

**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 Please note that the uncorrected transcript should not be published or disclosed.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

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: Brookton, 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 above-rail 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 transshipment 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. 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 transshipment 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.

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