STANDING COMMITTEE ON ENVIRONMENT AND PUBLIC AFFAIRS

PETITION NO 145 — CLOSURE OF TIER 3 NARROW GAUGE RAIL LINES IN THE WHEATBELT

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
THURSDAY, 26 APRIL 2012

SESSION TWO

Members

Hon Brian Ellis (Chairman)
Hon Kate Doust (Deputy Chairman)
Hon Phil Edman
Hon Colin Holt
Hon Lynn MacLaren

Hearing commenced at 11.39 am

MENCSHELYI, MR ANDREW
Rail Contract Manager, CBH Group, sworn and examined:

SCOTT, MR PAUL
Government Relations Manager, CBH Group, sworn and examined:

The CHAIRMAN: Thank you, gentlemen, for coming in. I do apologise, we have run over time. It is an interesting subject for the committee.

The Witnesses: No problems.

The CHAIRMAN: I will have to go through a procedure that we have to do for every hearing. I ask you to take either the oath or affirmation.

[Witnesses took the oath.]

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

The Witnesses: Yes.

The CHAIRMAN: These proceedings are being recorded 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 you refer to during the course of this hearing for the record. Please be aware of the microphones and try to speak into them. Ensure that you do not cover them with papers or make noises near them, and if you can speak one at a time for clarification for Hansard. 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 that 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 until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

Before we do start, I would like to introduce the committee to you. On my left is Hon Phil Edman, Hon Lynn MacLaren and Deputy Chair Hon Kate Doust. I am the chair, Hon Brian Ellis, and I have an apology from Hon Col Holt who could not make it today.

As for the last hearing, this is more of an information gathering for committee members who want to be brought up to speed with the tier 3 debate. So, it will be a relatively informal hearing that we will hold today. First off, I would like to hand it over to you to explain the situation you see in tier 3 affecting farmers and CBH. Being a farmer myself, I understand that you have got a rolling stock that you have bought and I would like to know where you are up to with that and how you would like to see the tier 3 rail progress. So, I put it over to you, Andrew.

Mr Mencshelyi: Thanks, Brian. We just brought in a presentation we delivered entitled "WALGA GIG Committee" from 16 April 2012. We presented it to that group and it is a similar presentation we delivered to a local government meeting at York two weeks prior to that. We thought we would table this and quickly run through it at the start to give you an overview of where we are at. It has got some stuff in there about tier 3 lines as well. If you have got that in front of you, we will just page through. Page 1 is a big thank you; we thanked all the shires for the record harvest. It was mentioned previously that we did have a record crop last year by half a million tonnes, so it was a significant crop, and with the weather conditions, it was a phenomenal effort to get it into the bin.

If we move across to the above-rail update, from a wagon perspective we have 128 standard-gauge wagons here in Perth now and we are operating a 150-wagon fleet with leased locomotives at this point in time on the standard gauge. So, 128 is the total number of those wagons that we are buying and they run primarily between Kwinana and Southern Cross, at all the stations in between. We do go to Esperance occasionally with that fleet.

The CHAIRMAN: Just on that, Andrew, all that stock will be on those tier 3 lines then, is that right?

[11.44 am]

Mr Mencshelyi: No, tier 3 lines are narrow gauge. Sixty-five per cent of the grain on tier 3 lines gets moved into Merredin and transferred onto the standard gauge. So it is narrow gauge transfer to station onto the standard gauge to Kwinana.

Mr Scott: Can I just to add to what Andrew said there? The 128 wagons are the first lot of our wagons that have arrived. We will get into a little bit more detail further on, but there are 574 wagons arriving. The first lot of wagons that have arrived are the standard-gauge wagons. That is the 128.

Mr Mencshelyi: As Paul just mentioned, we have 574 in total, so 446 narrow gauge. They have just started unloading the first 82 off the boat this morning at Kwinana.

Hon LYNN MacLAREN: That is exciting.

