efficiently as possible (by maximising supply chain performance) in order to take advantage of price signals in the market and optimise farm-gate returns. The ongoing development of an export marketing industry for grains is

⁸ CBH, Annual Report, 2013

⁹ The Department of Agriculture and Food (DAFFWA), 2013, Annual Report.

essential to ensure competitiveness and advance the needs of Australian growers.

Farm-gate prices are determined by world prices, and WA growers take prices according to the global market. Key competitors of Australia in the world market, such as Canada and the US, have significantly invested in market promotion to advance their grains industry. For example in the US, the US Wheat Associates (USW) is vastly dedicated to promoting the use of US wheat internationally. USW achieve this through a number of mechanisms including developing successful relationships with educational partners and sending experts overseas for endorsement of their wheat which has resulted in 'outstanding sales in the year 2014/15 marketing year'.¹⁰ Resultantly, the reputation and selling of US wheat in overseas markets continues to increase.¹⁰

Since deregulation, there has been no unified, coordinated marketing body to promote Australian grain-sales internationally. Under the single desk arrangement, AWB was responsible for the export wheat quality-system, and could set receival standards, control segregations, control shipment, sampling and testing to meet customer requirements.⁴

While grain producers in WA can consistently produce high quality crops and continue to drive innovation in the industry, members of WAFarmers have expressed concerns over their ability to successfully market their grain to its full potential to achieve optimal returns. Additionally, grain producers have given feedback on the lack of market signals on the best varieties to grow in order to achieve price premiums and argued the need for additional resources to analyse and interpret the wide variety of data on wheat quality.

In order to maintain and increase export opportunities into the future and boost farm-gate returns, there needs to be a harmonized, national body to promote Australian grain in overseas markets (such as the USW in the US) and provide market signals back to growers. While there may not be a need for government 'intervention', there is surely a need for government involvement and investment at a national level to support this process.

¹⁰ US Wheat Associates, 2008-2013; uswheat.org

c) Competition constraints on grain transport, storage and handling services.

Domestic transport, storage and handling facilities are major contributors to the overall competitiveness of Australian grain internationally. Western Australia, which relies on the export market, needs to be efficient in its transport, storage and delivery of grain to market in a timely manner in order to maximise value. It is thus essential to have well-organized and coordinated rail infrastructure, as well as continued investments in road and rail systems to support the passage of WA grain to the world market.

With CBH in Western Australia, growers are in a unique position as the primary supply chain is owned and governed by growers. CBH have the lowest handling and storage charge by any grain handler in WA and aim to maintain storage and handling fees at a competitive price in order to return value back to growers. CBH continually invests in infrastructure and in the development of innovative storage and handling facilities including enhancing rail efficiencies for the transport of grain.⁸ Following on, WAFarmers would like to comment on two main issues regarding competition constraints on transport, storage and handling services:

1) Closure of Tier 3 Rails

- The recent closure of Tier 3 rails on June 30 2014 will prevent the safe and efficient transport of WA grain from farm to port. Rail is by far, the best means for transporting grain as it provides greater storage capability and requires less fuel. Transport of grain on rail is important for keeping supply chain costs low for growers, ultimately increasing the competitiveness of Australian grain internationally.
- In 2011-12, deliveries to CBH surpassed 15 million tonnes of grain. By the year 2020, CBH has estimated the need to potentially handle deliveries of 20 million tonne⁸ making investment in rail infrastructure critical for the coordinated movement of large volumes of grain.
- In WA, the Canadian Brookfield Rail (BR) has a monopoly on the provision of below rail freight infrastructure. There has been an

investment by government of \$165 million to increase efficiency of Tier 1 and Tier 2 rail infrastructure however; there have been no upgrades to Tier 3 lines in the past 5 years.

- As a result of Tier 3 closure, CBH has estimated that more than 30,000 truck movements will be added to public roads in the Wheatbelt, Midland and Southern Metropolitan areas which are needed to transport more than half a million tonne of grain remaining from the previous season.¹¹ Extra trucks on the roads significantly compromises safety as roads are too narrow and not designed to accommodate the wide trucks required to transport grain. Trucks will also add to existing traffic and damage roads at a faster rate. Thousands of extra truck movements will require many more drivers compared with rail and growers will incur the additional increases in freight costs, reducing the overall value of their grain and competitiveness on the world-stage.
- Prior to original leasing of the government rail, in 1999 the second reading of the Hon. Minister for Transport stated that leasing of the freight railway was to provide “an efficient, innovative specialist private rail operator committed to the sustainability of rail transport in a competitive market and willing to make the necessary investments to improve rail’s market share.” The speech also highlighted that “the wider community will also benefit from the introduction of such an operator”, “a significant amount of freight traffic has been captured from rail by our highly competitive road industry” and “it is crucial that rail is able to capture as much of this growth as possible to avoid a massive increase in heavy truck traffic”¹² In actuality, closure of Tier 3 rails will result in more road traffic from trucks and the lack of maintenance of these lines is in opposition to the original purpose behind the decision to lease the freight railway.
- Repairs on regional roads are mostly funded by local governments, and although the state government has invested initial money to address the short-comings of Tier 3 closure, more money is required to

¹¹ abc.net.au/news/2014-07-01/trucks-rally-to-reopen-tier-3/5563558;
farmweekly.com.au/news/agriculture/cropping/general-news/shires-fear-tier-3-closures/2701544.aspx;
wa.liberal.org.au/sites/www.wa.liberal.org.au

¹² Legislative Assembly, Second Reading Speech, Rail Freight System Bill, 1999, Hon Minister for Transport.

the meet the demand of moving large volumes of grain while maintaining integrity of the roads. Member feedback gave an example in the shire of Narembeen, where approximately 300,000 tonne of grain will need to be transported to Merredin by truck all on local government funded roads. Additional maintenance costs will be imposed on local shires which will need to increase shire rates to compensate for the extra wear and tear caused by added truck movements, increasing burden on local communities. This situation is not in the best interests of these communities and WA grain growers as it constrains competitiveness by increasing costs and inefficiencies in the supply of WA grain to the world. This is far removed from promises made by the Government when signing the original lease agreement (see clauses 15.1, and 16)¹³.

