STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ONGOING BUDGET ESTIMATES HEARINGS 2010–11 (IN RELATION TO A MATTER ARISING FROM HEARING OF 13 AUGUST 2010)

TRANSCRIPT OF EVIDENCE TAKEN AT PERTH FRIDAY, 22 OCTOBER 2010

Members

Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich

Hearing commenced at 2.15 pm

MEWS, MR MATTHEW

Acting Road and Rail Contracts Manager, CBH Group, sworn and examined:

SCOTT, MR PAUL

Manager, Government Affairs, CBH Group, sworn and examined:

The CHAIR: I would like to welcome you to this afternoon's meeting. Before we commence, I am required to administer either an oath or an affirmation.

[Witnesses took the affirmation.]

The CHAIR: You will have all signed a document entitled "Information for Witnesses". Have you read and understood this document?

The Witnesses: Yes.

The CHAIR: The proceedings this afternoon are being reported by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document that you might refer to during the course of the hearing, and please be aware of the microphones and try to have them pointing directly at you. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that the uncorrected transcript should not be published or disclosed. This prohibition does not, however, prevent you from discussing your public evidence generally once the hearing is finished. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise budget papers on behalf of the people of Western Australia, and we value your assistance in relation to this matter.

I will ask if members have any questions, but before I do that I have been reminded that I should ask you if you would like to make an opening statement. I also want to thank you for the printed copy that you have provided the committee.

Mr Mews: Thank you for that. CBH welcomes the opportunity to appear before the committee and to assist it with its inquiry into the strategic grain network. As members will appreciate, WA grain growers are dependent upon the export market to sell on average up to 90 per cent of the grain grown in WA each year. A world-competitive storage and handling transportation system is vital to ensure that we provide our growers with the least-cost pathway and so that our grains remain competitively priced in world markets that are increasingly opening up to new entrants. CBH is an active participant in the strategic grain review committee and we welcome the government's initiative in reactivating the committee, and endorse recommendations that the committee has made regarding important maintenance and upgrades that are required to improve the grain logistics network. CBH is keen to pursue these to a commercial contract with the four parties. At the introduction of the partially deregulated wheat marketing arrangements in 2008, CBH commenced its Grain Express logistics system, which assumed control of the grain freight task on behalf of WA grain growers. CBH Operations manages this freight pool and subsequent freight tasks to ensure the balance between cost and the requirement to meet shipping demands of the buyers of WA grains. CBH believes grain on rail is a very significant factor in continuing to ensure that WA has a competitive logistics system in the future and we are committed to rail. Our ports are really dependent on rail. We have a competitive need to use rail and we invest heavily in rail, supporting its efficiency through rapid rail-loading facilities and highly efficient port discharge facilities.

Committee members may be aware that CBH, for the first time, recently called for an RFP, both nationally and internationally, for the provision of our above-rail services. We are working with the respondents to that and are confident that a rail service provider will improve service and reduce future costs. The committee has requested some of the details of the temporary assistance package. We seek to clarify for the committee that CBH is not a direct beneficiary of this assistance, but rather that it is an important temporary measure in keeping grain on rail. Certainly, will go into further detail about that during this hearing.

During 2010, 92 per cent of grain moved by Grain Express from rail sites has arrived at our terminals by rail. During the same time, 96 per cent of grain from rail sites in the Kwinana zone has arrived at Kwinana port by rail. The TAP has provided the opportunity for CBH, between 18 January 2010 and 30 September, to choose rail for 669 793 tonnes that would otherwise have been transported by road due to road being cheaper.

The other data that the committee has requested is, where available, contained in the attachments. I will certainly step the committee through them. However, to recap, I will certainly refer to the first two graphs.

We talk about the pressure that WA farmers are under. In the bottom section of that first graph we can see what we call the traditional exporters—Australia, Canada, USA, Argentina and the EU. We can see that the percentage of their exports in the world market has decreased and that the non-traditional exporters percentage has certainly increased or grown.

I just want to look at the second page of that group of graphs. Our data shows that on a five-year average the Australian farmer has the second highest cost of inputs. And the inputs that we are talking about today include other supply chain costs. That is why we feel it is highly important that we maintain a competitive supply chain; to allow our farmers to get their grain to market and remain internationally competitive.

Before I take your questions, I want to reaffirm that CBH strongly supports the strategic grain network committee, the process and its recommendations, and that CBH believes the TAP has been a very effective incentive for keeping grain on rail.

In terms of the committee questions, I might just go through a couple of the higher levels on the other graphs that I will refer to today.

Graph 1: in the blue, is the monthly percentage of grain moved to all of our terminals by rail. By terminals, I mean our five terminals—four of them being export terminals and the fifth being the Metro Grain Centre located in Forrestfield. In the red, is that moved by road to the terminals. I refer to graph 2, on the next page, which shows last year's volume. Members might want to remember that we have only just taken control since the deregulation, and of Grain Express since CBH has taken control of grain movements.

We were asked to refer to all of the ports and I think that those two graphs show some of that detail.

Moving on to graph 3: I certainly feel that this one is far more relevant because it shows the tonnes that have moved out of sites that have rail access. A lot of the time, 64 per cent of grain is moved on rail, but a lot of our sites are located away from rail, particularly in the Esperance zone. Therefore, graph 3 is probably far more relevant to our discussions. It includes sites that have access to rail—including road in to rail bin sites. That graph indicates that this year 92 per cent of the grain has been moved on rail. If you look at graph 4 on the page over, which shows last year's history, you may note that in February, March and April there was a significant drop in proportion, but—

Mr Scott: Which shifted from rail to road.

Mr Mews: In that period, we had a lot of shipping demand and there were a lot of queues in the ports. We invoked surge and used rail at its full capacity, above that, we topped it up. Last year, nearly two million tonnes of grain leaked from the rail system via road to meet the demand by our international customers.

If we refer back to graph 3, this year not only the shipping capacity option system that CBH introduced at all of our ports, but probably also the selling conditions of our grain has allowed us a more normalised shipping period and a flatter task, which has led to 92 per cent of the grain being transported from site to port by rail.

I would just like to remind you that a significant amount goes to port by road—including MGC, which is a domestic marketing facility that specialises in niche markets and small lots. A lot of the time, it is highly inefficient for us to tie up a train for a pastoral load, which is why MGC transports a proportion by road.

Moving on to graph 5 that shows us the Kwinana zone and the Kwinana port zone; for clarity, we have included a map at the back of your packs. The Kwinana port zone is made up of our management areas 3, 4, 5, 6 and 7; those areas for which Kwinana is the natural terminal. Graph 5 represents grain from those sites that has been moved by rail. Today, 21 October, 96 per cent from those sites has moved to Kwinana by rail. In the previous year, even through those periods of leakage through the port, the Kwinana zone still achieved 92 per cent.

I am happy to take some direct questions.

The CHAIR: Okay.

Hon LJILJANNA RAVLICH: At the heart of this is the least-cost pathway that you are aspiring to. In terms of each of these five regions: have you got a road-rail differential costing model for each of the regions?

