

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

**ONGOING BUDGET ESTIMATES
FOLLOW-UP HEARINGS 2010–11**

DEPARTMENT OF TRANSPORT

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 11 OCTOBER 2010**

Members

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

Hearing commenced at 3.40 pm

Hon SIMON O'BRIEN

Minister for Transport, sworn and examined:

SNOOK, MR DESMOND

Executive Director, Road Network Services, Main Roads Western Australia, sworn and examined:

WALDOCK, MR REECE

Director General, Department of Transport, sworn and examined:

FISCHER, MR JOHN

Executive Director, Transport Policy and Systems, Department of Transport, sworn and examined:

GAYNOR, MR ANDREW

Director, Freight and Logistics, Department of Transport, sworn and examined:

KING, MR PETER

Executive Director, Investment and Finance Coordination, Department of Transport, sworn and examined:

The CHAIR: We might make a start, given that I am aware that the minister has limited time. On behalf of the committee, I would like to welcome you to the meeting. Before we begin, I am required to administer either an oath or an affirmation.

[Witnesses took the oath or affirmation.]

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

The Witnesses: Yes.

The CHAIR: These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, would you please quote the full title of any document that you may refer to during the course of the hearing for the record, and please be aware of the microphones and try to direct your comments towards them. 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 Please note that the uncorrected transcript should not be published or disclosed. This prohibition does not, however, prevent you from discussing your public evidence generally once you leave the hearing. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia, and we value your assistance this afternoon. Members, if you could quote any budget

statement volume or page numbers, items et cetera, if that is relevant to your questions, that would help proceedings.

I might ask members if you have questions, and note that, minister, we are in receipt of a letter—thank you very much—dated 1 October from yourself in regards to some additional information, and that is now a public document, so members may choose to refer to that during the proceedings this afternoon.

Hon SIMON O'BRIEN: I understand that was in relation to question B1 taken on notice.

The CHAIR: B1, correct; yes.

Hon SIMON O'BRIEN: Okay. Is that what the subject of today's hearing is about?

The CHAIR: Correct. So I might ask if members have questions they would like to direct. Hon Ken Travers?

Hon KEN TRAVERS: I am happy to start with it. For me, it is about trying to clarify. When we had the ongoing hearings earlier, there was a lot of talk about 50 per cent of the grain being carried by rail and 50 per cent by road, and I at one point even went to the point of asking specifically were we talking about the area within the Brookton zone or whether we were talking about the overall grain task. It was to be taken on notice, and then when we got it taken on notice, we got that—for Kwinana it is about 96; and four of them, we got some further information from the minister that again refers in the letter to the Kwinana zone. So are we talking purely about the area covered by the tier 3 lines? I guess that is a general framework. Maybe if you can go to some of the specifics. The letter—the numbers do not quite add up, so I guess it is about trying to get an understanding of what do we believe is the current task that is carried by rail out of those areas serviced by the tier 3 lines. Is it coming by road or is it coming by rail, and what data is the agency working on in terms of preparing their response to the challenges we face?

Hon SIMON O'BRIEN: Okay. Madam Chair, that clarifies what the committee is chasing, and, as I have indicated previously, we will do our very best to provide all that we can. The question is not as simple as it might first appear, so we thought it might assist the committee if we provided some documents, which I will table one by one in due course by way of brief explanation, and that might help, I think, the hearing, as well as giving some specifics. The first document that I think might be of assistance is some up-to-date information about the tonnages arriving in each of the four ports, and that is information provided by email from Matthew Mews of CBH to our Drew Gaynor today at 12.21 pm. So I provide that information now, because obviously this is an update on the information in my letter, which was back in, I think, August or —

The CHAIR: It is dated 1 October, I believe.

Hon SIMON O'BRIEN: The information was —

The CHAIR: Sorry; the original —

Hon LIZ BEHJAT: It is January to August.

Hon SIMON O'BRIEN: Yes. There was January to August information. So here is some information that now, as I understand it, purports to close out the full harvest at 12.3 million tonnes. So that document is —

Hon LIZ BEHJAT: It says 2008–09.

Mr Gaynor: Sorry; that is a mistake by CBH. It is 2009–10.

The CHAIR: Let us be clear. This document that we have just been provided with, which is a copy of an email, at the top of the table it says “Sum of 2008/2009”. You are saying, Mr Gaynor, that it should say 2009–10.

Mr Gaynor: Yes.

The CHAIR: Okay. I just want it to be really clear for the record.

Hon SIMON O'BRIEN: There is another document that I will provide, which is headed "2010 Moves from TAP Sites by Mode 1 January to End of July 2010". Now, this document—this is the colourful one—is a table which shows a subset of the Kwinana zone lines, being the lines on which the transitional assistance payment, or the TAP, is payable. If members look at the top line—that is, the headings of the columns—you will soon see that it becomes a less straightforward question than might have first appeared. All grain, of course, travels by road at some stage—that is, from the paddock until some other point, because I do not know that there are too many rail loading facilities in anyone's paddock. Then it can go to a rail receival point, from which it is loaded onto a railway and taken to port. It might go to an independent place, from which it might then be taken by road to some other place. It may be a place of consumption such as a flour mill, and not much of our harvest has that destination as a proportion. It might be taken by road to a port. It might be taken to another receival centre where it is loaded onto train. There is any number of variables. But the document in front of you attempts to give an example of what tonnages were moved in that period on those particular points.