Mr Mencshelyi: And there are another 80 on the water from China that will be here in 14 days. So, from a wagon perspective, we will see virtually every three days another 10 to 20 wagons coming on to the track. So that is progressing well. If you move over to the next page —

Hon KATE DOUST: Before you move over to the next page, what was the value of that 15-million-tonne harvest issue; what was the dollar value?

Mr Mencshelyi: You could probably work on an average price of $250 to $300 a tonne. A lot of that was wheat—nine million of that was wheat—but there was still a lot of canola. Canola is like $600 to 800 a tonne, and then the barleys, like the malt barley, was $300 a tonne. You could probably say around $250 on an average.

From a locomotive perspective, we are buying these 22 locomotives from the USA. The first two are on the water now on separate ships. We are shipping them with a regular liner out of the US, Wilhelmsen shipping. They do about four shipments a month out of the US, so virtually one every week we are seeing these locomotives come out. The first one will arrive in the middle of next month with anticipation to get onto the track with a full narrow-gauge consist of wagons by the middle of June. They are well progressed. So, there are two on the water, there is one at the port in Savannah ready to ship, there is another one in transit across America to that port, and then there is one ready to leave. So, the production cycle for those locomotives is well progressed.

Hon KATE DOUST: Are these the locomotives that will go on tier 3 or tier 1 and 2?

Mr Mencshelyi: There are 17 narrow gauge, and there are five standard gauge. Of the 17 narrow gauge, 11 of them are purpose-built to run on 16-tonne axle lines, including the tier 3s. So, 50 per cent of the fleet is purpose-built to run on lines like the tier 3s, and they are coming first. It is actually anticipated that the first fleet to go out onto the tier 3 lines with our new locomotives and new wagons will be in August.

Mr Scott: Can I just add some clarity there in relation to the locos and wagons that we have purchased? We have made those purchases on the basis of the information that was available to us at the time in relation to tier 3, and that was that they were scheduled to close. However, we have taken sufficient account of what we could manage, and we will have enough locomotives and wagons to service the tier 3 should they remain in operation.

Mr Mencshelyi: On the next sheet is a cut-out—I think you received this from the previous hearing—a summarisation of our rail fleet. So in terms of locomotives and wagons, the features and the benefit side, the main benefit from a wagon perspective is that they are lighter and they can carry more and they are more productive. So on 16-tonne lines they are up to 20 per cent more efficient, depending on what rolling stock is running out there today, because there is a lot of inefficient rolling stock on 16-tonne lines. So that is a huge productivity benefit in running on those lines. That will lead into how you can turn the economics of running tier 3s around from being uneconomical to economical. The main reason for that is the productivity of the rolling stock.

[11.50 am]

The CHAIRMAN: Just going back to that, Andrew, we realise that the minister extended the tier 3 line for the last harvest. Obviously, you have not really had a chance to test that, because you did not have the stock. So you obviously want an extension of those tier 3 lines at least for this harvest to test your argument about the viability of those lines under this new rolling stock. Is that right?

Mr Mencshelyi: Yes. Everything has been theoretical from our perspective as well up until now, because we have said our locos and wagons can do this, but they are not actually here. August is when we want to get out there and physically move grain on those lines and prove the economics in actually doing it rather than just in a report or a business case.

The CHAIRMAN: I would have thought, too, that you might need more than one year, because hopefully we will have a bumper year, and you will be under pressure to clear that; and, if it is not cleared, we will want to see how the system would work to clear it the following year too.

Mr Mencshelyi: Absolutely. The designated time for the majority of those lines to close this year is the end of October. So if we work back, there is probably two and half months—10 weeks—of operation on them to prove the case. That is not a whole lot of time. You can get some good efficiencies on a daily basis to prove that within that time frame, but a longer window would be welcome.

About a month ago, we started on the standard gauge. We have probably moved over 50 000 tonnes on standard gauge with Watco already, and that is early; they were not meant to start until 1 May. So by the time we actually start, we probably will have moved in excess of 70 000 tonnes prior to their actual start-up, which is fantastic. That grain either would not have moved to port or potentially would have moved by road.