- Advancing supply chain inefficiencies such as rail infrastructure and transport is essential for the growth of the Australian grains industry and promoting international competitiveness.
- The current model used for Tier 3 lines needs to be revisited to enable a competitive and sustainable grains industry into the future and ensure “third party access to the rail network on fair and reasonable conditions so that, where a market is suitable for competition, competition can occur”, as stated in the 1999 second reading speech.¹² Farmers need the capacity to retain as much return as possible from the end consumer in order to keep their businesses viable.
- Rail is a state asset which has been leased to BR which has a 49 year lease agreement with the government. The lease has certain conditions, one being the obligation for the system to be maintained to initial performance standards subject to negotiations between the lessee and government to achieve that outcome. It is therefore up to the government to enter negotiations to reduce the situation and bring the lines up to Tier 1 and 2 standards.
- The government needs to take control in managing transport infrastructure in order to support WA growers and promote the growth of the WA grains industry. This will ensure value is being returned back

¹³ edgar.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?ID=1261490&SessionID=OA2WHS_o2HBJqs7

to its growers, as well as the WA economy and keep Australia competitive internationally.

2) Port Access Regulation

Since deregulation in 2008, there has been no evidence of market failure in the grains industry, questioning the need for continued regulation at port terminals. Grain growers in Western Australia (WA) are well served by the grower-owned, Co-operative Bulk Handling (CBH) in the storage and handling of their grain. In 2013, 30% of CBH members were WAFarmers members and in total, WAFarmers members contributed approximately a third of the grain delivered to CBH according to a post-harvest survey conducted by the co-operative.

Unlike other port service providers in Australia, CBH is a co-operative owned and controlled by more than 4300 growers in WA.¹⁴ Thus growers expect CBH to operate in the best interests of their farming businesses. CBH offers an open, transparent and cost-competitive supply chain and access to port terminals because it is in the greatest interest of their members to draw as many marketers as possible which buy grain from WA growers and export through their system. Continued regulation, particularly variable regulation across port service providers (for example, new entrants avoiding Tier 1 regulation under the current model), only adds further unnecessary costs in the supply of WA grain to the world and decreases the international competitiveness of the WA grains industry.

d) The extent to which transport, storage and handling arrangements are transparent and accountable

1) Stocks declared

- WAFarmers do not believe that stocks held on-farm should be declared. It follows that if growers are to be transparent, then it is only fair that traders and marketer are also transparent. Marketers and traders are likely to use information on stock held in on-farm storage to their advantage to compete at market value, ultimately offering growers the lowest price for their grain. This is not in the best interest of

¹⁴ www.cbh.com.au/

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WA growers and work against providing motivation to drive further innovation in the grains industry and increase productivity to meet world demand.

- There is currently no literature to support market failure related to the availability of stocks information. If there is no financial incentive for growers through increased stocks information, then there is no need for growers or industry participants paying further for wheat stocks information as it does not add to the competitiveness of WA growers.
- WAFarmers support the comments of the Wheat Industry Advisory Task Force,¹⁵ in particular, how the requirements of some industries to disclose detailed stocks information would “potentially provide an incomplete picture of the actual stocks situation by not capturing those stocks held by other commercial operators and on-farm.” In addition, “based on the volumes of wheat being sold and the lack of evidence to suggest that market share is being lost in premium markets, it is difficult to sustain the argument that there has been deterioration in quality since deregulation”.

2) BR under the WA Access Regime

- The lack of transparency of BR under the WA Rail Access Regime contradicts the principles under which the Regime was established.
- In CBH’s access proposal to BR on 15 January 2014, CBH requested information described in accordance with section 48 of the Railways (Access) Code 2000, however, no valuable information was provided by BR. BR’s lack of transparency in providing relevant information in this submission process, as well as that relating to maintenance of lines in general, is not in the best interests of developing a competitive and sustainable rail freight network.
- Growers paying an access fee to use the rail are entitled to know where and how these track access fees are spent. As stated on the ERA website, the Rail Access Regime “is committed to ensuring Western Australian consumers receive quality services for a

¹⁵ The Wheat Industry Advisory Taskforce, 2013, A preliminary assessment of wheat export quality management practises.

reasonable price and work to “maintain a competitive, efficient and fair commercial environment.”¹⁶

- Growers are paying on average \$43 million every year in access fees while the performance on rail is declining and growers have lost access to important sections of track (Tier 3 rail lines). Transparency regarding how the access fees are spent is necessary, as there seems to be little expenditure in maintaining the rail lines. Ensuring that access fees are used to maintain the line will decrease the need for Government investment on the line into the future.

¹⁶ erawa.com.au