Mr Mews: Every site that we go to, we select the cheapest or least-cost pathway. I think the sites that have fallen into the temporary assistance package—the TAP—were the sites that we have identified as natural rail sites, but over which road has gained a benefit. Those sites would, under a true least-cost pathway principle, be road sites, but the TAP has allowed us to get the grain onto rail. Everywhere else, by definition, it is by least-cost pathways, and everywhere else, where it is a rail site, it does achieve it.

[2.30 pm]

Hon LJILJANNA RAVLICH: You must have done the analysis in each of these regions about the most efficient way to get your product. I am really asking you: is there a comprehensive database in each region and in each case where the options have been explored to demonstrate that the rail option is the least-cost pathway?

Mr Mews: Yes, we do have that.

Hon LJILJANNA RAVLICH: Would that be commercial-in-confidence or could the committee have access to that documentation?

Mr Scott: We have got some of it here.

Mr Mews: I have certainly got some of it here if there are some specifics needed. If you want to refer to the sheet called the "TAP cost summary"—actually, I have not got it here. I do have another layer of detail that I did not bring, for the members.

Hon LJILJANNA RAVLICH: Okay. If you want to take that on notice, we would be happy for you to provide that to the committee a later date.

[Supplementary Information No A1.]

Mr Mews: Just to couch that information that we provide, there are some areas that have been traditional rail sites for a long time and we have not done a lot of the analysis on the road. So, we will use commercial contracts in terms of pricing that we have used in other areas to replicate what the road rate will be. A lot of our road contracts are based on a net tonne per kilometre pricing in 50-kilometre increments and we will use that data to provide that indication on that.

Hon LJILJANNA RAVLICH: Before we go to Hon Philip Gardiner, can I just ask a quick follow-up question? An important part of the consideration of course, in terms of the least-cost pathway, would be the consideration of the condition of the rail freight itself. I am just wondering: have you done analysis in terms of these five regions and the condition of the railway line?

Mr Mews: No. Currently we have a full-service rail provider and it provides us with usage rates and indicative cycle times out of all our rail sites. That is what we use to develop the freight costs at those sites.

Hon LJILJANNA RAVLICH: Is it fair to say that the conditions are variable across those regions, in terms of the quality or condition of the —

Mr Scott: I think that is adequately detailed in the SGNC report and we have certainly been, as we said earlier, active participants in that. So, I think that the assessment that has been conducted through that process is what we would stand by.

Hon LJILJANNA RAVLICH: Is it possible to get a copy of that report?

Hon LIZ BEHJAT: It is here.

Mr Mews: It is the Department of Transport's report. That is what I would refer to, to answer any of those questions.

Hon LIZ BEHJAT: Just on that least-cost pathway, though, on what you have just spoken about, would your opinion change on that when the use of tier 3 is no longer available? Does that change

Mr Mews: That report looks into tier 3s a lot, the closures of them and all of those costs.

Hon LIZ BEHJAT: So whatever is in that report in relation to tier 3, forgive my ignorance on this issue, that is what CBH thinks as well?

Mr Scott: We are in broad agreement with the SGNC report and recommendations, and in particular where it relates to the packages or the maintenance and upgrade of alternative methods such as road upgrades, and certainly we are consistent with those recommendations. So, the SGNC report, where it talks about tier 3 line closures and things like that—there are obviously alternative arrangements that have been suggested in relation to road freight, things like that, that might necessitate improvements in roads that are detailed within that report, and we are certainly on board with that.

The CHAIR: Hon Liz Behjat, did you have something further there?

Hon LIZ BEHJAT: I am just really trying to get my head around this, but the alternatives and things that you are looking at, they would also encompass—CBH had an international tender call for different rail providers to transport grain in WA. Is that part of that different way of looking at things? You would go internationally to look for —

Mr Scott: No, we are in fact looking at the above-rail operations. We take a total rail package at the moment, but we will consider our tender results. We are currently considering them.

Hon LIZ BEHJAT: That process is still ongoing?

Mr Scott: Yeah, it is still ongoing.

Hon PHILIP GARDINER: Just to clarify some things for a start, in relation to your graphs: if we take your graph 5, which is just the Grain Express movements to Kwinana port from rail sites only,

have you done that calculation of what leakage there is of delivery to the rail site as opposed to direct cartage to metro or Kwinana by road?

Mr Mews: Certainly not from that perspective because there are a lot of complicating factors on that. Growers will deliver directly to the port if they have got time, in the paddock if they have got availability of transport. Delivery patterns from individual growers, when we have mapped them, over the years they change a lot. It depends on how big the harvest is; there are a lot of variable factors other than the freight, and I can only surmise what a grower does from my dealings with growers, they will look at, from their farm gate, how much of the transportation they want to take on at harvest due to their task and also if they are chasing a niche segregation or a particular segregation of grain. So, from that perspective we have not done analysis work on how far a grower will go to make a delivery.

Hon PHILIP GARDINER: But it is quite material, is it not? I know, for example, with one particular thing, CBH's understanding of the leakage, which was not known and it was actually an estimate supplied by the trucking companies, which then CBH went back and did the analysis on and found out that they were so far out, helped convince them to bring forward the significant investment they made into that bin. The one I refer to is Moora. It is so easy to do, because you know where grain is coming from, because if you grow it, you know your grower details. I am just interested to know what—although there is 96 per cent coming out of the rail site, which is a big number—the aggregate number was that was being moved by rail out of those sites to which you refer in this graph. Is that a number that is possible to supply subsequently?

Mr Mews: In graph 5, it does show how many tonnes. Last year Kwinana had no deliveries direct from growers.

Hon PHILIP GARDINER: But metro —

Mr Mews: Metro grain centre did. But metro grain centre we consider to be a receival point from that perspective. Growers make the decision, and last year at metro grain centre, growers made decisions to go to metro grain centre, not because they were chasing freight or whatever, but more because they had other issues like their transport has a back-load of fertiliser from CSBP. So, other logistical decisions drive them to metro grain centre, or they want to take up the grower cleaning options that we offer at that facility. To go back to the Moora development, certainly Moora growers were bypassing Moora because the site was at maximum capacity. We should transport more than double the amount of tonnes received at Moora out during harvest, to keep the place for deliveries. The old site up at Moora, the old A-type of stuff—we have got growers who are getting 50 tonnes an hour out of that paddock and the elevator up there takes 200 tonnes an hour in total. The first four growers in that hour would max the site out.

Hon PHILIP GARDINER: That is exactly right. I was trying to get whether there are sites along, for example, the south Kwinana area or, I beg your pardon, sites that relate to this particular graph, which may also mean that there is a big leakage as a result of those kinds of things that you described for Moora.

Mr Mews: Before we upgraded Moora, the large transporter that is based in Moora, along with a couple of the others, were carting grain to metro grain centre, a lot of the grain then did go on rail into Kwinana.