[3.50 pm]

So we can see that out of a total of 800 000-odd tonnes transported in the period covered, approximately 190 000, or less than 25 per cent, went to its ultimate origin, most of which would be a port, by road. The other 75 per cent—plus went either by rail from its first receival point or by rail from a subsequent receival point, having been transferred by road for an intermediate journey. So that is the broad meaning of this table, which members might want to take a minute to digest before they ask any questions.

Hon PHILIP GARDINER: Can I just get some examples, minister? Let us take the first column "Rail to Rail", Bullaring 71 795 tonnes rail to rail, would that mean that it goes from Bullaring to York, say, or is it Bullaring to metro? What does that one cover?

Hon SIMON O'BRIEN: For these series of questions clarifying the document, I will ask Mr Fischer to respond directly to members.

Mr Fischer: That is road to mostly the port, but there are some destinations where there is a rail terminal where the grain is then utilised; for example, where there would be a silo or something. But the majority would be to the port site.

Hon PHILIP GARDINER: Okay, so there could be some, if it goes via Merredin—I do not know which ones of these go backwards now—but maybe Trayning, for example. Trayning rail to rail, that 43 224 in that first column, do you think there would be much that would be ending up in Merredin or would that all be ending up in metro or Kwinana?

Mr Fischer: In explanation of this table, these are grain bins on these tier 3 rail lines in the Kwinana zone, so that is the grain that is moved from that rail site and it may move to another rail site, for example, on a tier 1 line east of Goldfields rail line. The purpose would still be as a transition to a rail site. It is unlikely that they would be —

Hon PHILIP GARDINER: Yes, so I think you answered my question in terms that if it goes to Merredin, it would almost certainly be going by rail to the port or metro and/or else it goes directly to metro or port.

Mr Gaynor: Just by way of further clarification, that is a term that CBH used. When they say "rail to rail", the first rail is the tier 3 going to a tier 1 line and then being transferred, for example, to a standard gauge and then by transfer, so it is rail to rail to the port.

Hon PHILIP GARDINER: Okay, so that first column is absolutely rail committed totally. The second column is "Road to Rail" so it could go, take Trayning for example, the 52 935, would be out of the Trayning site, possibly to Merredin by road.

Mr Fischer: That is correct.

Hon PHILIP GARDINER: That is what that would mean.

Mr Fischer: So it goes to a tier 1 railway service.

Hon PHILIP GARDINER: So from Trayning, then, there is a breakdown of roughly 52 per cent to 43 per cent, roughly, which is by road to rail.

Hon LIZ BEHJAT: This list here on your coloured sheet, all of those areas there make up the total of the Kwinana zone—is that right?

Mr Fischer: As explanation, the Kwinana zone in a normal year contributes I think —

Hon LIZ BEHJAT: I mean the Kwinana zone related to tier 3?

Mr Fischer: No.

Hon SIMON O'BRIEN: The tier 3 lines within the Kwinana zone, so this is a portion of the total Kwinana zone.

Hon LIZ BEHJAT: Okay, so what I am trying to reconcile is if the total of that between 1 January and 31 July is 800 293 tonnes and in your letter of 1 October from the period 18 January to 30 August, the total was 1 122 139 tonnes, so am I right in saying that between the period 1 August to 30 August, 321 846 tonnes were —

Mr Fischer: No, if you read that I think that advice that says: the total amount of grain in the tier 3 bins is 1.122 million tonnes —

Hon LIZ BEHJAT: It says: provides breakdown of the movement of grain.

Mr Fischer: Yes, of which, I think it says 167 000—I am just looking for that note—is still to be moved.

Hon PHILIP GARDINER: Yes, 167 000 still to be moved; that is correct. But there is a reconciliation issue in those numbers, which Hon Ken Travers referred to earlier. We noticed that the numbers just do not seem to add up in that particular document, which —

Mr Fischer: Yes, I understand that.

Hon PHILIP GARDINER: So I suspect that these new numbers will update us more accurately. There is a reconciliation issue in there because there is 122 000-odd tonnes missing.

Hon KEN TRAVERS: Except that the new numbers go from 1 January to 31 July and these figures go to 30 August, which I find interesting because I would have thought the harvest would have been well and truly finished for those three months.

Mr Fischer: Can I just provide some context here? CBH measured their harvest from, effectively, November through to October and that is known as the 2009 harvest, and that has moved in 2010. The TAP payment, which is the funding that we are providing for this movement, commenced on 18 January, so there was a two-and-a-half-month period of grain movements that CBH undertook prior to any assistance from the government. So in terms of the records that Transport has been keeping and reconciling with CBH, it is from 18 January right through to August we have made payments. In addition to that, they have been providing other information to try to assist in answering some of these questions. Not all those periods coincide, given that they have different reporting periods. For example, the figures that are shown on this sheet that was handed today are from 1 January to July. That does not coincide with the figures that we would provide for that period because there is an 18-day difference in terms of that movement, similarly, with reconciling that the two months before. So there is some confusion for you, I am assuming, and for us in trying to reconcile all the numbers, given that we have been talking about some different periods.

