INDEPENDENT PRICING AND REGULATORY TRIBUNAL

RECOMMENDED MAXIMUM PRICE FOR ETHANOL USED IN AUTOMOTIVE FUEL BLENDS

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OPENING REMARKS

THE CHAIRMAN: Good morning, my name is Peter Boxall and I am the Chair of IPART. With me are my fellow tribunal members, Catherine Jones and Ed Willett, and members of the IPART secretariat.

I would like to begin by acknowledging that this public forum is being held on the traditional lands of the Gadigal people of the Eora Nation.

Welcome, and thank you for making time to attend this morning.

Today's public forum relates to our recent draft report and recommendations on a maximum price for ethanol used in automotive blends like E10.

The New South Wales government asked IPART to recommend a maximum price for ethanol as part of the exemptions framework for the ethanol mandate in New South Wales. The ethanol mandate requires that major fuel sellers ensure ethanol accounts for at least 6 per cent of fuel sales each quarter.

The minister may exempt a major fuel seller from complying with the mandate if it can satisfy the minister that the price at which it purchased ethanol for the production of E10 exceeded the price determined by IPART. Other grounds for exemptions would continue to exist including that a major fuel seller has taken all reasonable steps to comply with the mandate.

Our terms of reference ask us to have regard to protecting consumers from potential abuse of monopoly power and to the efficient costs of supplying ethanol.

In making our recommendations, we consulted with a wide range of stakeholders and considered a large amount of information. We commissioned expert advice from AECOM on efficient new entrant ethanol production costs.

We developed a framework to guide our approach to recommending a maximum price. Our framework takes into account the fuel choices available to consumers and competition in the wholesale ethanol market. We will go through this in more detail shortly.

Our assessment is that, currently, a light-handed approach to recommending a maximum price is appropriate. We found that there is enough consumer choice in fuel and competition in the wholesale market to protect consumers. Low oil prices are also imposing a market constraint on ethanol prices.

We consider that an import parity price methodology for a maximum price would support a sustainable biofuels industry. It would also allow emerging competition in the wholesale ethanol market to continue to develop. We are proposing to monitor and report annually to ensure our approach remains appropriate.

We are keen to hear from stakeholders on our framework and proposed import parity price methodology.

Shortly, Cato Jorgensen, from the IPART secretariat, will provide a short overview of our framework and draft recommendations. Then Mike Stoke and Simon Ward from AECOM will give an overview of the advice they provided for this review.

Following this, there will be an opportunity to ask questions or comment on the draft decisions.

There is a transcriber present to record the proceedings and the transcript will be publicly available. So that we can have a complete record, please introduce yourself when you start to speak.

I now invite Cato to make a short presentation.

OVERVIEW OF IPART'S DRAFT RECOMMENDATIONS

MR JORGENSEN: Thanks, Peter.

As Peter was just explaining, we developed a framework to guide our approach to how we recommend the maximum price for wholesale ethanol and it is shown on the screen here.

Under this framework, the approach would depend on two key factors which are: the degree of choice in retail fuels available to consumers; and the extent of competition in the wholesale ethanol market.

A greater level of consumer choice and more competition would suggest that a light-handed approach would be appropriate, but if there was a lower degree of consumer choice and little competition, we consider a cost-based approach to determining the maximum price would be appropriate.

In coming to our draft decisions we considered a wide range of information and found that:

Consumers have a relatively high degree of choice between retail fuel types;
There is emerging competition between the ethanol producers on the east coast with additional producers in the pipeline; and
Lower oil prices are also constraining current wholesale ethanol prices.

On this basis, we consider it appropriate to use a light-handed approach to determining the maximum price for ethanol.

In our draft report, we proposed that the most suitable light-handed approach to determining a maximum price would be to use an impart parity price - IPP.

The IPP represents the upper limit of what a fuel wholesaler would be willing to pay for ethanol as it is the price it would face if it imported ethanol from overseas.

By using a maximum price that effectively already exists, we expect that our approach would have a minimal impact on the market for wholesale ethanol. In particular, we expect that prices for wholesale ethanol will remain below the IPP and our recommended maximum price. We consider that this approach will allow competition to continue to develop and that it will support a sustainable biofuels industry.