Hon PHILIP GARDINER: I understand the picture; I am in total agreement with your description. All I am trying to get is a quantification of whether CBH's infrastructure, if you like, along the rails sites in that tier 3 area and that eastern Kwinana zone area is at a stage that is efficient enough to attract delivery and quick unloading at those sites. How many may not be? What is the quantity that has leaked out, then, to go elsewhere to Avon, maybe, or to metro?

Mr Mews: Certainly Avon does attract growers as well because it has a lot of facilities and has the segregations. Not all our country sites offer the full suite of segregations, because they do not have

the facilities. Certainly within Grain Express and our management of the freight pool, it is about putting the sharpest price we can on every one of our sites so that growers, in the heat of harvest, do not have to engage additional transport and cart it further than they have to.

Hon PHILIP GARDINER: The reasons for asking are is for a package of things. If your infrastructure on the rail sites is not good enough, it is an incentive, as in the Moora case, to go straight to a place where it is quick and they can get back in time, so they are not being held up in the paddock. That is what I was just questioning. The 96 per cent is a good number, in my view, about going on rail, but it does not capture what may not be at the sites. Is there any possibility of giving us any information on that?

Mr Mews: It is tough, but you know, I think Moora, particularly out of the example around the metropolitan area—if you want to refer to your site map as well, again, just for convenience; on all of the roads into Perth, CBH over the last ten years have really built up a capacity. Regans Ford, at the transfer station there, we would put grain that still sits on road, but we have put grain into a more efficient mode of carting. Around in Moora, obviously significant capital investment—

Hon PHILIP GARDINER: I am not really focusing on Moora here.

Mr Mews: No, no, as we keep going around, how do we stop grain going any further than it has to? Calingiri, we have done significant improvements there, around to Avon we have put in stoppers this is without the on-average \$50 million we spend a year there investing in our country network. These sites have received particular attention. Significant improvements at Avon, making sure that we stop those sites. Down at York, anyone who has been there in the last year will recognise that we have built probably one of the largest horizontal sheds that we have put into the country network in a long time, and new rapid rail facilities. Brookton has well and truly been looked after with a lot of capital investment over the years. Down on Albany Highway, Narrakine has been developed to stop grain coming in, particularly during the harvest period, from growers and their transporters, putting pressure on metro grain centre and Kwinana grain terminal. To the point that while this year is quite a low harvest we are expecting, the last time we had a poor year, metro grain centre received about 350 000 tonnes. Last year it was just beyond 100 000 tonnes. This year we have got estimates of less than 70 000 for metro grain centre. That does show that our country network, focusing on efficient sites and getting grain on the rail in the up-country network is working, because the growers are not nominating to come down into those areas. While Moora was not upgraded, growers had no other choice, but we have fixed that.

[2.45 pm]

Hon PHILIP GARDINER: Okay. I am not sure how I can go any further on that. I mean, you know what I am really after and I am getting that you do not have that information easily at hand for the south Kwinana zone.

Mr Mews: No. It is quite tough and that is why we have been putting strategies into building the Yorks and the Brooktons to certainly make them quite attractive as well. This year CBH will offer 75 different grades of grain in our receival network and certainly some of the smaller sites can only handle two or three grades.

Hon PHILIP GARDINER: One of the reasons for asking that question, Matthew, is that there are numbers floating around about how much comes out of the south Kwinana zone.

Mr Mews: Into?

Hon PHILIP GARDINER: Just how much comes out, I presume into port. What mystifies me is—well, not mystifies; I am intrigued about how accurate that number is, because if the stuff you are not capturing is what is carried by road down to the port, and it seems in your internal systems you are not capturing from where that comes. That is the reason I want to know whether that quantity up there is 1.5 million tonnes, 1.2 million tonnes or 2.5 million tonnes, because you are only capturing, I think, what comes by rail.

Mr Mews: No, I am —

Hon PHILIP GARDINER: Sorry, what goes in the sites there. What you are not capturing is what could go into the sites there if the sites were good enough, and therefore it might go on rail. That is the point I am trying to get to.

Mr Mews: If we refer this sheet that I have here, "Grower Receivals by Port Zone by Site Type", it gives us a breakdown of what is being delivered by our growers in the Kwinana zone.

Hon PHILIP GARDINER: Can I just interrupt you there then? That is 5.606 million; is that the number you are looking at? Grower received port zone Kwinana zone?

Mr Mews: So in the upper section is the 2009 harvest and the subsequent table below that.

Hon PHILIP GARDINER: Okay, got you. Is 5.010 the number?

Mr Mews: Yes.

Hon PHILIP GARDINER: Can I ask you the same question that I asked you earlier? Is that capturing the grain by each of those zones by where it is —

Mr Mews: Grown.

Hon PHILIP GARDINER: Grown?

Mr Mews: No, it is not.

Hon PHILIP GARDINER: How is it being captured?

Mr Mews: It is capturing from when it arrives at one of our sites. Under that category it shows the tonnes.

Hon PHILIP GARDINER: How do you know then from Kwinana, how does it pick up what is delivered to metro out of the south Kwinana or out of the Kwinana zone?

Mr Mews: From the southern Kwinana area?

Hon PHILIP GARDINER: No, just from Kwinana in total. I just want to get the concept of what you are capturing. I think you said you are getting it by what is delivered into the zone, but the stuff that leaks out to metro from the Kwinana zone, do you know how much of that comes from the Kwinana zone? Because metro is not just from the Kwinana zone, is it? Or have you analysed it that it is?

Mr Mews: Its tonnage from other zones would be —

Hon PHILIP GARDINER: Miniscule?

Mr Mews: I would have to take a guess. It would be less than 15 000 tonnes.

Hon PHILIP GARDINER: Okay. So really, it would be analysing what gets to metro and working out how much of that comes from the southern Kwinana area or the northern Kwinana area to get an idea of what should be going on those tier 3 lines?

Mr Mews: Yes, although a lot of our data from our growers—we have got a lot of growers now who have a Perth address and their delivery titles represent that.

Hon PHILIP GARDINER: So it is not going to be perfect but at least it is going to be better than what we have got?

Mr Mews: It is going to be possibly quite inaccurate.

Hon PHILIP GARDINER: But it is going to be better than what we have got?

Mr Mews: It is going to show a Perth address for a lot of tonnes.

Hon PHILIP GARDINER: Maybe, but it will help fill out the numbers a bit, anyway. We can always put the Perth address in one spot, but I suspect it is going to give us—what I am getting to is

what the potential is to go on to the tier 3 lines, and we have not got that number of tonnes. Numbers are flying around in the strategic grain committee report saying how much comes from there, but it could well be a materially different number in reality.

Mr Scott: I think we have to take that on notice.

Mr Mews: Yes, we will have to.

[Supplementary Information No A2.]

Hon PHILIP GARDINER: Fair enough. I appreciate that. I can see the difficulty with Perth addresses and so on, but what is worrying me, as you can see, is that we are making decisions on numbers in a report which may not actually be telling what the right story is, what the truth is. Nobody is lying —

Mr Scott: I think it would be at the margins.

Mr Mews: But we have got is something that has got strong factual support, and that is tonnes where our growers deliver it and then we take it and cart it forward.