Hon PHILIP GARDINER: Just to make sure that we are talking about the same apples, within this document there is a reconciliation issue. I am not talking about reconciliation between the documents. I accept there is none.

Hon KEN TRAVERS: No, I have one between the documents!

The CHAIR: Let us deal with them one at a time.

Hon PHILIP GARDINER: Yes. There is a reconciliation issue within this document.

Hon SIMON O'BRIEN: Can I see a copy of that?

Hon PHILIP GARDINER: Yes.

Hon KEN TRAVERS: It is the letter you sent us.

The CHAIR: It is your letter, minister.

Mr Fischer: Can I just explain these figures? I accept that there is sort of a reconciliation issue. The 1.122 was the figure in the bins at 18 January and that is essentially a control figure that we have with CBH in terms of things we have moved. In terms of the port by rail, the 605, that is moneys that we have paid the TAP payment on, so we have that figure reconciled. With the other figures, we have had to rely on numbers from CBH. At a broad level, we have sorted this information; they just have not had staff available for the last several weeks. But we have asked for additional information, particularly about the breakdown of road to rail and then road to bin. Given that is of least to us, given that we are not paying the dollars for it, I understand that it is an issue in terms of where it all goes, but in terms of how we have been reconciling the payments of CBH, we have been focusing on the 1.12. I accept that there is a reconciliation required and, again, apologise. We will have to come back to you to give you those numbers.

[3.45 pm]

Hon KEN TRAVERS: I am still trying to reconcile if that is for the period from January to August, and it was 1.12, and the figure you have given today from 1 January to 30 July is 800 000, that would suggest that there was 400 000 tonnes —

Mr Fischer: Three hundred thousand.

Hon KEN TRAVERS: Or 300 000 tonnes received. In fact, it would have to have been received at the bins between July and 30 August.

Mr Fischer: No, the 1.122 is grain that is in the bins at 18 January. So, grain gets consolidated at the bins and then the movement takes place after that.

Hon KEN TRAVERS: So, on the chart with the colours on it then, the TAP payment charts, the letter refers to the volume that is in the bins but the TAP payment refers purely to the grain that has been shifted within the network.

Mr Waldock: That is it, within the period, yes.

Hon KEN TRAVERS: I just wanted to confirm that what we are talking about here is grain, that after it has been received the first time at any terminal within the system, is that right, but on the tier 3 lines; is that what we are talking about here?

Mr Waldock: Yes.

Hon KEN TRAVERS: So, it would have been received at one of the bins, because obviously there are the six lines or seven lines mentioned there. So, we are talking about grain that has been received at a bin on one of those lines in that period 1 January—in fact, it may have been received at some time, it has been shifted between 1 January —

Mr Waldock: It has been shifted.

Mr Fischer: All we are measuring now is the grain that gets moved from those bins after 18 January. We are not recording new grain that arrives, because there would not be any new grain that arrives until the next harvest. So, we can table this today, but in the August and September there was another 203 000 tonnes moved by rail in those periods from those bins. The reason we have used the July date is that was information that came back from CBH in terms of the road–rail task. As I say, there is information that is unrelated to a TAP payment, but it related to the overall grain task.

Hon KEN TRAVERS: So, all of these things suggest to me, though, it is driven in most cases to the nearest bin; the vast majority of grain is getting moved by rail rather than road.

Mr Waldock: Over 75 per cent.

Hon KEN TRAVERS: Over 75 per cent?

Mr Waldock: That is right.

Hon KEN TRAVERS: Within tier 3?

Hon SIMON O'BRIEN: Just in this slot, within the tier 3s alone, and that is within the other global figure of the entire Kwinana zone, which is a much larger portion, this is a snapshot of a relatively modest part of the total.

Mr Waldock: And the Kwinana region is 96 per cent.

Hon KEN TRAVERS: Yes.

Hon SIMON O'BRIEN: Because ultimately about 96 per cent that arrives in port at Kwinana arrives by rail.

Hon KEN TRAVERS: Yes, but that may have come from Forrestfield, though. It may have been trucked directly to Forrestfield and then taken from Forrestfield to the port by train.

Mr Waldock: Yes, some of that could be from road, then rail; that is right.

Hon KEN TRAVERS: So, do we have the actual figures in terms of the grain task that needs to be moved out of the Kwinana south zone, how much of that is travelling by rail out of that area versus by road out of that area?

Mr Waldock: I think that first table gives you some of that; does it not, John?

Mr Fischer: I think it is by Kwinana. For clarification —

The CHAIR: Yes, that is all right.

Mr Fischer: Kwinana zone south or Kwinana zone —

Hon KEN TRAVERS: Kwinana zone south; the areas affected by the tier 3 lines.

Mr Fischer: There are some at Kwinana.

Hon KEN TRAVERS: In the west Trayning line?

Mr Fischer: West Kwinana north and south.

Hon KEN TRAVERS: So the areas affected by the tier 3 lines. I mean, there have been a number of claims. I guess to go the nub of it, there have been a number of claims made that already the task is being carried by road. And from what I am hearing today that does not stack up; that within the areas serviced by tier 3 the vast majority of the task is still being carried by rail.

Mr Waldock: Into the ports.

Hon KEN TRAVERS: Into the ports.

Hon SIMON O'BRIEN: Yes.