The CHAIRMAN: Just to clarify that, we are talking about carriages. But with the locomotives, you had to get them from somewhere?

Mr Mencshelyi: Yes. We leased three standard-gauge locomotives. We have had only two in operation during that time. The third one is still being made compliant for Western Australian track. But the first two have been operating during that time. We have leased them from Adelaide.

The CHAIRMAN: Okay.

Mr Mencshelyi: Along the way we have introduced lot of new technology that makes our fleet more efficient, such as GPS tracking. We also got rid of antiquated wagon car systems that are unsafe and also inefficient. So that makes our operations a lot more efficient, but also from a Watco perspective, as the operator, they have got a better level of efficiency as well, which leads to cheaper freight rates for growers.

The next slide is a key one. This shows the shipping task from November last year through to October this year. What we do now is on a month-by-month basis we actually control the amount of grain that will go through our ports from a shipping perspective by setting a capacity limit and optioning that off to the export trade in a deregulated market. In the old days with the single desk with AWB and the Grain Pool of Western Australia it was very easy—you only had two people to coordinate the shipping with. Today we have 25-plus exporters, all trying to get through the door at the same time. So we have introduced an option system, and that allocates the capacity. The blue squares on that slide are what we offered in terms of capacity, and the purple squares are what was taken up by the market. If you look at the dotted lines from February through to August, that is what we would traditionally offer to the market. We have reduced that capacity that we offer to the market because of the lack of transport capacity that we have this year and through our transition period. So we made some assumptions on Queensland Rail National's capacity to deliver to the end of their contract, and we reduced the capacity because of that, but we also capped it because we knew that we could not and we would not fill that traditional capacity up with road transport through those months. So if you look at what we paid for, traditionally rail can do about 800 000 tonnes across the state in a month to port—that is, to the three ports, Albany, Geraldton and Kwinana—and today we are averaging about 500 000 tonnes. So that is about 300 000 tonnes a month below what the average is with Queensland Rail National.

Moving to next year, CBH and Watco have got a joint target to move one million tonnes a month on rail. A lot of that comes from increased productivity, but also from things like increased productivity of the track from tier 1 to tier 2 and getting the government funding injected into it, which is welcomed by CBH. Those lines should see a huge improvement in cycle times. Again, we would probably see a similar increase in productivity on tier 3 lines if money was injected into that.

So in terms of rail this year, we have been very limited in where we can go with Queensland Rail National, mainly because of their driver availability. A lot of their drivers left their grain organisation when they lost the contract, with some coming across not only to Watco but also to other parts of their business, such as iron ore, et cetera, up in Geraldton. So we have been pretty much in the Kwinana zone limited to going to Brookton, York, Wyalkatchem, Koorda and Kalannie in that zone. There is still a lot of grain in pockets within the Kwinana zone that we have not gone to with road or rail yet. That is mainly the Kwinana north areas, so Dalwallinu, Miling and Beacon, and Kalannie we have been able to get to a little bit. So there is still a lot of grain in that part of the state, and also in the northern part of the Albany zone, so Newdegate, Lake Grace, Hyden. So it has been challenging for us.

Hon KATE DOUST: Before you turn that page, I note on page 10 you talk about a lack of drivers. How many drivers are you down and how are you recruiting?

Mr Mencshelyi: From conversations I have with Queensland Rail National, they traditionally had about 70 drivers based in the Northam area to drive the narrow-gauge train sets, and they were down, right at the start of harvest, to as low as in the forties. I do not have any evidence of that. That was just through conversations. But that is the sort of levels that they were at. Where those drivers have gone, Watco did not actually start recruiting drivers until towards the end of harvest, so those drivers have gone into other rail operations either within Queensland Rail National or in the industry well before harvest started.

The CHAIRMAN: But you are saying that if the tier 3 was upgraded, you would be able to cart longer trains and consequently you would need fewer drivers? Is that right?