Hon PHILIP GARDINER: Excepting if you have a whole lot of Mooras, as of five years ago, along this same route.

Mr Mews: But what we have also done is within those areas—Moora was certainly a bit of an anomaly because they had no other place further to come past there, that whole northern area; but elsewhere and now Moora is fixed, all of those artilleries into Perth from all those areas, we have got strategic sites, huge investments and giving them great opportunity to enjoy great freight but also great service.

Hon PHILIP GARDINER: I know. My point is understood, I think. Sorry to take so much time. I can see it is almost 10 to three now and we have barely started on this.

The CHAIR: That is all right.

Hon KEN TRAVERS: Look, I might just try and finish off so I understand the points that were just being made. In terms of "Grower Receivals by Port Zone by Site Type", am I correct that the figure for Kwinana there—those are the figures where it has been received at one of your terminals and then those are the figures of how you have transhipped it down to the Kwinana terminal or the metropolitan grain terminal?

Mr Mews: No. This table here is about grower receivals and that is what growers have decided to deliver to the site. We have classified the site. This sheet here does not talk about movements. It talks about where the grain first came to CBH. So our sites are categorised by the Merredin terminal itself, the narrow-gauge sites, the standard-gauge sites, the road sites and then the blank at the terminal—there was no tonnes delivered by growers.

Hon KEN TRAVERS: That is how much you have received at those sites?

Mr Mews: That is right. That is grower deliveries for those —

Hon KEN TRAVERS: At those various sites across that Kwinana south zone?

Mr Mews: That is right, because we had previously been requested this by the Department of Transport.

Hon KEN TRAVERS: I guess this may be the question that Phil Gardiner was asking you: where are the figures that then show how that is then transhipped to port from those sites?

Mr Mews: At a higher level, the graphs I took you through before shows where CBH has made the moves. There is another —

Hon KEN TRAVERS: Are those graphs based on the final delivery to Kwinana, but there may be another trucking movement before that final delivery to Kwinana?

Mr Mews: Definitely, and we have the detail in this next sheet. Just so we all end up on the same page for terminology, "receivals" and "deliveries" is the process made by the grower and then an "in-loading" or a "movement" is when CBH has moved it. I think that is an important thing, because at different times our numbers do get confused in different areas—clear demarcation for how we deal with results. Deliveries and receivals is the transaction the grower is doing themselves or their nominated transporter. Then the movements, the in-loading and the out-loading is when CBH is controlling it.

Hon KEN TRAVERS: Right.

Hon LIZ BEHJAT: How many sites in the Kwinana zone are fast loading?

Mr Mews: Rapid rail? It depends where the threshold is on the fast loading. A lot of our sites are quite different. If the benchmarks—we have got sites where we have not got fixed infrastructure, but we still load trains at 750 tonnes an hour. We have got sites with above-rail garner bins that are loading at 500 tonnes an hour, so there is not a clear definition on that.

Hon LIZ BEHJAT: Would you be able to provide us with more detailed information if you took that on notice?

Mr Mews: Yes, we could.

Hon GIZ WATSON: Supplementary information A2. I think I missed a number—there was some other additional information there.

Hon PHILIP GARDINER: Mr Scott said there was additional information that he would be able to put—I think he was trying to fill in a little bit of a gap, I think, on the question I was asking —

Mr Mews: From where it is grown to where it is delivered.

Hon GIZ WATSON: That will be A2 and this is will be A3. Thanks.

[Supplementary Information No A3.]

Hon KEN TRAVERS: If we then go to the next, which is the moves from TAP sites, that is showing that somewhere in the order of 80 per cent of the grain once it is received at a site within the Kwinana south zone is then transferred by rail to port.

Mr Mews: That is right. So 81.4 per cent of that grain from those sites has arrived at the port by rail.

Hon PHILIP GARDINER: Where is 81.4 on the page, sorry?

Mr Mews: Just on this.

Hon PHILIP GARDINER: On that one there?

Mr Mews: On this table here that we had talked to, "2009–2010 Moves from TAP sites".

Hon PHILIP GARDINER: Got it, thank you.

Hon KEN TRAVERS: If we now go to the TAP cost summary sheet that you provided, I am assuming that if we take the total dollars paid and divide it by the total number of tonnes delivered, that will provide us with the cost differential between road and rail at each of those sites?

Mr Mews: Yes.

Hon KEN TRAVERS: Which would suggest to me that that ranges somewhere between as low as sort of \$2 per tonne up to about \$12 per tonne.

Mr Mews: I have got a bit more detail on it that the Department of Transport gets monthly because each month the freight prices do change.

Hon KEN TRAVERS: Right.

Mr Mews: Just for example—I am just having a quick look—we actually have a TAP site, Kulin, where rail is cheaper than road. So there is no TAP provided to that site.

Hon KEN TRAVERS: Which one was that? Kulin?

Mr Mews: Kulin. Down at Kulin we show rail direct to port for the month of September is \$26.9914 per tonne and our road direct comparison is \$27.9642. So there is a benefit to the growers —

Hon KEN TRAVERS: Which then becomes very interesting, because if that was the case, Kondinin, which I think is one of the ones that gets up around the \$12 per tonne differential —

Mr Mews: Just for September the differential was \$11.7416.

Hon KEN TRAVERS: Close enough to \$12. We will not quibble over the cents at this point, although I am sure your growers would when you start adding up the tonnes!

Mr Mews: I do have higher than that as well; Bullaring does show it at \$14.33.

Hon KEN TRAVERS: But the interesting thing about that, the Kulin–Kondinin line is actually one of the sections that is not in use. That would suggest to me that if it was actually open, the differential at Kondinin would significantly drop, which leads me to one of the questions that I want to try to understand, which is that obviously those lines that sit in the north that need to go to the east–west line and then are transhipped in, what is the cost in terms of that total package of that transhipment? What does that add to the cost of transporting grain to the port, the fact that you have to tranship it? As I understand it, you have on the narrow gauge you have got to take it Merredin, unload the train, put it on to a standard-gauge train and take it into the port.

Mr Mews: What it comes down to is the cost is the labour, the quality, the maintenance, the energy, and also that we need two trains to move, really, one trainload's worth of grain, which is the significant part of it.

Hon KEN TRAVERS: Which amasses extra capital costs just because you will have the two sets of rolling stock.

Mr Mews: Definitely. Then particularly on those lines with a lighter axle loading, all the steel that makes up the train, at the moment our rail service provider pays a gross tonne per kilometre to the track access provider. Because the lines are low rated—16 tonne axle loads—the weight of the loco and wagons versus the payload on that, the payload is a smaller proportion and far less efficient—the running times on that and obviously the types of locos. And then that grain then has to be all unloaded, which obviously takes a fair bit of time, reloaded on to another train, and then comes down through an efficient standing guage.

[3.00 pm]

Hon KEN TRAVERS: I understand that is the complexity. You said you stood by the strategic grain network review. Do you believe that the strategic grain network review actually went into and accurately calculated, if you had an upgraded system so that you actually removed some of those issues that you have just talked about, what the actual cost comparison between road and rail would then be or was it done on existing systems, maintaining them at existing standards and operating on those existing standards and existing infrastructure?