Hon KEN TRAVERS: After it has been received at this initial terminal, the collection point. Then, I guess, the question becomes one of: if that is what is happening now, how is the claim then made that even if you upgrade the rail, people will not use the rail even if the investment is made? If the evidence is that they are using it today, on what basis is the claim being made by people that there is no point investing in the rail upgrades because people will not use it. If all of the evidence is that at least 75 per cent of the task today is going by rail, where is the driver that says if you upgraded the rail, people will not use it?

Mr Fischer: There are two issues. The first one, related to tier 1 and tier 2, is that those rail lines require some investment, capital investment, which is re-sleepering. If those funds had to be recovered by Westnet, or ARG as the operator, that price difference would cause people to choose a cheaper mode of movement. So that is the issue relating to tier 1 and tier 2.

Hon KEN TRAVERS: And this does not seem to be any debate about upgrading all of the tier 1 and tier 2 lines, is it?

Mr Fischer: That is right; that is the first argument.

Hon KEN TRAVERS: That everyone is agreed on.

Mr Fischer: The tier 3, we are saying at the moment, we are having to put some money in to keep people on those tier 3 lines, otherwise they would move to road. And that is why we have paid an assistance package to date for over 670 000 tonnes to keep that on rail until there was improvements in other rail networks that would also make a cheaper supply chain cost to the port.

Hon KEN TRAVERS: Is not one of the drivers that the state of the rail is at a point where the speed at which you can move it is so low? That is one of the contributing factors to why people will move off rail onto road at the moment, because they cannot physically move it; but that is a product of the state of the rail as we speak today?

Hon SIMON O'BRIEN: The information provided to government through the strategic grain network review was that if the tier 3 lines the member refers to were upgraded now to an optimum condition and were available in that condition, the economics are that it would still cost more per tonne to move grain on those lines than it would to move the same grain from the same areas by road. And the reason we have a transitional assistance package is to equalise those options to give CBH the option of keeping as much of the grain task on rail as possible.

Hon KEN TRAVERS: So, as a result of the TAP payments, have we increased the amount of grain that is now travelling by rail?

Mr Waldock: No.

Hon KEN TRAVERS: We are maintaining it at the same level?

Mr Fischer: I think I mentioned last time that what has essentially happened is that prior to the deregulation of the wheat market there was some previous cross-subsidisation, and that meant that they were able to artificially keep grain on rail from this network. With the deregulation then, they have had to price competitively and so that grain moving on from those bins would naturally transition to a road. But the TAP payment allows that option to keep it on rail. So, all we have done is equal road and rail prices as it previously would have been done but not as transparently when there was regulation.

Hon PHILIP GARDINER: Can I just probe on the same issue? So, just looking at this table here, and I think you said 75 per cent if I combine the yellow column and the pink column; that gives 75 per cent, which is effectively by rail.

Mr Fischer: Yes.

Mr Waldock: That is it.

Hon PHILIP GARDINER: Okay. The deregulation occurred and applied during the 2008–09 season. Is there any comparison with what went on rail during that season compared with the season when the TAP applied? Do you understand it was significantly or materially below 75 per cent on rail?

Mr Fischer: We have done some numbers. I mean, the previous year's harvest to this one is what you are trying to ascertain.

Hon PHILIP GARDINER: Yes.

Mr Fischer: We have only been able to look at, not for every line because we do not have all the data for all the lines, but we looked at a subset of those lines. One subset we had excluded Narrogin as an example, and we compared from one year to the previous year.

Hon PHILIP GARDINER: Yes.

Mr Fischer: The previous year for the period we were able to look at was about 795 000 tonnes, of which I understand about 250 000 tonnes—and I will try to get across figures to you, if you like—was moved by rail. I will try to find those figures. I have got them.

Hon PHILIP GARDINER: I am just trying to see what impact the TAP has had on behaviour, or economic decision making, really.

Hon SIMON O'BRIEN: I am just trying to work out how we might best provide all of the information that the committee requires to meet its needs; and perhaps some of that might have to be done out of session, again by correspondence, Madam Chair. But there are a lot of things that we are considering here. The honourable member is asking the comparisons between this year and last year, and even that comparison would be difficult because you have a difference in the size of harvest, for example.

Hon PHILIP GARDINER: Sure; just a percentage.

Hon SIMON O'BRIEN: The effects of deregulation last year were very different from the regulated time, as the member knows, but then it was different this year as well. So, if you then wanted to compare with the pre-deregulated era, I do not know how well you could actually do that. It strikes me that you need to compare in the first instance, if the committee is of a mind to do so, the limited data that might be available to show the current year patterns of movement before the TAP was introduced and after the TAP was introduced. But, even then, that may not be much of a guide because there was a lot of grain still in storage pending other decisions to be made. But I would suggest to you that it is obviously intuitive that if the price for freight that you can get to move your grain by road from your place to the place of destination is cheaper than if you were to move your grain by rail, then I will bet that you, like most other farmers, would go by road; and that is pretty obvious.

Hon PHILIP GARDINER: That is the inference.

Hon SIMON O'BRIEN: I do not know how many would be community spirited enough to say, "I'll forgo \$15 a tonne", or whatever it might be, "and put my grain on rail anyway." I bet you they would not. So, that is the sort of intuitive response I would get. But as for backing it up with figures, it is not easy to immediately do so.