Mr Mencshelyi: Driver costs are a huge part of the rail freight rate, and currently on all our narrow-gauge grain lines we are required from a safety perspective to have two drivers on the train. It is no secret that at CBH and Watco we have purpose-built these locomotives to be driver-only operated to halve the number of required drivers to drive on those lines, both from a cost perspective and also because it is just harder and harder to get regional train drivers to drive in the southern part of the state and also in the north.

[12 noon]

Mr Scott: I think it is important just to add to what Andrew said there in relation to costs for train operations. Train drivers are certainly a significant part of above-rail costs, which impact on us of course because of our new arrangement with Watco, but there is equally a very significant cost associated with below-rail costs, access costs, and we will get to that in due course.

Mr Mencshelyi: If it is okay with the committee I might just skip over the grain express bit—it is not hugely relevant to the hearing—and then move into the below-rail update.

Hon KATE DOUST: Yes.

Mr Mencshelyi: So from a tier 3 perspective, it has been mentioned a little bit to give a bit of background that CBH was part of the strategic grain network review, and at that time Queensland Rail National held the contract. Brookfield Rail, previously WestNet, provided that access and part of their costs make up the freight rate—the access cost. At the time I think everyone that was involved in that review could see that economically those lines were very hard to see; they were not even close to moving that grain by road to either another railway line or directly to port. So that was based on the freight rate delivered to those sites from Queensland Rail National and Brookfield Rail.

Mr Scott: This is tier 3.

Mr Mencshelyi: That is tier 3 lines. And that is when we decided, okay, we need to do something differently with those lines, and then that is when it was looked at; and, okay, is there a road-to-rail option—a Brookton strategy? All those things come into play. CBH did mention to the committee at the time that we were about to tender the rail and that that could potentially bring new information or a new set of numbers that would need to be reviewed. That process took quite some time. We did not make that announcement until December 2010 and the decision, the sign-off, had already been well and truly made on the strategic grain network report, and then through discussions with government, it was decided that CBH would do a business case, to say: what has changed and how does it stack up now?

The CHAIRMAN: So, really, at the time of that first submission or report, you were in agreement with the report that those lines were unviable.

Mr Mencshelyi: Correct. It was significant dollars in the red for growers above what the comparative road rate was. But with the Watco and the decision to buy the new rolling stock, we sat down and did a specific analysis of what does tier 3 look like with the new rolling stock with Watco as the above-rail operator? Brookfield Rail came to the party and actually looked at what their access rates were on it for those lines and put a reduction in their access rates for those line sections. All that got pushed together into that business case submitted to government.

Hon KATE DOUST: And that was back in, what—2009?

Mr Mencshelyi: No, this was only last year.

Hon KATE DOUST: Last year; okay, yes.

Mr Mencshelyi: So by the time we did that, from the announcement the week before Christmas 2010 to when we finished and submitted that report, it was around May–June 2011, and we had to wait for a fair bit of information to come through on it at that time. We were doing tenders for our wagons and our locomotives. We had to find out what the price of those was to work out what our capital repayment cost would be that would go into the freight rates. So all that needed to happen. It was put into the business case and it was rejected at the time. There was concern from government that there was still risk of grain not getting moved by rail from those sites, and government was well progressed down the track of the strategy from the strategic grain network report, and well progressed with Main Roads to spend the money that was in that report in the roads. So they had almost jumped over the cliff and we were trying to pull them back, and the case from their point of view was not compelling enough to pull that back and put it back into the rail.

The CHAIRMAN: So where are you at now then? Obviously the minister was not convinced with your argument. Are you developing another argument or report? Has anything changed since your initial one?