Mr Mews: I am not aware of the detail that they have gone into with WestNet Rail et cetera. They have spent a considerable amount of time understanding our costs, but obviously we have provided to the Department of Transport and their consultants that have worked with them on that report on a commercial basis, so we have not seen all the inputs and the work that they have done to come up with the other aspects.

Hon KEN TRAVERS: No, and one of my concerns is that I suspect that what has happened is that all of the modelling has been done on business-as-usual. I might be wrong about that, but that is my

reading of it. I guess what you are saying is that you are not aware of whether they have done any more work.

Mr Mews: I do not know how many different scenarios they looked at.

Hon KEN TRAVERS: For instance, as I understand it, you charge a tonnage rate to unload trains. Is that correct? It would have to be yourselves that charge a per tonne rate when you unload a train. Say, one that is coming off that north eastern – Kwinana south zone into Merredin, do you charge a fee for unloading the train?

Mr Mews: There is a long-standing agreement that was struck between the CBH and the government railways, as it was, about how to manage the cost of the gauge transfer.

Hon KEN TRAVERS: What is the cost of unloading a train at Merredin per tonne?

Mr Mews: I think it is an all-up transfer fee of around \$3.50 a tonne, but I would need to confirm that.

The CHAIR: Would you prefer to take that on notice so that you can confirm that?

Mr Scott: I think we had better confirm that.

[Supplementary Information No A4.]

Hon KEN TRAVERS: What is the cost of unloading a truck if it comes into the Merredin terminal?

Mr Mews: Each site is different. Off the top of my head, Merredin, I am not sure if we had done detailed analysis on that. We have done considerable analysis on that at Brookton, as part of that SGNC. There are really two costs as well: what are we going to do with that grain if it is going straight into a train via single-pass handling equipment. Working from my memory, my recent experience of this, the transfer of one tonne of grain through a terminal like MGC, which in recent times I have been looking after, we have got about \$1.30 a tonne just in maintenance, so somewhere between maybe \$2 and \$3.50, because it is the unloading as well as the reloading, managing the quality and all the systems for it, and there is shrinkage attached to that grain.

Hon KEN TRAVERS: I guess that is the question. Whether it is out at Merredin or at Brookton, there is an additional cost that will be incurred, which again, it may be embedded in the figures in the strategic grain network review, but I cannot actually find it transparently drawn out in comparing rail to road. Obviously we have a very clear example of what happens with transfer prices at Merredin, because the rail has to transfer; at Brookton or any on the southern line, they will go straight through to the Kwinana port on the narrow gauge.

Mr Mews: Yes, but some of those costs are neutralised, because even at a lot of our rail sites, we will take it from a bulkhead, place it into a silo truck, so we have got the loading of a truck onsite and then we unload that truck at the railhead within the same site, because a lot of our storages will have one shed that loads the train.

Hon KEN TRAVERS: So does that become an issue about the efficiency of your sites rather than efficiency of the rail network? What I am saying is that it is about the efficiency of your sites as opposed to the efficiency of the rail network.

Mr Mews: What we are saying is that that efficiency is neutral, so we are not then adding the next cost on.

Hon KEN TRAVERS: That if there was an efficiency applied to upgrade your rail networks, so you actually have the capacity actual rail sites, that may actually remove that neutralisation.

Mr Mews: It probably raises a good point, because a lot of the time when we compare rail, without a doubt rail for CBH is dearer for us in handling costs and in labour. To get the high utilisation out of rail, we operate a seven-day week, eccentric time loading, and we engage in 40 per cent of our

work associated with rail in the non-core hours or the overtime period for our staff. Road we operate in daylight hours. So from a grower's perspective, because we are a co-op, we understand that rail delivers volume efficiencies at the port. So those costs are certainly spread from that perspective.

Hon KEN TRAVERS: If you go to Brookton, how do you do it; do you currently have that truck transhipment process to load a train at Brookton, or do you have a direct loading?

Mr Mews: Brockton, just in the last two years, and there are probably five maybe six of our primary sites that we have interconnected, so we have built conveying systems from all of our bulkheads, all of our storages come up to our fast rail facilities at Brookton. So the likes of Newdegate and Cranbrook just add it. That is where we have invested heavily in our primary sites. This year our primary sites, where we know we have got the most use for it, no matter what size the crop, we are going to get high utilisation out of those sites. These sites have got the ability and we have invested the money in getting grain to rail very cheaply.

Hon KEN TRAVERS: Going back to your cost summary sheet, even with all that investment, it still would appear that it is around \$1 or \$1.50—you might have more accurate figures of what it is in September, but it looks to me that based on this it would be around \$1 or \$1.50 differential between road and rail at the Brookton site at the moment without adding in the costs of if you were to bring in grain by road to Brookton, tranship it to Brookton, before you actually on-cart it by rail to the port—just the stuff that is coming in as it currently does to Brookton directly. I assume that is mainly stuff that has come directly into Brookton that is showing up in these figures at the moment. It is showing that it is somewhere around the \$1.40 mark —

Mr Mews: In Brookton?
Hon KEN TRAVERS: Yes.

Mr Mews: I am just not sure where your \$1.50 is.

Hon KEN TRAVERS: I said between \$1 and \$1.50 just to give a range rather than a specific.

Mr Mews: Is that the difference between road and rail freight?

Hon KEN TRAVERS: Yes, per tonne.

Mr Mews: It is \$1.37; yes, sorry.

Hon KEN TRAVERS: You put 175 tonnes through Brookton and you got a tap payment of 124, so \$1.41 over the whole year average. So Brookton is going to be operating, and there still will be a differential between road and rail if you were to try to move all the grain to Brookton and then tranship it through Brookton by rail up to the port. If grain that is coming directly by road to the Brookton terminal, without actually having been delivered anywhere else, is a differential between road and rail of \$1.40 in favour of road —

Mr Mews: In the SGNC, part of our question is that it did not quite add up from that perspective, and \$1.40 is quite close. That is certainly what has been talked about in terms of a level of support. The latest bit from that, as we have been reconfirming those numbers, as part of the reaction of that committee, it is about saying that if that is the site of the railway line, and the below-rail and aboverail operator will gain efficiencies, because they are talking of the larger tonnes, maybe the 600 000 tonnes into Brookton strategy, and they will gain pooling efficiencies and rail efficiencies to reduce the amount of support required. So that is where the SGNC is at the moment with the Brookton strategy and they are confirming that to us at the moment.

Hon KEN TRAVERS: But likewise, for instance, Quairading is around the \$2 difference between—if you brought a whole lot of grain into bin at Quairading and maintained the Quairading to York line, would you not be able to also achieve those same efficiencies through increased tonnage?

Mr Mews: I am not sure on the where WestNet is in terms of their closure on those tier 3s.

Hon KEN TRAVERS: It is really not a question for WestNet; it is more a question for the government. Where the question of the closure of those lines is I guess is the broader question.