[4.15 pm]

Hon PHILIP GARDINER: I can understand some of the difficulty of that, but we should bear in mind that season 2008–09 was post-deregulation as well as season 2009–10, to which these numbers relate. That was the only comparison, just to get a sense of whether the TAP was actually seriously influencing a change in behaviour.

Mr Waldock: We have some figures, Madam Chair.

Mr Fischer: We have some information on how that table dips. The view is that we have been modelling, I guess, the patterns of movement for the seven months we have, with the previous seven months. I am not too sure; as the minister has described, there are lots of things that influence the movement, and I am not sure whether that is information one would use to make an economic decision. I think the broader arguments are the ones we have used to make an economic decision about the TAP payments. I think it is reasonably conclusive; unless we try to examine the differences between the patterns of movement from one year to the other, as I said, we would have to have them tabled, but I am not sure what information we would draw from it.

Mr Waldock: I think it is fair to say, though, that the percentages, broadly, are not too much different over the period. Is that right?

Mr Fischer: We are only looking at seven months. As I said, we are missing some key parts and again, I think I mentioned last time that we knew from the shipping movements that there was a significant change of transport in the early part of the year, from January to March.

Hon PHILIP GARDINER: That was intense.

Mr Fischer: That distorted a lot of road movements, because people were trying to move grain to a port and were frustrated in terms of being able to get loading facilities. As I said, comparing this year and last year with an emerging market or the influence of the marketeers, I am reluctant to say that here is some information that supports evidence of good decision-making or not; I think it is just information that does not at this stage add clarity. That is why I have not proposed to table it.

Hon PHILIP GARDINER: I can go along with the rationale that is being presented. I know the circumstances from one year to the next were particularly different, so maybe I am on the wrong tack in trying to draw any conclusions.

Mr Fischer: Can I suggest that when we examined that to try to find evidence of whether the market was significantly changed from one year to the next, once we produced the data there was a difference of tonnages for the years and there was a slightly different profile. I am not quite sure that I can say, categorically, one way or the other, whether it was better or worse. I could not use the data for that purpose.

Hon PHILIP GARDINER: Can I just pursue the same line about trying to see what the incentive of the TAP has been to actually equalise the cost of rail with road? In this same document, is there an explanation, for example, why Narrogin and Kulin had the high 34 per cent and 44 per cent road to road? Is there an explanation of why the road was so significant? In doing so, can you just explain to me road to road? I presume it is road taking it all the way to the port, effectively.

Mr Fischer: I think if one looks at a map, it is pretty evident that grain that ends up in Narrogin has the furthest rail task; it takes significantly longer to get up onto the lines, so it has inherent distance disadvantages. I think that probably explains that.

Hon PHILIP GARDINER: Okay, so why then was so much on rail? Why was there 66 per cent on rail?

Mr Gaynor: If I may, there is a combination of factors here. The first thing is that, in deregulation, there has been specific pricing, and there are also other issues about the lines being available, such as heat and the accelerated movement of grain on a particular mode to get down, particularly to port. In the case of Kulin, in those particular months rail was operating quite well. At some other sites, there was a spike in road; for a variety of reasons, they could not move it by rail in those particular months. Picking up on John's issue about Narrogin, it is exactly that: the bin price at Narrogin by rail, as I recall, is higher than by road, going to port. There are combinations of reasons why, depending on particular bins and lines.

Hon PHILIP GARDINER: Does that mean that the TAP for Narrogin was not set appropriately to have more on rail? I am intrigued to know why 66 per cent went on rail. I do not totally buy the

thing about the temperature of the rail and everything else. This is covering the period 1 January to 31 July, and there is still wheat at those sites, and many of the sites are on rail around the state right now. I do not know about many; a number, anyway. I am just intrigued about the behavioural pattern, given that the TAP was in place. One of the criticisms that I am arguing about with my colleagues is that, despite the TAP, there is so much on road. What is going on?

Mr Fischer: The Narrogin line includes bins at Beverley, York, Brookton and Narrogin, so there will be a split. Most of the TAP has been provided from grain that has arrived at Brookton or York; very little has come from Narrogin, so without getting into the detail of the road task from each bin, I would assume that to come up with a précis about the economics of bin pricing and its influence on the road transport task.

Mr Gaynor: If I may, one other reason is that a fairly large percentage of the catchment of those bins is west of the line, so it is an argument of moving back east to get onto rail to go a long distance, rather than moving directly by road, so it is not captured east of the line; it is grain being harvested to the west of the line.

Hon KEN TRAVERS: In terms of the business case, are we actually modelling on a bin by bin basis what the cost of rail versus road will be, and what is required to upgrade the rail network to that bin to make it competitive with road?

Hon SIMON O'BRIEN: I think the point that needs to be reiterated here is that our advice is that if we were to provide an upgraded line in a particular tier 3 location, the scenario then would be that the cost of freight by road would still be cheaper and more attractive to the purchaser of that freight requirement. That is the thing that makes it difficult. If we could somehow wave a magic wand and all the tier 3 lines we have been discussing were upgraded —

Hon KEN TRAVERS: What I am asking is: are we modelling what we would need to do to make them competitive? The minister is starting from the point of having been told that they are not competitive, but I am asking whether we have looked at what would be required to occur to make them competitive; we can then contrast them to roads, which we can get onto in a minute, so that Des has not wasted his time coming today.

