



Submission to:

Review of the Western Australian Access Regime

Draft Decision Paper

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## Introduction

Governments can have great influence on regulatory decisions; these influences can greatly impact consumers and end users, particularly in rural and regional Australia. Western Australian grain growers are impacted by the current rail access regime through government ownership of rail infrastructure. WAFarmers represents approximately one third of CBH members, through their ownership of CBH Group as a grower cooperative, as a result, the organisation is well positioned to represent growers' views on railway access issues.

WAFarmers is concerned with the following recommendations in the Review of the Western Australian Rail Access Regime, Draft Decision Paper:

*Draft recommendation 1A*

*Draft recommendation 1B*

*Draft recommendation 2*

*Draft recommendation 3*

## Comments

***Draft recommendation 1A – Change the asset valuation methodology to a DORC method and align the floor and ceiling cost calculations to a building block methodology with an initial DORC valuation.***

### ***DORC initial asset valuation***

WAFarmers considers that the initial asset valuation methodology must remain consistent with the objectives of the WA Rail Access Regime. The current GRV methodology is clearly deficient and has allowed monopoly rents to be extracted by the railway owner, at the expense of members WA grain growers, our members, and the grains industry.

The asset valuation methodology that is chosen to replace GRV should reflect the varied nature of the WA freight network. A methodology that fails to cater for the age and condition of some rail lines may result in the railway owner continuing to be able to charge monopoly rents if it allows continual asset revaluations (like GRV) and requires a value to be given to fully depreciated rail lines. This is a concern for WAFarmers and our members, particularly for Western Australia's older grain lines which are used to transport the grain of our members and have not been well maintained.

Calculating forecast maintenance, capital expenditure, and RAB roll forward, based on the proposed initial DORC valuation method will be an important part of the new methodology. WAFarmers considers that the proposed process as outlined on pg.17 (Table 3.) demonstrates the potential power that railway owners could have in determining the DORC and roll forward. WAFarmers considers it important that the process is amended so that stakeholders are afforded the opportunity to make submissions early in the process.

**Draft recommendation 1B – Allow the use of the annuity approach to depreciate where it is necessary to manage transitional impacts on existing railway owners, for a limited time.**

WAFarmers is not supportive of transitional arrangements for a change in asset valuation if it is just to protect the “expected revenue” of railway owners (pg. 18). Railway owners have been extracting monopoly rents for years at the expense of WA grain growers, our members, and the industry (which is neither efficient, equitable or fair). If a transitional arrangement is necessary, like the asset valuation methodology, it should take into account the age and condition of the rail lines, and the level of capital investment that has actually been incurred by a railway owner.

**Other recommendations**

The introduction of timeframes is considered a benefit, and will likely improve accountability and efficiencies, and deliver outcomes under the Code.

**Draft recommendation 2 – require railway owners to publish a standing offer to defined rail tasks when required by the ERA.**

WAFarmers supports continued regulatory oversight. Whilst standing offers may propose a similar outcome to an indicative tariff, with minimal regulatory oversight, the proposed recommendation limits the ability for tailored arrangements for individual access seeker preference. This proposed mechanism may result in further negotiations if the desired access differs from the standing offer. As CBH is the sole access seeker for the grain rail network, this proposed recommendation is of concern to WAFarmers as it may lead to further commercial negotiations, delaying the rail access for WA grain growers.

**Draft recommendation 3 – introduce a competitive imputation pricing principle as part of the pricing principles set out in clause 13, Schedule 4 of the Code.**

WAFarmers is concerned with the potential introduction of the competitive imputation pricing principle. Whilst the draft recommendation outlines that this pricing principle may limit the opportunity for either the access seeker or railway owner to value the alternative transport mode in a way that advantages them; it is WAFarmers viewpoint that a rail network, once *fully operational*, offers the least cost supply chain to Western Australian grain growers.

Grain on rail, as seen in other jurisdictions is on average cheaper and more efficient when compared to road transport for bulk commodities when the infrastructure is operational.

Furthermore, rural and regional communities remain in overwhelming support that bulk grain movements remain on (or) have access to a reliable railway network. Rail freight offers a more efficient and viable path for the Western Australian grains industry.

## **Organisational Background**

WAFarmers is the state's largest and most influential rural advocacy and service organisation, boasting a membership of over 3,500 primary production businesses and individual farmers including grain growers, meat and wool producers, horticulturalists, dairy farmers, commercial egg producers and beekeepers. Collectively our members are major contributors to the \$9 billion gross value of agricultural production in Western Australia, which was 15 per cent of the total gross value of agricultural production in Australia (\$61 billion) in 2017.

Additionally, through differing forms of land tenure, our members own, control and sustainably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental wellbeing of that land and its animals. Agriculture is the largest contributor to national GDP growth and is the fastest growing industry, particularly driven by the grains and livestock industries.

WAFarmers is also a proud member of The National Farmers' Federation (NFF), ensuring that the voice of WA farmers is heard at the national level. The NFF is the peak national body representing farmers and, more broadly, agriculture across Australia. It is one of Australia's foremost and respected advocacy organisations, proactively representing farm interests and asserting policy positions to governments and the broader community.

## **Statistics on Western Australian Agriculture**

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

### ***Social***

There are approximately 10,075 farm businesses in Western Australia, which is nearly 9 per cent of all the farm businesses in Australia.

### ***Economic***

The gross value of Western Australian farm production in 2015-16 was \$8.2 billion, which was 15 per cent of the total gross value of agricultural production in Australia (\$ 56 billion).

Western Australian agricultural industries are highly export oriented, accounting for \$7.8 billion in exports in 2014-15, which was 78 per cent of the State's export value. Western Australia contributed to 44 per cent of Australia's overall exports over 2014-15.

### ***Workplace***

The Western Australia agrifood sector employs approximately 173,700 employees, representing 6.6 per cent of the states workforce. Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 28 per cent of the employed workforce is casual.

## ***Environmental***

Western Australian farmers are environmental stewards, owning, managing and caring for 48 per cent of Western Australia's land mass. Australian wide, farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 6.8 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.