Mr Mews: But certainly where the tier 3 is closely aligned to the roads and direct deliveries, we are happy to work with that if there is new information.

Mr Scott: There might be learnings from our tender process that might be applied to some of those sorts of things as we go forward.

Hon KEN TRAVERS: I guess the point I make is that I am not sure whether anyone has really stripped down to the level of detail that is required to do the real assessment. It has been done at a high level, a generic assessment, on a business-as-usual case. I guess one of the questions that I have, which is always a question that is asked, is that even if the tier 3 lines were reinvested, there is no commitment that CBH would use those tier 3 lines. Now, I would have thought that the real question is: what do we need to do to make those tier 3 lines efficient enough that you will use them? I do not know whether anyone has done or asked you that question or whether you are able to provide the answer to that question of what is the work that is required to be done to make those tier 3 lines efficient enough that you would use them. I accept that that may be at your terminals, on the rail system and it may even include the reopening of the Kulin to Kondinin section of the line to allow that to be direct and to remove the transhipment through Merredin. Has anyone asked you that question and have you provided any information to anyone that would actually support what it is that would be required to make the tier 3 lines efficient?

Mr Scott: I think there has been quite a deal of debate within the SGNR process, and certainly we have expressed a viewpoint all through that process in relation to the efficiency of the rail network, so I think we have had the opportunity of putting our viewpoint in that regard. I think the outcome is the outcome where it sits at the moment. As we said earlier, we cannot explain what questions have been put to WestNet.

Hon KEN TRAVERS: I understand that and I understand that you cannot foretell what the government will or not do. What I am asking is whether or not you have been asked those questions and had that information sought from you as to what, in your view, is required to make the tier 3 lines sufficiently efficient that you would use them over road.

Mr Mews: We are an acquirer of wholesale freight and retail it out to our sites. This request-for-proposal process that CBH has been going under this year has been a steep learning curve for us. That process has not concluded yet. But what it does mean is that—we are not rail engineers—the simple fact is that if there is a competitive freight at that site, we are going to use. It if it delivers in terms of tonnes support and an efficient and valued service for our growers, we are going to use it. We are going to pick the best mode of them every day. WestNet and ARG—our interest has been tested with them, and they are the experts, and we have relied on them in that process.

Hon KEN TRAVERS: I understand that there is an element that they would need to have been asked the same questions, but I think, as we discussed earlier, part of that efficiency is within your own operations. Whether or not there is transhipment by truck already occurring within the bins, and so whether or not there has been any assessment done of what that would entail in terms of the work that would need to be done at your bins to make them efficient enough, alongside the rail side of it, to compete with road. I guess is the question is, has that question been asked?

[3:15 pm]

Mr Mews: Definitely, and from that perspective, we get the same benefits, if not more, by loading trucks as fast as rail. We have the same drivers on minimising the freight spend and maximising outside efficiencies by loading grain fast, and the modes for us, other than areas where there is no railway line, we are stuck with rail; everywhere else, we use road wherever we can. I just remind members that we take a fixed position on rail every year, and we drive the freight rates down for our

growers by getting the maximum utilisation out of that rail, so today, this week, if we put all our road transporters in the shed, there is a minuscule amount of risk that CBH takes. If we park all the trains up, we are spending money on those trains regardless, so there is a strong driver, not just through performance, but also for pricing and commitment, and I need to use rail wherever I can.

Hon KEN TRAVERS: I understand that where you can use rail, you have, and I also understand the commercial realities of it being competitive with road. It is interesting what you have just said, because the Brookton strategy is predicated on capturing the grain as it leaves the Kwinana south zone onto either the east-west line or the Avon to Albany line. From what you have just said, if the Brookton strategy was implemented, it would still be cheaper at some of your terminals to take it directly by road rather than to ship it through one of the sites along those lines; you could take it by road with or without the Brookton strategy being implemented. Even if the Brookton strategy is implemented and it is commercially advantageous for you to do so, there will be pressure on you to bypass that and put the freight onto road.

Mr Mews: If we go back to our original points on leakage, last year, when we had a million and a half tonnes of shipping demand, the rail resource could probably only do 900 000 tonnes to port in a month. When we come under those pressures, where we are above the rail task, then no matter how good rail is, we need to keep finding it, otherwise our growers are going to lose sales.

Hon PHILIP GARDINER: But those were conditions where all the storms kind of converged at once. I hope you are not thinking that 2009 was the norm.

Mr Mews: Definitely not.

Hon PHILIP GARDINER: It was an exception, so to make judgments about 2009, I am not sure is a wise area.

Mr Mews: No, but in saying that, this year we have selected a rail resource that fits the task from our crop estimates. We may get a period of a week or two where we are above the rail task and we have to road out of sites. Probably the volumes that we talked about previously, again, it is certainly the norm, but from day to day, to times, factors other than saying that rail is our first option, we have to go and choose a third or fourth option to meet the demands of our customers.

Hon KEN TRAVERS: Equally, in a record harvest, for the strategic grain network I think it hit 14.7 million tonnes, and I think that there is a view that, with some of the technology changes, if we got a perfect year—hopefully, for the farmers, at some point in the not-too-distant future we will get that perfect year, and everyone else has a bad year so the prices stay high on the world market—we would actually need an efficient grain system to move the task, because we would not physically be able to move it on the road, as a converse to what you said.

Mr Mews: Definitely. Even this year, early on in the year, there was some tonnages where we had nearly half of the tonnes out of a single TAP site went by road. We were asked the question on our commitment, but some of those tonnes were actually going by road to a more efficient standard gauge line, where we can get more tonnes, so we are always looking, every day, depending on our task, our stem and how we meet the quality, on how we can best get our tonnes to port.

Mr Scott: Just to add to that, our above-rail tender that we are in the process of considering, that all goes to what the future is about, too, if we are considering those sorts of things.

Hon KEN TRAVERS: I guess the issue I was trying to confirm was that you actually need an efficient rail system to meet the bumper harvests.

Mr Mews: Absolutely.

Hon KEN TRAVERS: The second issue out of that is that those who argue that you will not use the rail, even if it is upgraded, the same argument could be put that you will not follow the Brookton strategy if it is cheaper to do something other than the Brookton strategy.

Mr Mews: Yes, but it is not always just the headline price as well.

Hon KEN TRAVERS: It is about capacity and volumes at various times, and I understand that. In fact, just on the issue of capacity—you may not be able to answer this; it may be something that we have to talk to about with the Australian Agribusiness Group and WestNet Rail—one of the things that has been put to me is that the capacity of the system, in terms of the tonnages that it could move, used to be significantly higher than what is now seen as the tonnages and capacity of the system. Is that a correct statement? If that is not within your knowledge, that is fine. Is that a correct statement, and if so, do we know why the rail system does not have the same capacity that it once did within that area?

Mr Mews: The specifics are definitely hard for us to put our hand on. We have invested significantly over the past 10 years in being able to turn trains around faster, load them a lot faster, and unload them faster at our endpoints. That said, we have seen fewer tonnes to port out of train sets.