Our proposed IPP methodology includes the following cost components:

The price of fuel ethanol at the international export source, including local freight costs and port costs;
The costs of sea freight from the source location to the east coast of Australia;
The costs of landing the ethanol in Australia,

including import excise, customs value duty and wharfage;
Since we are proposing an IPP for ethanol delivered to the fuel wholesaler's terminal, it would also include the costs of storing ethanol at an import terminal and transporting the ethanol to the wholesale terminal.

We have also been asked to monitor and report on the retail market for E10 and we are proposing to do that on an annual basis. As part of this annual process, we are also proposing to monitor and report on the degree of consumer choice and the extent of competition in the wholesale market. This assessment will consider whether the light-handed approach to determining the maximum price remains appropriate or whether a cost-based approach or no price regulation would be more suitable going forward.

We will consult separately on our approach to annual monitoring and reporting and we expect to release an issues paper in March next year, with the first monitoring report delivered by the end of the year.

THE CHAIRMAN: Thank you very much, Cato.

I now turn to Mike Stoke and Simon Ward from AECOM to provide an overview of their advice on efficient new ethanol production costs.

PRESENTATION BY AECOM

MR STOKE: Thank you, Peter.

The report and the financial model are available to you all and I am sure you will all have had a look at it. This will be just a quick summary of the approach that we took, the findings we made, and I would be happy to take questions at the end of the presentation.

The report focuses on new entrants. It does not look at existing players. It was designed that way by IPART. In order to get the impact for new entrants, we have effectively had to build up the cost models from the ground up; in other words, we have not used any confidential material from any of the existing players. It is highly likely that there will be some differences in costs between our models and the local existing players for their own special circumstances.

The slide that is in front of you at the moment gives you a very quick overview of how we did it. We were able to use plant designs that were sourced from the United States and Europe as a starting point. We used our own quantity surveyors to estimate the costs of materials and plant and worked up from there.

The next slide is a bit hard to see, but you can look at the big picture. The first step was to try and work out the mass balances, so we had a process engineer as part of the team, a chemical engineer who worked out the mass balances for us.

From there we looked at the structure of a plant. In the appendices to the report are the details of the plant that we considered a new entrant would have to put in place in order to produce ethanol from a particular feedstock.

Moving to the next slide, we have chosen here as the example grain because currently it is the major source of biofuels in Australia. We have looked at six or eight different feedstocks, grouped loosely, of course, into grain-based, sugar-based and water-based/cellulose-based, and we will comment a little bit about that later on.

Having looked at the plant size in order to do the valuation, we chose to do the production of ethanol for the same size plant in all cases to give a feel for differences between the feedstocks. In all cases thus far, we are dealing with 100 megalitre plants, and later on we show the impact of scale.

On the left-hand side of this slide are wheat exports. You are well aware that wheat exports have been increasing considerably over a period to a point of oversupply in the market. On the right, is a chart which we have done for all the feedstocks to show where we think the source of feedstock is, how big it is, and what the yield could be. Although we are dealing here with 100 megalitre plants, in practice if you were to focus on a plant on that source of feedstock, the plant would have a different size and therefore the economics would be different.

In order to do the comparison, all our costs are expressed in per litre terms - per litre of ethanol - so you have a set of charts like that. With this one, for example, for new entrants into grain, it assumes that you have starch available, so there is a purchase cost. Then there are other cost elements building up towards the return on the investment, on the capital, offset finally by co-products because they can be sold depending on the feedstock. So you arrive at the final price, in this case, of 64 cents per litre delivered to Sydney.

Some of the feedstocks are not present in New South Wales in sufficient quantities, so some of the ethanol production is assumed to be in Queensland. In all cases, we have included the shipping costs through to Sydney to do a direct comparison, so we are talking here about the delivered price to Sydney per litre of ethanol.

When you look across the feedstocks that we looked at, you can see up there at the moment the comparative cost of the feedstocks on the left and then the comparative cost of production, all in dollars per litre. What you see is that the cost of feedstock, for example, on cane trash is low. Cane trash is a viable source of cellulosic. It has no other use, it is generally burned, so there would be some benefits to the environment if it were able to be used for this purpose. Unfortunately, the capital cost involved is quite high, so the cost to the market is high.