Mr Mencshelyi: It has, Brian. We have a thing called a carbon tax coming in and I know certain road configurations have a concession, a two-year concession, and rail does not, which is disappointing but we have to live with that. But looking past that horizon, we have to calculate that. Fuel prices have gone up significantly since the time of even our business case; that has made the gap wider. But, again, that is all desktop stuff, so our view is: let us get out on the track in August and actually physically prove all this triple bottom line. We are very much looking at the economics and the cheapest way to get tonnes to the port, but also we need the capacity and then there is the social safety and environmental impacts as well.

The CHAIRMAN: So have you put that to the minister, your argument about getting back in August and dealing with the coming harvest as part of your whole argument, reflecting back to the last report that you put up? This will be a carry-on from that report because it will be a physical argument.

Mr Scott: I think it is important at this point to say that the minister has been quite direct and up-front with us in saying the money has been spent in relation to the tier 3 proposal; that is, he has been quite direct in saying to us, "The money's gone from the government's perspective."

Hon KATE DOUST: Did he say where it went?

Mr Scott: He has been quite direct in saying the money has gone into the road option as per the original SGNR report which, as Andrew said and certainly we would like to make sure the committee understands, we were certainly active participants in the SGNR process. What we have been unable to convince the government or the minister of is that there has been significant change in the above-rail operations that would sway him to revisit the tier 3 from the point of view of the economics of government putting some money into the tier 3 and keeping grain on rail in that area.

The CHAIRMAN: All right. Have you finished?

Mr Mencshelyi: So, basically, as I said, we are going to run in August. A further extension to those lines, as we mentioned earlier, would be welcomed to be able to prove that case. At this point in time we are looking at a 10-week window to operate on those lines, and there are still plenty of tonnes on those lines that could be moved. Basically, the message is that consideration should be made of what has changed since the SGNR was completed. The world is a dynamic place and significant enough things that went into the report have changed since it was completed, so consideration should be had to revisit it looking at the outcome of that report—you know, Watco, our above-rail rolling stock, things like carbon tax, fuel prices et cetera.

The CHAIRMAN: So the situation is a whole lot different than when the original report was done; is that what you are saying?

Mr Mencshelyi: Correct.

Mr Scott: Can I just add one final point on that, which I should have touched on earlier? That is, the SGNR process was a very useful process in the sense of the outcome that was achieved, putting to one side the tier 3 which is extremely important to us, but there was federal government and state government money that came to play and there was a significant investment placed into the grain rail network, the first for many such years.

[12.10 pm]

The outcome of that was that it certainly gave CBH the confidence on behalf of the growers that we could make a significant investment in new rolling stock, such that Western Australia will now have the most modern and efficient dedicated grain rail fleet in Australia. They are all good outcomes of that original process. What we are trying to continue to convince government of is that significant changes have occurred to the tier 3 rail, which was out of play as part of the SGNR process. We are very confident that the economics of our new fleet and rail operator would enable a favourable reconsideration of tier 3 for the longer term.

Hon LYNN MacLAREN: We have heard that the SGNR report—that the people who are participating in it—created was not the same report that was released. I wondered if you, as participants in the development of that report, saw some differences in the publicly released document from the document that the committee agreed upon.

Mr Scott: I was not directly involved with it. A number of people at CBH at the time who were involved in it are no longer with CBH.

Mr Mencshelyi: I think there was, though I could not disclose right now what those differences were. But I do believe that there were some differences, some different findings, put into the report post that committee seeing the final version they saw to the one that was published.

Hon LYNN MacLAREN: Thank you. In your view, is there room to consider safety in a strategic review in that area? Do you think that safety should have had a bigger role?

Hon KATE DOUST: Or consideration.

Hon LYNN MacLAREN: Or any consideration?

Mr Mencshelyi: I mean, it is an interesting one in that the review, from a financial point of view, was bundled into what was called "externalities" as a number. In the transparency around that number and how that number was developed, there was not a lot of detail in how that came about. But in our organisation we are on a safety journey now. Significant changes even came down to the design of the new rolling stock of having safety in the forefront of our minds of the design for our staff. Any rail operation that we had run on, versus road, we would consider that safety should be right up there as a consideration.