Mr Scott: There are also different marketing arrangements now, so the grain moves differently than it previously did, and I think that it a significant point in the sense that there was one marketer of wheat previously, and now there are, I think, 27, last year, that choose to market their wheat to a different timetable than was previously the case, so the grain needs to move differently than it once did.

Hon KEN TRAVERS: So you are suggesting that it is the requirement to move it at peaks that removes the capacity of the amount that can be moved by rail?

Mr Mews: It certainly has an effect on it, because we need to balance the task a lot more from what sites we go to and what sites we use.

Hon KEN TRAVERS: One of the questions that I do not think is in the strategic grain network would be to go back and look at upgrading all the facilities on the tier 3 lines, and instead of having one in four steel sleepers, went to two in four steel sleepers; that would increase your capacity and increase your volume so you could actually move more efficient trains when you require it and get that load out when you require it. That may have a higher upfront capital cost, but it may actually lead to a more efficient system at every level, in both cost and the ability to meet the demands of the growers, even under the Grain Express process.

Mr Scott: I think we are just very pleased that both the Western Australian government and the federal government have indicated that they are prepared to put a financial package together to upgrade the system, and we would like to see them get on with that, sooner rather than later.

Hon KEN TRAVERS: Yes. I cannot disagree with you there.

Hon PHILIP GARDINER: Just going back to the 81.4 per cent of movements which left the TAP sites by rail. Hon Ken Travers referred to the \$3.50 per tonne transfer costs of rail to rail.

Mr Mews: At Merredin?

Hon PHILIP GARDINER: At Merredin. Is that the only place that it takes place?

Mr Mews: Yes.

Hon PHILIP GARDINER: Okay. Is the \$3.50 a kind of a fee or does it reflect a true cost?

Mr Scott: I think we indicated that it is historic. We would need to verify the accuracy. That is Matthew's best estimate at this stage.

Hon KEN TRAVERS: The figure that was given to me was \$3.50.

Mr Mews: We took that question on notice earlier.

Hon PHILIP GARDINER: I guess the real point is, in relation to what that fee covers, what the true cost is. I do not think that was on the original request, what that fee is meant to be there for. I

guess I was going to ask if that fee was removed—this is a judgement, I know—would the 81.4 per cent have risen?

Mr Scott: Removed by whom? Us?

Hon PHILIP GARDINER: You.

Mr Mews: No, the tonnages would not have changed because that is part of the costs already included in the costs anyway, so it would not have made a material change to the costs given to the grower at that site.

Hon PHILIP GARDINER: Okay; the TAP already takes account of that. Fair enough.

Mr Mews: That is paid by the railway provider.

Hon PHILIP GARDINER: Okay. When you started off, in your opening statement I think it was, or after the opening statement, you referred to the strategic grain network report that you abide by, or which is where you are at. I find that report flawed and just want to ask you a question: it talks about rail being uncompetitive, throughout the whole report. Do you think that is the case? I have a follow-up question based on what your answer is, but do you think the rail is uncompetitive? Is that the reason we have a problem—because rail is uncompetitive?

Mr Mews: I think at those sites, our costs of freighting grain to the port reflect that the rail cost there is uncompetitive against the road.

Hon PHILIP GARDINER: Why are the rail costs uncompetitive against the road?

Mr Mews: Based on what we are charged by our service provider for a rail cost versus a road cost; every month we show those TAP sites what the difference is.

Hon PHILIP GARDINER: What if you were actually charged the true cost of road? What would that do to your competitiveness?

Mr Mews: The true cost of road in our comparison is what we are charged on that day.

Hon PHILIP GARDINER: It is not the true cost of road; I am saying true cost of road. The true cost of road is not there because it is totally subsidised by the taxpayer.

Mr Mews: From that comparison, I will go back to my opening remarks and the graph that I showed earlier about how important we believe it is to work hard on the input costs for Australian growers.

Hon PHILIP GARDINER: Fair point, and you are right, that is the dilemma. For economic rationalists—which is where I am, in a number of areas—there is a serious distortion occurring because the subsidy that we are making to road in a seriously big way is causing us to use road when actually road may be the less competitive in reality, especially when we are talking about rail. We all know that trains can take only full loads of one commodity—either grain or minerals. If there is anything else, it does not work; I accept that. But that is when rail is efficient and effective, if it was not distorted, economically, by the subsidy that we, as taxpayers, all give to road. For the economic rationalists, they should pick that up. I am not saying that you are economic rationalists or making any judgement on you guys, but for those people, they should pick that up. What worries me is that the distortion has other downstream effects, such as externality costs and so on. If road was fully reflectively priced and grain could be carted from point A to point B and there was a rail option, what do you think that would do to the relative competitiveness between road and rail in those tier 3 areas?

[3.30 pm]

Mr Scott: If you are changing the way that roads are priced, that will affect everyone, not just grain growers.

Hon PHILIP GARDINER: This is specific for grain. You cannot change it for all otherwise regional Australia would die. Therefore, we are recognising that the only thing that is competitive on rail is train loads. Train loads are the one commodity. We are doing this a little in the north west already. It would only relate to grain. Matthew's point is right because when you look at the competitiveness internationally, we have a serious problem. If you made it fully costed to get our grain to port and if the road reflected that cost—it is the big trucks that destroy the roads, not the cars; they do not do anything to the roads, as we all know—this competitiveness would be affected more, and that is a serious consequence. We have the internal distortions as a result of a subsidy that we are paying to roads at the current time in terms of grain travel.

Mr Mews: Every grower—every one of our members—has to first put his grain in a truck and on the road to even get to our site.

Hon PHILIP GARDINER: We all know that. We all understand that very clearly. There is no problem with that. We have done that all the time. It is not new. The new thing is recognising that rail is uncompetitive when it is not. Therefore, more trucks are going down a whole lot of roads that they would not have been going before. That is the issue. Paul, you do not agree?

Mr Scott: I cannot see how you can single out grain against anything else, whether it be cattle or other produce or petrol or whatever goes on a truck. Why would you just single out grain?

Hon KEN TRAVERS: I understand the point that Hon Philip Gardiner is making but I do not necessarily know that you need to then charge the true cost. An economic rationalist would say you need to know the subsidy you are paying. The point at the moment is that we do not know the subsidy that is inbuilt to the road system whereas we know exactly what the true cost of rail is because you are charged it, to put it bluntly, and then a 15-year cyclical maintenance is required. We are now having a debate about whether we do it. It does not necessarily mean that because you identify what the distortion is, you pass that on to the growers. You just need to identify what that is so you know that you are making that subsidy. You are comparing apples with apples. At the moment I think there is a bit of comparing apples with oranges going on.

Mr Mews: If we did that and also then exempt the grain from a farm to a receival point, the growers would have no choice other than to cart from their farm directly to Kwinana for every tonne.