What we have here are three different forms of feedstock. The differences between them are largely the extent to which existing processes contribute towards the cost of the ethanol. For example, if you have grain, the fact that you have produced the gluten first and then you use the starches means that there is a step in the process that has already been taken care of and paid for by the production and sale of gluten.

If you look at the sucrosic, you get the same sort of thing - the sugar has been sold, therefore affecting the cost. The cellulosics, unfortunately, have no prior step, so cellulosic options tend to be considerably more expensive. Although the scale is there and the opportunity is there, the cost of processing is higher.

Finally, we can move from looking at the 100 megalitre base case, if you like, to what would happen with scale. This chart here is to show what happens as you scale up. What you have is the price per litre - the delivered price per litre - decreasing on the left-hand side and the scale of the plant increasing on the right-hand side. There are significant economies of scale available, which means you are a bit reliant on the size of the actual plant that you can make associated with the feedstock in that location. It is quite clear that wheat-based ethanol has a substantial price advantage and you can see the ranges for the other products up there.

The final step was to say, "From Australia's point of view, what would be the cost of production of ethanol bearing in mind the availability of feedstock?" What we have on this slide is an average price for wheat-based ethanol. That is slightly under 60 cents, registered across all sources, which could deliver in theory about 1,300 megalitres per annum.

If you then need more than that - so if the mandate is increased, for example, or if Queensland steps in and effectively there is greater demand - the next step is the sucrosics, the syrups from molasses, which is made in Queensland, and the next step up would be the sorghums. Then you finally get to the cellulosics, apart from, on the right-hand side, the cane and the forest residues, where there is more capacity but the price will be much higher.

This represents, as we have developed it, the most efficient price of production across each of the feedstocks based on the plant sizes actually available depending on the scale of the feedstock available.

We then have a couple of conclusions. The capital investment involved is significant, especially with the cellulosics. The feedback from the industry is that some form of market security may be necessary to encourage investment. Security of access to some feedstocks may be a problem. We have oversupply in some areas. We have some feedstocks in significant demand in other parts of the world, so they are exported in their own right and therefore not available for ethanol production or not available at a price that suits ethanol production.

The final point is that the cost of production may reduce in the future. So with cellulosic production, which is attractive in that the feedstock involved is plentiful in New South Wales but is expensive to manufacture, there is some prospect for that into the future. Thank you.

THE CHAIRMAN: Thank you very much, Mike. Let us move on to questions or comments. Would anybody around the table like to go first, Peter? Greg?

QUESTIONS AND COMMENTS FROM STAKEHOLDERS

MR PETER STRETTON (Manildra Group): We have no particular comments to make. We were very happy to contribute to the findings in the report and to contribute and cooperate with IPART. We found the whole process to be very well run and very well managed. We were also quite happy to provide information on a confidential basis. We have been very open with our information and we trust that the members of IPART could see that.

With regard to the report itself, we have a few comments to make, which we will provide back in writing. However, on the whole, we thought the report was very well done and very well prepared. It was quite accurate in its findings, as with AECOM's report as well. We really have no comments on that.

Everyone is a little bit different. With our costs - we are obviously wheat, with offsets to that through starch production - we are a little bit different. However, overall, we don't have any particular comments in relation to the AECOM report. Overall, we thought the process was very well done.

THE CHAIRMAN: Thank you very much, Peter. Greg, do you want to raise any issues?

MR GREG HOUSTON (Houston Kemp): I don't have too much to say. There is one thing that caught my attention. First of all, I think the framework for thinking about the form or the degree of regulatory intervention is a good framework. In that framework, you look at the consumer choice and you look at the competition on the production side, so that is sensible.

Under that framework, you only need to have, at least on the production side, effective competition, and only one of those things needs to be fully satisfied under your framework to have a conclusion of no regulation. I guess I can see, on the production side, that competition there is an emergent circumstance.

On the consumer choice side, you said it was high or very high, but you held back from a conclusion that consumer choice might be unrestricted, which would tip you into the no regulation conclusion.

I would be interested to hear a little bit more about what circumstances you would hope to see before you could conclude that there was unrestricted consumer choice because it strikes me that it is hard to see how consumer choice is restricted at the moment.

THE CHAIRMAN: We said it was relatively high rather than very high. It is a question of judgment, there is no formula, but there is evidence that with the mandate, there is restricted supply in terms of regular unleaded.