Hon KATE DOUST: I was just wondering, given the report done in 2009 and the reasons they went road and rail, what are the current comparative costs for rail versus road? I would imagine you would have done that sort of costing.

Mr Mencshelyi: Yes. Without going into too much detail, in the business case we put in 12 months ago, there are 38 sites on the tier 3s; 33 of the 38 were more economical to put grain on rail than road. So there were five that were either on or above road, simply because of the geographic location and the distance they had to go on rail versus road. But the latest analysis we have done with the change in fuel, just purely on fuel, all 38 beat road—some by significant amounts and some by marginal amounts.

Hon KATE DOUST: Could we please get a copy of that latest data that you have?

Mr Mencshelyi: I should be able to deliver that, yes.

The CHAIRMAN: If you could, that would be useful to the committee, if you could get back to us.

Hon KATE DOUST: Can we have a copy of the business plan? Is your business plan public—the one that you submitted to government?

Mr Mencshelyi: I do not think so. It was submitted to the Department of Transport.

Hon KATE DOUST: Would you have a difficulty with providing that to the committee so that we could look at that and then look at your updated data as well? That would be of great assistance to us.

Mr Mencshelyi: We can give you a comparison of the two, yes.

The CHAIRMAN: Just on that, there is an argument or it is often said that the trouble with tier 3 is they are running the wrong way. What is your view of that? If you upgrade the tier 3, does that make any difference to the direction the rail is running?

Mr Mencshelyi: It is interesting because if we were running a RAV 7 and the fuel was 20 per cent cheaper, you would probably say that a lot of those would not make sense. But rail, because it is so efficient—some of those sites are 60 per cent longer by rail distance to port than by road and they are still more economical, just because that is the economics of rail. You have got two people driving at rail versus all that trucking infrastructure. You know, with drivers, the maintenance costs and access costs are cheaper than the fuel burn on the roads.

The CHAIRMAN: At the moment, with the way the tier 3s are, you are actually running trucks alongside tier 3 rails to shift grain at the moment.

Mr Mencshelyi: Yes. That is purely because we do not have the assets in the first instance at the moment to run out on the tier 3 lines; and second of all, even if we wanted to send Queensland Rail National out there, at the moment they do not have the drivers. So, if we had our assets here and with Watco, we would be out on the tier 3 now.

Hon LYNN MacLAREN: Is Watco the ones who have to find the drivers, or are they the ones that are solving the skills shortage?

Mr Mencshelyi: Yes. So, what Watco has done is a great job in their recruitment. They have got over 40 drivers contracted, and they were aiming between 75 and 80 and they have got those train drivers lined up. They went nationally and also to New Zealand. So there was a huge interest in New Zealand. There were 25 to 30 train drivers in New Zealand who were keen to move to Western Australia and cart grain.

Mr Scott: And they have got a number of regional offices established—Watco—so they are out in the regions as well; they are not all going to be based in Perth or anything like that.

Hon LYNN MacLAREN: And is that a unionised workforce?

Hon KATE DOUST: One would hope so.

Mr Mencshelyi: Yes; it comes under the rail, tram and bus union.

Hon KATE DOUST: That is good. We like that.

The CHAIRMAN: I will just give Ken an opportunity. I should have introduced you, Ken. Ken is the shadow transport minister and is a participating as a member on the committee, but I do not know what the title is.

Hon KEN TRAVERS: A participating member.

The CHAIRMAN: Yes, a participating member.

Hon KEN TRAVERS: Under the new standing orders I think we are just entitled to attend hearings and ask questions.

The CHAIRMAN: Hon Ken Travers has a question.

Hon KEN TRAVERS: I am interested in terms of the cost for CBH to implement the Brookton strategy. Have you done sums on what it will actually cost in terms of changes to your own infrastructure that is required?

Mr Mencshelyi: We have. We have not gone into a huge amount of detail, because there are 38 sites and there is a cost involved in just getting them through and doing that. But we looked at Quairading recently. The cost to convert Quairading from a rail site to a road site was in the order of $200 000. So, you know, if that is an indicative cost to convert one site, you can times that by 38.