Hon PHILIP GARDINER: I am not making myself clear. Only where there is an option of going by rail would road be fully reflectively priced. If your farm is just outside Merredin and you do your harvest, you can do two things. First, you can take it straight down to Kwinana. If you do, you will have to pay the full cost of what that road price is. The other option is to take it to Merredin and put it on the site where it will go by rail.

Mr Mews: Is that regulating growers to then deliver to their closest receival point?

Hon PHILIP GARDINER: No, it is not doing any regulating.

Mr Mews: What about the growers? CBH has good patronage from our members but it still sells grain to other markets and its only point of delivery is Perth. How would that work?

Hon PHILIP GARDINER: There are a few things we could have. If you are going to backload, you would probably have an exemption. If you go to some site from Merredin and deliver it to Calingiri, for example, that would be exempt too. It is only where there is a rail option. This is a concept that we dreamt up ourselves but it will happen because Dr Ken Henry has also latched on to this scheme in his report. He used the same concept; where there is a rail option, the full reflective cost for road should apply. I know it comes head on into this thing as well. We have difficulty with our competitiveness anyway. We are competitive in that we have a wonderful bulk handling system and we used to have a pretty good marketing system. They are the only reasons we are going to be competitive in an environment that is stacked against us. We have lost one of those arms, but that is a personal view. We have to keep the other one as being a very efficient bulk handling system. The

distortion may have to be a form of subsidy, which we currently have. We have a subsidy for our transport right now in terms of road.

Mr Scott: I wonder how you keep the rail operators price competitive if you took away the road option. You would certainly need some grain police or something to keep an eye on all that.

Hon KEN TRAVERS: There are some problems with privatisation of some of these infrastructures but that is a story for another day.

Hon PHILIP GARDINER: That is a fair point.

Mr Mews: Rail used to provide a significant price advantage for growers to get their market and there was not a problem. Deregulation is not the only change. When the market is control freight, they were ruthless in getting the least cost path. They used rail at all of those sites because rail was the best freight cost. Since then the subsidies for road have not changed. Rail has become less competitive. We need to get it back to a level where it is most competitive. When we do not have to specify, we will choose the most competitive thing.

Hon PHILIP GARDINER: That is a fair point.

Mr Scott: I am not sure that rail was necessarily accurately priced in those days.

Hon KEN TRAVERS: The subsidies that were put into rail have been removed. Road is still subsidised. We do not know what the level of that subsidy is.

Mr Scott: I think there is an argument in relation to how much roads are subsidised. A fair bit of excise is paid at the petrol bowser each week. Admittedly, that does not go to state governments.

Hon PHILIP GARDINER: It only covers the maintenance; it does not cover your capital costs and the amortisation of it. I am intrigued that you have not done any numbers on that.

Mr Scott: We would not be going down that path at this point.

The CHAIR: I am mindful of the time. I know it is a good topic.

Hon KEN TRAVERS: You were going to get back to us with the \$3.50 front loading and I think Hon Philip Gardiner has asked that you break up and try to give us some indication of whether that is a true cost or just a historical figure that is carried forward. I am interested—I do not know whether we discussed it—in understanding what the cost for unloading trucks is and what that would be if that was factored into the system. I am not just talking about Merredin because it will obviously apply at Brookton once you start to double handle trucks before it gets on to rail at Brookton. Immediately following deregulation there was quite a dramatic increase in the cost as you saw it and it went to the true pricing of bins. Even in the past year or so there have been dramatic increases. I would have thought in the first couple of years that would have driven the dramatic increases in the cost of the number of bins for freight. People have told me that over the past 12 months there have been quite significant increases. Are you able to give us any information on what have been the drivers of the increases that have been occurring in the past 12 months for freight costs as opposed to those that went immediately after the deregulation?

Mr Mews: Just this week CBH has released its estimated freight price, which will formalise in February after we know the true distributions. Our increase in freight costs from last year are less than five per cent.

Hon KEN TRAVERS: On specific bins?

Mr Mews: The distribution from last year to this year and the price increase is linear between all of those bins.

Hon KEN TRAVERS: What about the year before?

Mr Mews: There has been a transition by the railways to bring in true costs, and we have buffered some of that over the years. We have now got to a point of true costs in the bins.

Hon KEN TRAVERS: That is not the question I am asking. The deregulation occurred some time ago. I imagine immediately after that you went to true pricing.

Mr Mews: No, we did not introduce that in the first year. We have staged its implementation. It has a big impact on our members and the network.

Hon KEN TRAVERS: Is this the first year you have gone to true cost for pricing?

Mr Mews: Last year we were in the same position. The changes this year have been linear across the board.

Hon KEN TRAVERS: Anything up to last year would have still been factoring in the distortion?

Mr Mews: Yes.

Hon KEN TRAVERS: In terms of the Brookton infrastructure, has a figure been committed as a contribution towards upgrading your site by the government?

Mr Mews: By the government to us?

Hon KEN TRAVERS: Yes.

Mr Mews: No.

Hon KEN TRAVERS: The other day someone was suggesting about \$4 million of the TAP payments would go into upgrading the Brookton site.

Mr Mews: The discussions we have had to date is that we would fund the capital. I am not sure what is happening with grain.

Hon KEN TRAVERS: I understood you were going to pick up your own costs.

Mr Scott: Yes, and those discussions are ongoing.

Hon KEN TRAVERS: The other day I noticed that someone was suggesting money would be paid by the state government to assist you to upgrade the Brookton site.

Mr Scott: That is news to us. We would like to see it.

Hon KEN TRAVERS: I had not heard of it before. That is why I wanted to clarify whether you were aware of it.

Mr Scott: If you can get that for us, we will be very much appreciative.

Hon KEN TRAVERS: Personally, I would prefer to see the money spread across the whole system and keep two or three lines going.

The CHAIR: With regards to the documents that you kindly provided us, are you okay for those to be public documents or do you want any of those to be kept private?

Mr Scott: We discussed this beforehand.

Mr Mews: With regard to some of the other stuff that we get back to you, we need to check what obligations we have with the other parties, and obviously we will make notes on them regarding their sensitivity. All our internal pricing would be commercial in confidence.

The CHAIR: Could you be as specific as you can on that? Obviously, if you are requesting that some of it be kept in confidence, just give us the reasons for that and we will consider that.

Mr Scott: We are in a very competitive environment nowadays. We are not fully deregulated wheat marketing but partially deregulated. Opportunities exist for people to build their own storage and handling facilities and other things. We need to be mindful of those sorts of things.

The CHAIR: We are and will be as well.

Hon KEN TRAVERS: I think the key issue is to notify us when they send them back.

The CHAIR: The committee will forward any additional questions that we might have in the next couple of days together with the transcript of evidence, which includes the questions that you have taken on notice. Members, if you have any unasked questions, please submit these at the close of the session. The responses to these questions will be requested within 10 days of receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before that due date. The advice has to include specific reasons as to why the due date cannot be met. Just to reiterate the question about confidentiality, please be as specific as you can. If you wish that certain material be kept private, just give us the reason why. Thank you very much for your attendance this afternoon. It has been most useful for our inquiry.

Hearing concluded at 3.45 pm