Indeed, as an example, the ACCC has just put out a review of petrol in Armidale. I just happened to get it this morning. I will not go into the ACCC's conclusions but there is a note in here. There are currently eight retail sites in Armidale - this is Armidale, New South Wales, in New England. Only three of these retail sites sell regular unleaded. The remaining retail sites sell E10. There is only one retail site which sells both E10 and regular unleaded. All eight retail sites sell at least one of premium unleaded - PULP - 95 and premium unleaded 98, with six selling both.

The point I want to make is that it is possible without the mandate - if there was no mandate at all - that you would have a different configuration of regular unleaded across the eight sites in Armidale. Obviously the mandates had an effect in terms of the types of fuels that are available and how widely they are available. That is part of what the mandate is trying achieve - that is, part of a mechanism in order to achieve the 6 per cent mandate.

We have formed a judgment that the consumer choice is relatively high. If you live in Armidale and you are really hell bent on getting regular unleaded, you can get it, but it might not be as convenient as might otherwise be the case.

In terms of where would this tip over where it would fall into, in a sense, the no regulation zone - in other words, very high or completely unfettered consumer choice - that is a matter of judgment. One reason why we are proposing to review this each year is to take stock of the situation and make a judgment about whether we think it moved into the no regulation zone or indeed moved back where we think cost of production would be more appropriate.

MR HOUSTON: Thank you.

THE CHAIRMAN: Who else would like to make a comment? Gavin?

MR GAVIN HUGHES (United Ethanol): We own the Dalby Bio-Refinery, which is a sorghum-based plant.

I suppose my only real comment would be to echo the same sorts of things that Peter said. The structure and the approach that has been taken in thinking about this topic has been quite sound and solid. There are details which we would see differently, but it is all within the bounds of what is reasonable. So, yes, we support the process and we think it has been quite thorough.

THE CHAIRMAN: Thank you very much, Gavin. Mark?

MR MARK SUTTON (Biofuels Association):   Mr Chairman, I would like to echo those comments about a thorough process. Our members obviously participated in it. We believe you have come up with the right balance. Obviously some of our members would preferably like to see no intervention at all, but the structure of it and the thought processes behind it have won support.

Through you, I am interested in what the terms of reference would be for the annual review of the process going forward. If we could get some colour around that, that information would be helpful.

MS TOWERS: That's what Cato was saying. We will put an issues paper out next year and we will raise how we will approach retail monitoring. People will get an opportunity to comment on that before we finalise that approach

MR SUTTON: Would that include collaboration with the ACCC and their statistics?

MS TOWERS: Obviously the ACCC does quarterly reports. We are conscious that, we are not just duplicating what the ACCC does, but we will raise that in the issues paper.

THE CHAIRMAN: That will be one of the issues that we will discuss.

MR SUTTON: I have one point through you, Mr Chairman. On the last page, you talk about the US and Brazilian prices.

MS TOWERS: We are coming to that. Is that from the slides?

MR SUTTON: Yes. You will come back to that?

MS TOWERS: We will come back to that

MR SUTTON: Sorry, for jumping ahead. I'll stop talking now, I promise.

THE CHAIRMAN: Thanks very much, Mark. Lachlan?

MR LACHLAN MALLOCH (NSW Fair Trading): I am the policy manager for the reform project that is going on for the biofuels mandate. Those new laws will be commencing on 1 January 2017. I am really just here as an observer, to be honest with you, to hear the views of the industry and IPART.

THE CHAIRMAN: Thank you very much, Lachlan. Would anybody like to ask a question or make a point from the floor?

Now might be a good time to do a bit of a rundown on the Brazilian and US prices which will feed into the import price parity.

IPP METHODOLOGY

MR SMITH: We chose to use the ESALQ's source of prices from Brazil in our report. One of the reasons we used that is because it is freely available and it improves transparency and reduces costs for stakeholders. We did say that, ideally, we would use a US source of prices as well and perhaps choose the lower of the two, and we have come across, since we released that draft report, a source of US prices from the US Department of Agriculture. Weekly average ethanol prices are taken from nine of the top producing states. Similar to ESALQ, they are mill-gate prices, so we would need to include some transport costs on top of them as well.