Hon KEN TRAVERS: That is up around $7 million pretty quickly.

Mr Mencshelyi: Yes, $7 million just to convert it from rail to road. So, where we currently out-load from those sites there is rail track. Even though the lines are closing, they are only closing from an operational point of view, so they still need to be protected. So, whatever road infrastructure that we put in above or around the rail has to be done in a manner that does not damage that rail, so that adds increased cost as well.

Mr Scott: That is on the basis that it could be reinstated.

Mr Mencshelyi: Correct.

[12.20 pm]

The CHAIRMAN: Was that in the report you gave to the minister?

Mr Mencshelyi: No. In the business case?

The CHAIRMAN: Yes, in the business case?

Mr Mencshelyi: Yes, it was.

Hon KEN TRAVERS: What about places such as Brookton, Cunderdin and those other places? I assume under the strategy, when it goes ahead, there will need to be upgrades to carry the additional capacity of grain and rapid out-loading facilities to try to get the efficiencies that would be necessary to make those sites competitive in terms of the double handling that will have to go on.

Mr Mencshelyi: Yes. Those sites are pretty well set up for that already, Ken. But with Brookton, especially with the significant projected volumes if tier 3 were to close, it would eventually require us to invest heavily in upgrading our rapid-rail facilities. We have not priced that. I guess you can compare it to our most recent rapid rail that we have built at York, which was only last year, and it was $8 million to build that.

Hon KATE DOUST: What is the cost to CBH for the investment you have made in bringing in these new locos and new carriages?

Mr Mencshelyi: The total package for locos and wagons is $175 million. The value to growers is that these assets are 25 to 50-year assets, so you can take a long-term view and pay them off over a long term and that gives the best value for our growers. Any other offer that was given to us during the tender process whereby someone else buys the infrastructure, they are looking for a payback over the contracted period, which was around 10 years. By being able to take a longer term view on that, it gives better value for growers over the long term.

The CHAIRMAN: Any further questions?

Hon KEN TRAVERS: The other issue I am interested in is the cost of Brookton in that, with the strategy you will need to bring it in by truck, unload it and reload it onto a train. Have you done the sums of what that double handling will cost per tonne?

Mr Mencshelyi: Again, it is dependent on infrastructure and how many tonnes come in and those sorts of things. You have to cover a fixed cost and then there is the variable. Yes, there is a cost involved in that double handling, definitely. It is probably in the order of $1.50 to $2.50 a tonne.

Hon KEN TRAVERS: I think at Merredin there used to be a levy of about $3 a tonne for double handling aimed at meeting the costs of double handling. Without going into the whole debate about the levy at Merredin, it was significantly higher than that figure.

Mr Mencshelyi: There are many parts of the network were we have to double handle grain either from road onto rail or rail to rail. If that is the supply chain we have to go down to, that is a cost that needs to be considered in that supply chain.

Hon KEN TRAVERS: I guess for the purpose of this committee's work, it is trying to understand whether or not the modelling and the assumptions that are underpinned in the strategic grain network actually will work

Mr Mencshelyi: That was silent in the report.

Hon KEN TRAVERS: I guess that is the issue. I know, certainly at the time, it was estimated that it would be more expensive to rail it from Brookton to Kwinana than it was to truck it. Have the economics of that changed or is it going to be the case that if you have your grain on a truck as it comes into Brookton, it would be cheaper to keep going down the hill into Kwinana than it will be to unload it and then put it onto a train at Brookton?

Mr Mencshelyi: We need to rerun the numbers there, Ken. At the time, it still needed some sort of help with the freight rate at that site to make it competitive with road. Since then, road has gone up more significantly than rail, so probably today it may be even, or rail may just poke its nose in front.

Hon KEN TRAVERS: At this stage you do not have an updated figure?