Mr Waldock: I thought it might be worthwhile to go through the Strategic Design and Development report. It went to great lengths to look at all the logistics chains and as part of that, it actually put in all the costs and likely tonnages. It came out very clearly, as I understood it. It is not just about the speed or track loading, it is about the road use. The report goes into some detail about modelling those particular lines and arguing that under the scenarios it painted, those lines would not be economic, and that even if government did, in fact, upgrade those lines, as the minister says, they would not be able to stand the test of competition. Is that right?

Mr Gaynor: That is correct. For the tier 1 and tier 2 networks, the report shows that, with the investment in resleepering and reballasting to a 19-tonne loading, if that investment were made, those lines would compete in terms of a price signal to growers or the freight rate, with road. For the tier 3 network, the report indicated that if we did the same equivalent upgrade of resleepering and reballasting, there would still be a price differential between road and rail.

Hon KEN TRAVERS: I understand that, but that is not what I am asking. I am asking whether we went to the next step to ask what we need to do to make it competitive, so we knew what we would need to do to make the price of rail versus road for a farmer taking his grain to the Quairading bin as cheap to drop it at that bin as to drive it to the port.

Hon SIMON O'BRIEN: Is the member talking about an ongoing subsidy or something of the like?

Hon KEN TRAVERS: I am asking what we would need to do to make the system efficient enough to deliver the same price by rail as it would cost by road.

Hon SIMON O'BRIEN: We can only go by what is in the marketplace. The government does not run the railway, so cannot offer the sort of artificially low price that I think the member's question seeks.

Hon KEN TRAVERS: That leads to the next question of how much of that cost structure—the differential between road and rail—is related to the rail access component of the freight charges. If we move something out of Quairading bin to the port, how much of that is actually picked up by rail access charges? If we move it by road, there is no road access charge.

Mr Fischer: It is a different pricing arrangement.

Hon KEN TRAVERS: I know, that is why I am trying to get to this. Part of the problem is that we compare apples with oranges; one has a set of charges and a range of parameters. We are saying that that cannot match this one, but we are not actually drilling in to see why the apple does not match the orange. What are the drivers that are causing that, as opposed to drawing a big picture, which is what the report does, and looks at it at a macro level.

Mr Fischer: It did a bit more than that, I think. It examined pricing signals and did some scenario modelling to try to see how sensitive those pricing signals were. We are looking at a whole different pricing mechanism of user charge and like for like, but if we increase the price of fuel or have a carbon tax, in one sense, it would test the sensitivity of those things, and those questions are probably more realistic in the short-term frame, which is what we are examining, as opposed to bringing in a whole different pricing regime. In that sense, it should be the Kwinana zone. The bins identified in the report as being insensitive will always be attractive to road, regardless of the pricing regime—whether it is two dollars for fuel or carbon tax or whatever. They will still always be attracted to a road pricing signal. In that sense, the report has tried to examine, without going down the path suggested by the member, to take some account of that.

Hon KEN TRAVERS: I note my colleagues are wanting to move on. One of the difficulties of that is that once we have competition in the market, we get those pricing signals. Once we lose competition from the market, we will not have those pricing signals. The fact that we can even do that exercise at the moment, from Quairading—I am not sure that we are convinced that you have—into the port, once you remove the rail system from there, then you only have the road. You only have one option to get it from Quairading, and whether it is to Brookton or to the port directly, the section from Quairading to wherever—under the review it would actually suggest Quairading goes north—there is no competitive pricing signal then, we will only have the road. At the moment we have a competitive pricing signal, but we will not have that if we lose the rail.

[4.30 pm]

Hon SIMON O'BRIEN: The only thing that makes it competitive is this transitional assistance payment. That is what it is, and that is what is contained in the budget. This is after all an estimates hearing.

Mr Waldock: But if you take away the rail option, we would argue that the road industry is so competitive that I do not think we are going to see massive cost blowouts in road transport. I mean it is a very competitive industry, as we all know.

Hon PHILIP GARDINER: I think that could be open to conjecture, Reece. Can I just take up the issue on a different tack; the minister knows from where I am coming on this. The competitiveness really is that rail has got some access fee and other costs; road does not have that, because we are not fully reflectively pricing to road. Taking away the political aspects of this thing, and I know there are serious political aspects to it, have we yet done any analysis about whether the TAP is similar to the reflective costing of road, which makes a cartage of grain from point A to point B, or does the TAP underestimate what that fully reflective cost of road would be if it was reflectively costed, before taking grain at a fully reflective cost on road from A to point B, where there was a rail option? In other words, if I am carting from Morawa, let us say, to Kwinana, if I want to do it

with my truck, I would be charged the fully reflective cost of the road going from point Morawa to Kwinana only because I have got a rail option where I can deliver my grain to the CBH site at Morawa; it goes on the rail and gets to Kwinana that way. The question is: have we done that exercise to seriously work out what the cost is on road if it was fully reflectively priced? Because that is the only way we really get an apples on apples comparison between road and rail.

Mr Fischer: The answer is no.

Hon PHILIP GARDINER: Okay, I think Walga might be beginning to do an exercise on that, for what it is worth, just on a couple of places to try to see whether it could be done.