We have done some preliminary work on that, which suggests that those transport costs are not too dissimilar from importing ethanol from Brazil. We have put those into our IPP model that we released with our draft report.

I would point out that we have used the same transport costs for the purposes of comparing the two price series, but one difference is that, under the US Free Trade Agreement, there would be no customs value duty on ethanol from the US, so that makes about a 3 cents difference.

With that in mind, just comparing the IPP based on the US price and the Brazilian price, at the moment sourced from Brazil, the price is around 140 cents a litre and that compares to around 115 cents a litre from the US. You can see that time series there, and, just at the moment, there is quite a difference between prices in the US and Brazil. This is something that we would like stakeholders to comment on.

THE CHAIRMAN: We have updated the 135 in the report for 140.

MR SMITH: That's updated from our draft report, yes.

MS TOWERS: For the period to 4 December.

THE CHAIRMAN: Would anyone like to comment? Greg?

MR HOUSTON: How have you sourced and calculated the domestic land transport costs for both Brazil and the US? It would seem to be quite a challenge to do that in a way that conforms with the transparency objectivity ideal. Can you give us some details on that?

MR JORGENSEN: I think in our draft report, we used an estimate from an earlier report by EnergyQuest for the land transport in Brazil. For the US, there is information available and our preliminary analysis of that has shown that it comes out at about the same costs as we had in the draft report for Brazil. But we are sourcing more information on both of these to get more up to date and accurate estimates.

MS TOWERS: We are purchasing data.

MR JORGENSEN: Yes, exactly, so I think we are looking at potentially updating once a year the local freight costs at this point.

MR SMITH: On that scenario, we would certainly welcome any information being passed on that is relevant.

MR STRETTON: I am surprised that there is a big difference between the two prices. From an economic point of view, that is a bit weird in the way I would think about things. At those prices out of Brazil, they would never have exported ethanol. Between the US and Brazil they are the two largest ethanol exporting countries in the world obviously. However, on that, Brazil would not export a litre.

I think a little bit more work might need to go into it, because, as I say, from a pure economic point of view, there seems to be too much of a gap. Whatever the gap might become, if you are going to use always the lowest one, I would not say that would be unfair, but I would suggest possibly using an average of both Brazil and the US, because both Brazil and the US export ethanol, they will continue to export ethanol and they will need to be competitive to do it.

Our experience has been that there is a lot of Brazilian ethanol coming through the Asian region, but that would not happen on these prices. As I say, maybe just a bit more work needs to be done. Whatever the outcome is, I would also suggest you use an average of the two. Using an average of all the states, that's fine, but just make that a consideration.

MR JORGENSEN: I will give a little bit of background information on that. Sugar prices in Brazil are apparently skyrocketing, which is why you see higher ethanol prices out of Brazil. Exports from Brazil are actually dropping and have been in the last few months, so you see that effect of the higher prices in transport as well.

MR STRETTON: I think you will see the future price for sugar starting to come off.

MR HUGHES: I was actually one of the co-authors of that

EnergyQuest report regarding Brazil's background, having spent 15 years in sugar. I think the comment that Peter makes is exactly right. That differential will not remain. There might be something which is right there right now, but it certainly will not remain because it is just not sustainable from a market point of view, so those numbers will come back together. Whether one lifts or the other one falls, there is a demand and supply sort of curve which actually underpins what changes in there. I think there needs to be a lot more serious thought in terms of the way that that is actually put together.

I am also a little bit unclear as to how, with the devaluation of the Brazilian real, you have actually looked at the currency effects on a lot of those costs of the Brazilian industry. You have probably looked at this, but I have not looked at it for a little while. I think it is getting up to fourfold from a historical 2.2 type of exchange rate with the US dollar. That also will have a massive impact on costs internally which will not be reflected in that EnergyQuest report, and you have to actually go back and look at that stuff again as well. I think there is a bit of a structural element to that also, with the change in currency, which is probably not taken into account in your current analysis.

MR WILLETT: You can already see in that graph that there is a fair bit of volatility and a fair bit of interchanging between the two prices as to which one is higher and which one is lower - which is what you would expect to see.