Mr Mencshelyi: We have looked at only the tier 3. We have not looked at rerunning the numbers on the Brookton strategy with the current —

Hon KEN TRAVERS: As I understand it, there are no plans to upgrade the roads around the terminal in Kwinana. If you cannot capture that grain at Brookton, the extra traffic on the roads in and around the Kwinana–Rockingham area will be quite significant.

Mr Mencshelyi: A point to make there is the capacity point as well. Some numbers were talked about earlier that probably were not entirely accurate. We are getting only about 2 000 to 3 000 additional tonnes per day down to Kwinana because we simply cannot get the tonnes to port by road into Kwinana due to the distance to travel and the number of resources in Western Australia that will cart grain. There are not the resources to get the significant tonnage to Kwinana itself in today's environment. The best method to get grain to port from a capacity point of view in the first instance is by rail and, economically, it is by rail as well. The point I want to make is that we have a lot of grain moving on road but it is to rail sites today. They are not coming down the hill today. They are going to places like Northam and into Brookton today and going onto Queensland Rail trains. They are getting stock today because rail gives us the capacity. Today we still require transition assistance package funding to move grain from Brookton.

Hon KEN TRAVERS: Today it is still more expensive to send it by rail than by truck?

Mr Mencshelyi: Correct—with Queensland Rail.

Hon KEN TRAVERS: But the new costs might be less. The real impact then will be on farmers in that Kwinana south zone, if we can use that as the broad term for areas affected, who will ultimately be paying more to get their grain to port than they could otherwise if the rail were there. That is the main impact of it financially. Ultimately, the farmers in that area will pick up the cost.

Mr Mencshelyi: Yes. One of our key arguments of our business case was that it was the cheapest supply chain to port. The alternative—we will continue to do the reanalysis—at this point in time is not the cheapest.

The CHAIRMAN: It may not be the farmers in that area who will pay the extra; there could be farmers subsidising that area from another area. What you are getting at is right, Ken—that is, if costs go up too much in that area, you force grain onto road.

Mr Mencshelyi: There are fixed costs that the growers and the co-op will pay and then there are the variable costs. We are working hard to remove the true variable costs by a charge to every site, but the fixed costs may need to be carried in a greater way from the greater cooperative.

The CHAIRMAN: Are there any other questions? We are running short of time.

Hon KATE DOUST: Can we get that other information provided to us.

The CHAIRMAN: You are quite welcome to give us more information. If you wish to sum up, I ask you for it now.

Mr Mencshelyi: Basically, our message is the same as it was previously—12 months ago a strategic grain network review was done. We think a significant change has happened in the environment since them, including bringing Watco into the Western Australian market spending $175 million on new rolling stock; things like carbon tax et cetera that are significant enough to warrant consideration of the fact that things have changed within government and to consider that that has been changed in the strategic grain network report and it should be looked at and, potentially, an extension for CBH to prove its case going forward.

The CHAIRMAN: Thank you very much.

[12.30 pm]

Mr Scott: I think Phil made an earlier comment when the previous presenters were on from the rail alliance in relation to CBH perhaps making a contribution towards tier 3. I think we would like to make note, of course, that CBH has a proud history of funding infrastructure. Over the last 10 years, growers, through CBH, have spent nearly a billion dollars on infrastructure at our ports and our storage and handling facilities and now with rail. Where we do put money into assets, they are usually assets that we own or control. I suppose there would be some convincing to do in relation to investing in rail that we did not own or control. We do actually already contribute significantly to below rail, or we will be, through our access undertakings—our access fees that we have to pay to Brookfield. That is money that we understand should be redirected back into the maintenance and upgrade of the grain rail network. Yes, we are happy to consider those sorts of things, but I think we normally do on our own basis.

Mr Mencshelyi: The growers, through their freight rates, have paid about $400 million in the last 10 years in access fees. That has gone into the grain rail network.

The CHAIRMAN: Thank you. We will close the hearing now.

Hearing concluded at 12.30 pm