Mr Fischer: Look, you would have to effectively privatise the road system to look at all the aspects of these costs, the same as you do with rail. Rail is a significant pricing signal and then trying to provide access to charge for this. I would suspect that on the low volume of truck movements for this, it would be very uncompetitive for road.

Hon PHILIP GARDINER: It would be uncompetitive for road under those circumstances.

Mr Fischer: Road has provided a different purpose than just a single operation.

Hon PHILIP GARDINER: I understand, and that is why it is a little bit complex to work out, I accept that.

Mr Fischer: We have not done that work; I do not think anyone has done that work.

Mr Waldock: We discussed it last time; this is a huge public policy issue around the nation.

Hon PHILIP GARDINER: It is.

Mr Waldock: Even heavy vehicle charges, which are going through enormous consideration at the national level, ATC, now, as we discussed during the last meeting, all they attempt to do is pick up the direct costs of roads and maintaining and building roads. They do not look at the externalities, the way it costs. So, to come in and look at sort of a subset of a subset, how we might find policy at a local jurisdiction level, is pretty unrealistic, I would have thought, in terms of how the state might respond to these issues.

Hon PHILIP GARDINER: You may be right Reece, but the issue is that rail is only competitive when you have trainloads. And you only have trainloads of two things basically, currently: mineral product or grain. So when you are talking about general haulage or anything else, rail cannot be competitive, because it just does not work. In a way, we are talking about differentiating between products, but that is the only thing that rail can do; whereas if the road is there, for that you have got to have, I think, an apples for apples pricing basis.

Mr Waldock: I think we are all pretty much in furious agreement, for bulk products and certainly for mining products and even agricultural products, that if we are sensible, rail is clearly the way forward. But to then suggest we look at some sort of differential pricing for some of these products: one, I do not think we can do it on a legislative base, we have not got a legislative base, but even if we did, I think these things need to be tackled on a total national perspective, rather than looking at the small subset of Brookton. I just do not think that on a public policy sense we could possibly look at it on that basis, and as John said, even if you did, trying to actually break down the costings, because it is a marginal cost, above and beyond, I think would be incredibly complex. And whatever we do, I think we would have World War III. I think what we have tried to do is to take a pragmatic approach on this, which I think industry is really supporting. It is not as if we have not gone to two years of consultation on this; it has been pretty painful and pretty convoluted in many respects.

Hon SIMON O'BRIEN: That is right. In summary, Madam Chair, in order to achieve the desirable outcomes that we want to achieve, and keep the status quo to the extent that we can, of grain on rail vis-a-vis road, the minimalist way to do that in terms of imposition on the taxpayer is via the TAP, which was included in this budget and that is where you are inquiring into. The other questions of

establishing a road user charge, either in a discrete area or statewide, would be a massive intervention that we do not think is warranted. Maybe in due course we will see such a road user charge introduced, but there are many, many policy considerations as has just been indicated. That is all something that is prospective in the future; it is not contained in this year's budget.

Hon KEN TRAVERS: With all due respect, the issue is not necessarily that you have to introduce a road-user charge, but you need to know what the inherent subsidy for road use is. Then, if you are going to subsidise the road use, it may be more economical for a government, through a TAP or whatever, to be subsidising the rail use because you actually identified that you are putting a subsidy onto the road. That is why you need to understand what the true cost of the road is and what the true level of subsidy being provided to the industry is, because then from a government point of view, your choice may be, "Well, we would prefer to subsidise rail, because it actually works out, for a whole range of reasons, better, including keeping competition, including reducing externalities like road deaths and the like by getting that freight task off." I guess the third question that comes into that, which is the one I was alluding to earlier is: what are the standards that we are going to apply to the roads? When you last came before us you suggested that the cost—you have done the work—of the road network upgrades were actually going to be less than was contained in the Matthews report. Is that still the case and on what basis of standards are we working when we calculate those figures?

Hon SIMON O'BRIEN: I think I also indicated that that matter was the subject of cabinet consideration at this very time, so there is a limit to how much I am prepared to canvass there. Again, if we wanted to get every bit of grain transferred by rail, I suppose government could wave the carrot of taxpayer funds to do it. But it raises a whole range of other policy considerations, in relation to, "Do we subsidise one area and not other areas?" Why should farmers in the Great Southern, for example, not receive what is basically a cash subsidy when people in the eastern zone do?

Hon KEN TRAVERS: Minister, I think you are missing my point to be making that comment because I was saying that you have got to work out whether you are already paying that subsidy by your road network. You are already paying it, it is not that you are going to make an additional payment; you are already making a payment via the money that you spend on your road network.

Mr Waldock: If I could just say —

Hon SIMON O'BRIEN: Just let me finish. The fact of the matter is that this situation is still evolving. We have discussed earlier in this hearing, and not for the first time, that in the last three harvests, including the current one, there have been dramatic changes in the market dynamics in and around the regulation, let alone changes in climate and yield, and the situation is still evolving. What we want to do is to preserve our options for the future, and that is the reason why we have taken the proportionate response in this budget that we have taken. But I have no doubt that there will be further developments, and all of the questions that are being put will be visited.

Mr Waldock: If I could just support that. If you speak to the trucking industry and, you know, MCC, they would argue that in fact heavy vehicles do pay their way. I know we have got some issues around this table, but they certainly would argue, and under the new reforms for heavy vehicles they would strongly argue, that in terms of direct financial costs we will be seeing heavy vehicles paying their way on roads. I guess the issue then is to argue, "Let's leave aside externalities and all that, which is a totally different issue. They either are now, or will be, paying in the future reform process for heavy vehicles." It is important to understand, and we did raise this in the previous meeting—you look at the quantum—that despite all the issues, as the minister says, each annual quantity and the like, and how you adjust for that, if you look at the number of vehicles on these particular lines, this is the number of trucks per day that we will be seeing increased on these lines, I think that we probably all have a misconception about the numbers. In fact, I spoke to Mr Snook before I came into the meeting, and we have got numbers on these lines, on most of them,

averaging somewhere around two to three trucks extra per specific subline per day. Mr Snook would say, “That is based on a b-double”. In fact, he would argue that will not be the way they will be carried—they will be carrying in fact larger trucks. So indeed, we will be seeing volumes of even less. We are not talking about gridlock with large trucks; we are talking fairly small numbers. When you think about the small numbers, you think of them and the policy interventions, you realise that it just would not be sensible.

Hon PHILIP GARDINER: Reece, there are assumptions there. If it was the 2008–09 season, you would not be seeing just an extra three trucks—you would have 12 months, which I presume is what you are talking about.

Mr Waldock: That’s it.

Hon PHILIP GARDINER: You would see it concentrated into the first two months of the harvest year, January, February, maybe March. That is how it occurred in a particular year.

Hon KEN TRAVERS: I will get the CEO of York to give you a call the next time they are unloading the Quairading bin through York, and I am sure if you go out there he will show you how many trucks go down the main street on an hourly basis!

Mr Waldock: I am sure, but that has actually been happening to some extent anyway. What we are talking about here is the additionality. If you look at the additionality, even if you look at the peak months, I think you would see that we are talking about fairly minor numbers in the total transport task. That is our assessment and we are happy to share that with you.

Hon KEN TRAVERS: On that basis, the freeways will not reach capacity for some time yet because if you spread the traffic load over the full 24 hours we have not got a problem!

Mr Waldock: John has got a spread of months, haven’t you John? Whilst there is a peak, there is no question; we are talking still relatively small numbers.

Hon PHILIP GARDINER: And it will vary from one year to the next, we know. When you said we were in fierce agreement before, Reece, I sense we are all in fierce agreement, what the issue is about is the time frame. At the end of the day, in 20 or 30 years’ time, we want to have all the rail we can possibly have. Right now we have got the luxury that we can get away without it, but that is a luxury that we want to be very careful in costing in the decisions that we are making now. Because I suspect that once the rail goes —

Hon KEN TRAVERS: It will never come back.

Mr Waldock: This plan though will put us ahead of any other state in Australia in terms of long-term sustainability in rail. It is miles ahead—look at what is happening in New South Wales now.

Hon PHILIP GARDINER: I understand that.

Mr Waldock: This is a very forward-thinking plan. I just remind people, we are not actually closing the lines, we are ceasing operations on those lines. So it is not as if we are cutting off future opportunities, but it just does not make sense to run that business as it is. That is our judgement, and it is not just our judgement, it is Sd+D’s and that of a very large group of people that have been working on this for a number of years.

Hon PHILIP GARDINER: On the assumption that road is not fully reflectively priced for carting grain—that is the assumption that you make when you say that.

*ward: And I just keep coming back to the earlier point how you would actually —

Hon PHILIP GARDINER: To the political thing, fair enough, so it is a time frame issue here. Yes that is the mill; that is the issue.

Hon KEN TRAVERS: I just want to be clear from the minister’s answers. Are you saying that the standards that you will upgrade the roads by to meet the task are still subject to deliberation by

cabinet? Because when I asked that question you said you could not answer it because it was subject to—and I was just wondering whether it was that element or the bigger package of how much you are going to spend on the roads.

Hon SIMON O'BRIEN: In addition to what has already been announced, the further actions by government are currently the subject of cabinet deliberation.

Hon KEN TRAVERS: But is there a standard set, at the moment, as to what road standard you will require for the roads that will now take the task if the rail ceases to operate?

[4.45 pm]

Has that been determined, or is that still part of the cabinet deliberations—the standard that will be set, such as the metre seal?

Hon SIMON O'BRIEN: You are inviting me to trespass on areas that are the subject of cabinet deliberation at the moment. In order to respond to your question, you are asking me to say that cabinet is or is not determining one thing or another. By definition, I am constrained from responding to that. That is a convention that has long been established.

Hon KEN TRAVERS: Except if there is a clear policy of cabinet, you are allowed to announce it. You could tell us that. That is what I am asking. There is no public standard set by the government at this stage. That is the question.

Hon SIMON O'BRIEN: I do not understand the question.

Hon KEN TRAVERS: Fair enough.

The CHAIR: Minister, I am aware that you had a time constraint —

Hon SIMON O'BRIEN: Four o'clock.

The CHAIR: You have been generous to date. I wonder how members are going with their questions. In that case, I will check. Will members have additional questions? I indicate that a transcript of the evidence will be provided and we would appreciate you checking and responding to that transcript at your earliest convenience. We thank you all for your attendance this afternoon. We appreciate your assistance in our inquiry.

Hearing concluded at 4.47 pm