I think it is also worth recognising that these are spot prices. They do not necessarily tell you what is in the contract market or a lot about what is in the contract market. However, they are the numbers we have and we are trying to use them as best we can to set a benchmark. We could draw a more realistic parallel on contract prices if we had them available to us - it might be lower than that; it might be higher than that. Any suggestions on improvements on the methodology, we would be more than happy to take on board.

I am not sure about using an average because I would tend to think that if you are benchmarking what a national price is from time to time, then the lowest price at that period of time would be the one to go for, but that is something we can think about.

MR HUGHES: I suppose the comment that I would add to that is that if there is a lower price in the market and it starts to get flooded, then that price does not stay very low for very long; it starts to go up. Unless you are actually playing in the market and seeing that effect, then it is probably not an appropriate methodology to just take the lowest spot price at that particular point. There is a demand response and you will find a response in the market as well.

MR WILLETT: So you would suggest a trailing average of some sort maybe?

MR HUGHES: Yes, some sort of trailing average, or some other way of actually trying to reconcile the differences between those two things. You can see over time, it will come to an equilibrium in that pricing. I suppose my comment is that it just needs some more thought as to how that is actually constructed.

THE CHAIRMAN: We agree and we will take that on board. We just discovered this the other day.

MR STRETTON: Following up on Gavin's point, there is a longer term thought. Gavin mentioned trailing averages, I would think that is probably a very good thing to consider. If the market changes and suddenly we are at that level where these prices are, if we are using the minimum all the time on a month on its own, we could have a situation where you will have wholesalers or wholesale customers potentially coming to IPART on a very regular basis. One month they might be in the money, one month out of the money, and they're in and out, in and out. I think Gavin's point is worth considering.

THE CHAIRMAN: We have averages for calculating it. The question that I think you raised was whether we should average Brazil and the US, in other words two sets of averages.

MR STRETTON: Yes

MR SMITH: In our draft report, we had a 15-week average, so we set a price for four weeks, which was based on the 15 weeks preceding it.

THE CHAIRMAN: Greg?

MR HOUSTON: Thank you. That is a disturbing graph from an economist's point of view, as has already been pointed out.

THE CHAIRMAN: We had a similar reaction.

MR HOUSTON: I will echo the sentiments that more understanding needs to be gained. As Ed has commented, this price could be measuring a relatively small volume in terms of the economic reality given that it is quite probable a lot of this would be sold by contract. Either that or it cannot reflect an equilibrium price. Not only should there be some kind of historical average but also you should give serious thought to whether it is better to combine them.

At the moment, it looks as though two-thirds of the time Brazil is higher and a third of the time the US is higher. Who knows what the future will bring, but I think a 15-week price is probably not that practicable or ideal.

The other thing is I don't know if you have given thought to the practicalities of moving from this information that has been presented here to your mechanism and actually implementing it because there is a bit of uncertainty created by this.

Once you start to go live and formally start determining this maximum price, there is a question about how we get from now to what the methodology is precisely. Then once you establish that methodology, do you have any capabilities to amend it as you go along in light of potentially absurd results that might materialise into the future? I don't know if you have thought about that, but it seems me that they are quite practical questions you should consider.

THE CHAIRMAN: Sure. We have thought about that in that we have a model set up where we could generate a price every four weeks which would be based on the moving average of the past 15 weeks.

The issue which Peter and Gavin have raised, and which we recognise, is whether you should base that on the lowest price - what has been the lowest price - or whether you should base it on a combination of the two, and that we need to give much more thought to.

In terms of generating a price, we can do that and then we would review it every 12 months at least because every 12 months we would be taking another look at the state of the market. In the event that we decided to go ahead with the light-handed approach, we would take a look at how this was calculated and how it is tracking.

We do this in another area, which is the weighted average cost of capital. We consulted on the methodology. We came up with the weighted average cost. Every six months we put out a calculation of weighted average cost of capital and the methodology is transparent so stakeholders can actually calculate it themselves. Now, when Sydney Water puts in a submission, they calculate the weighted average cost of capital themselves and they get the same result as us, because it is so transparent.

That was another reason why we took a bit of time to find the price series - the international price series - because we wanted to get a series that was freely and readily available so that stakeholders could actually calculate the price that we would be posting.

So we have thought about this, but we are happy to think more about it and we would welcome any comments.

MR WILLETT: The other thing probably worth thinking about too is we are looking here at the Australian import parity prices. The Brazilian and US import parity prices would be different and that might explain some of the gaps that you see.

MR HUGHES: I am sorry, I just did not understand that.

MR WILLETT: This is a calculation of the Australian import parity price.

MR HUGHES: Yes.

MR WILLETT: The import parity price for Brazil and the import parity price for the US would be different to that, which might explain some of the gaps in prices that you see. So, in other words, you would not necessarily expect to see a convergence to zero between those two graphs because to the extent that the Brazilian price is conditioned by something, it is probably more conditioned by the import parity price since we are taking a domestic Brazilian price.

THE CHAIRMAN: That is the Brazilian export price - that is the price that it would be exported at, so that would be the price that our importers would then pay.

MR HOUSTON: What is this chart exactly? Is it landed in Australia, is it ex-plant in the relevant countries or is it FOB? I mean there are lots of different points to measure.

MR JORGENSEN: This is landed. We have calculated --

THE CHAIRMAN: But it is driven by the export price.

MR JORGENSEN: But it is based on the domestic price in Brazil, which is the ESALQ.

MR WILLETT: You would expect the domestic prices in those countries to be driven by their respective import parity prices, not the Australian import parity price. Now, there may not be a big difference between those things but --

MR HOUSTON: Do we know whether they were importers or exporters?

MR HUGHES: It is more to do with the actual destination market and then you have a basis differential between the two locations supplying into those markets which are predominantly (inaudible) So those prices will actually be back to zero at those major destination points - which is not Australia.

MR WILLETT: No, that's right.

MR HUGHES: That is the other thing that needs to be considered here as well. This is where these things are fraught with danger. You get competitive responses with the markets so I think the real price would be kind of different if those sorts of markets are attracted to (inaudible), which is what is happening in the EU. Then it will also be dependent year-on-year in terms of the size of the crop.

We have one of the largest crops of coarse grains globally, which is actually pushing down those prices. But the odd thing with sugar is that the sugar season is not that bad either. I think there will be a convergence, but there is a good opportunity to make some money as a trader in sugar at the moment.

MR WILLETT: You're right, Greg. If they are both exporting at the same time, it might actually be their export parity price that is driving domestic prices rather than --

MR HOUSTON: It could be. I mean if they were both net exporters and they were maybe competing to survive in Europe, you would expect the delivered costs in Europe to be the same. It doesn't look like it would be, and it is a bit troubling.

I am not quite sure how you chose the 15 weeks, but the question of a longer term trail might make more sense.

MR WILLETT: Yes, that is certainly something we can look at.

THE CHAIRMAN: Would anybody in the audience like to ask a question or make a comment?

MR BRENDAN QUACH (Houston Kemp): I just have one question, which is really around one of the methodologies that you have set out for the cost of capital.

THE CHAIRMAN: I shouldn't have raised that, should I?

MR QUACH: You have used or had regard to the Blume and the Vasicek adjustment in terms of setting an equity beta for this industry. Is that an approach now that is seen as the appropriate way to estimate equity betas from market data?

THE CHAIRMAN: Jenny?

MS SUH: That methodology was used in our previous reviews, such as cruise ship reviews and others. We think it is appropriate to have some kind of methodology to adjust regression-based equity betas, but we do not have a formal methodology as to which adjustment methodology we should use to revise regression-based equity betas, but that is one thing we would consider in any future review of the WACC methodology.

MR QUACH: Thank you.

THE CHAIRMAN: That is the WACC methodology.

MS SUH: Yes

THE CHAIRMAN: Yes, we are planning to do a review of the WACC methodology in 2017, which is --

MR QUACH: But your last methodology didn't touch at all on the equity beta and I --

MS SUH: Yes, but that was not part of the scope of the review in our last review.

MR QUACH: Thank you.

THE CHAIRMAN: Is there anything else? Are there any other questions or comments?

CLOSING REMARKS

THE CHAIRMAN: Thank you all very much. It has been a very short but interesting session and thank you very much for your participation.

The transcript of today's proceedings will be available on our website in a few days.

Just a reminder that submissions on our draft report are due by the end of this week - that is, by Friday 25 November. We will consider all feedback received in submissions and at today's public forum and we will provide our final report to the minister by the end of December.

Once again, thank you very much and have a good morning.

AT 10.50AM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY