

The Parliament of the Commonwealth of Australia

RAIL: FIVE SYSTEMS—ONE SOLUTION

**The Efficiency of Australian National's
East–West Operations**

**Report from the House of Representatives
Standing Committee on Transport,
Communications and Infrastructure**

November 1989

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RAIL: FIVE SYSTEMS – ONE SOLUTION

THE EFFICIENCY OF AUSTRALIAN NATIONAL'S EAST-WEST OPERATIONS

Terms of Reference

Ways in which the efficiency of Australian National's East-West freight and passenger operations can be improved, with particular reference to the possible improvement of East-West freight movements through the transfer of terminal facilities from Broken Hill to Parkes and through the greater integration of intersystem operations.

ABBREVIATIONS

ABRD	Australian Bicentennial Roads Development Program
ACRD	Australian Centennial Roads Development Program
ALTP	Australian Land Transport Program
AN Australian National	Australian National Railways Commission
ARTF	Australian Road Transport Federation
BTCE	Bureau of Transport and Communications Economics
DOTC	Department of Transport and Communications
ESAL	<i>Equivalent Standard Axle Load</i>
ISC	Inter-State Commission
SRA	State Rail Authority of New South Wales
RIC	Railway Industry Council
ROA	Railways of Australia Committee
UPT	Urban Public Transport
V/Line	Victorian Government Railways
Westrail	Western Australian Government Railways

PREFACE

This report gives those involved in railways and the transport industry another, perhaps the last chance to make the national rail system operate as it should – for the good of all Australians.

Accidents involving heavy vehicles have taken many lives in 1989 and drawn the public's attention to the existence of serious problems in the transport industry. Unfortunately, these problems are not new and the determination to rectify them has not always existed. The deaths of 20 people in a bus near Grafton, together with the conclusions and recommendations of this report, may stir governments, railways and the transport industry into making effective changes.

The plain fact is that a greatly increased amount of freight could be carried across the continent by rail more efficiently and with greater safety than it ever could be by road. Road has been preferred because it is seen as providing reliable transit times. If rail were more efficient and carried the amount of freight it should, lives would be saved, less non-renewable resources would be used and less pollution would be generated. For rail to become more efficient, money has to be spent upgrading such things as the permanent way, communications and terminal facilities and providing more and purpose-designed rolling stock.

Australia is paying the price of neglect and bandaid solutions in an endeavour to solve problems in its rail systems. These problems are urgent and have been for many years. There has been considerable debate over reforms leading to greater efficiencies on the waterfront. Similar if not greater efficiency gains are possible in the national rail system. Reform of the transport industry seems always to have faltered because of divided responsibilities, competing priorities and lack of funds. The case for one national rail system for freight and passenger services is obvious. All that stands in the way of such a system are the vested interests and parochialism of the existing authorities.

The road transport industry's incessant demands for more and better roads need to be put into a proper perspective: it is simply another vocal, well-organised pressure group which is competing for funds. The opportunity now exists for a deeper, wider examination of all the issues involved in transport in Australia.

Rail has been starved for funds and rendered inefficient. Because of this neglect, huge quantities of freight which should have been transported by rail have thundered up and down highways and local roads with tragic consequences. This unnecessary increase in heavy vehicle traffic and in the tonnage carried is rapidly destroying the national road system. During this inquiry, the Australian National Railways Commission (AN) estimated that taking 85,000 tonnes of freight from highways over a two or three year period would reduce the number of heavy vehicles on those roads by about 3000.

The House of Representatives Standing Committee on Transport, Communications and Infrastructure believes its report into the efficiency of AN's activities in the east-west corridor provides the opportunity not only for changes to AN's operations, but also for a re-evaluation of the transport industry in Australia.

JOHN SAUNDERSON, MP
Chairman
November 1989

CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations of this report are brought together in this section and arranged in the order of the chapter of the report in which they appear.

The conclusions highlight matters or issues the Committee considers to be important. The recommendations are specific suggestions for change and are directed at the Government or the Australian National Railways Commission.

OPERATIONAL PROBLEMS AND SOLUTIONS

STATE RAIL AUTHORITY AND AUSTRALIAN NATIONAL

Conclusion

1.
 - (a) Australian railway systems must continue to strive for greater efficiency in all areas of their operations;
 - (b) SRA's rationalization program will have a serious impact on employment at places in the east-west corridor; and
 - (c) undertakings given by SRA about relocation and retraining of staff affected by cuts must be honoured.

(paragraph 3.27)

Recommendation

1.
 - (a) Australian National's efficiency proposals at and east of Broken Hill should proceed;
 - (b) Australian National should discuss the implementation of its proposals with the State Rail Authority as a matter of urgency; and
 - (c) funding for Australian National's efficiency proposals at and east of Broken Hill should be made available to the State Rail Authority of NSW over a two year period, based on its diesel fuel excise payments to the Federal government.

(paragraph 3.28)

AMALGAMATION OF FACILITIES AT KALGOORLIE

Recommendation

2. Amalgamation of Australian National and Westrail facilities at Kalgoorlie should be completed as soon as practicable.

(paragraph 3.30)

INDUSTRIAL RELATIONS ISSUES

Recommendation

3. (a) Full consultation on organisational changes should occur between management and staff and relevant industrial organisations; and
(b) the number of unions in the rail industry should be rationalised at a national level as a matter of urgency.

(paragraph 3.37)

UNION PROPOSALS

Conclusion

2. Systems should not, in concentrating on broader strategic issues, overlook some of the minor operational improvements that are readily available to them.

(paragraph 3.40)

BYPASS AT PORT AUGUSTA

Conclusion

3. There could be significant benefits to Port Augusta in the construction of a bypass from Spencer Junction to Stirling North even if passenger trains continue to go through the city.

(paragraph 3.42)

Recommendation

4. Australian National and the City of Port Augusta should examine the feasibility, benefits and costs of a bypass from Spencer Junction to Stirling North.

(paragraph 3.43)

BYPASS SOUTH OF BOULDER

Conclusion

4. The construction of a bypass and new facilities south of Boulder could have value for Australian National, Westrail and the local community.

(paragraph 3.46)

Recommendation

5. There should be further investigation by Australian National, Westrail and the City of Kalgoorlie/Boulder of the feasibility, benefits and costs of building a bypass from the main line south of Boulder, together with new terminal and workshop facilities.

(paragraph 3.47)

STANDARDISATION OF THE MELBOURNE-ADELAIDE ROUTE

Conclusion

5. Considerable benefits would flow to the nation from the standardisation of the Melbourne-Adelaide route.

(paragraph 3.57)

Recommendations

6. Joint V/Line-Australian National feasibility studies on the standardisation of the Melbourne-Adelaide route should continue.
7. If standardisation of the Melbourne-Adelaide route proceeds, it should be considered for funding under the provisions of the Australian Centennial Roads Development Program.

(paragraph 3.58)

INTEGRATION OF INTERSYSTEM OPERATIONS

Conclusion

6. There should be one national body to operate *interstate freight and passenger services in Australia*. A restructured Australian National, retaining its strongly commercial charter, with additional equity from the Federal government and State governments, should own and operate such services with appropriate resources. The feasibility study into the establishment of a national organisation for rail freight is supported because its very existence and membership provide a crucial opportunity to move in the direction of a national solution.

(paragraph 4.24)

Recommendation

8. (a) A single national organisation should be the long term goal for effective and efficient management of interstate rail freight and passenger services;
- (b) current studies and negotiations should be moving towards this goal as a matter of the greatest urgency;
- (c) active consideration be given to a restructured Australian National with an appropriate organisation and the necessary resources carrying out this role; and
- (d) as an interim measure, corridor management of existing interstate rail freight and passenger services be implemented as soon as practicable.

(paragraph 4.25)

RAIL-ROAD COMPETITION AND INFRASTRUCTURE FUNDING

Conclusions

7. Where rail systems are making necessary changes to improve their efficiency, it is iniquitous that their competitors are effectively being supported by diesel fuel excise payments. There is an urgent need for a change to the present system of railway infrastructure capital investment. Safety issues alone demand that appropriate freight is taken off national roads and transferred to rail.

(paragraph 5.38)

8. In the short term, each system should have returned to it the amount of its excise payment which was contributed to road funds. In the longer term, excise payments should be returned to rail systems on the basis of the results of a study which should determine the most equitable amounts and means of doing so, given both the urgent need for capital investment in rail infrastructure and the needs of the national road system.

(paragraph 5.39)

Recommendation

9. (a) A percentage of the fuel excise rail systems pay to the Federal government should be available to them for the explicit purpose of infrastructure improvements; the amount should be equal to the percentage level of funds available for the national road system from the fuel excise paid by the road transport industry;
- (b) in the short term, and to compensate for the detrimental position rail systems have been in, the component of the excise each has paid to road funds should be returned to them to improve the efficiency and reliability of their freight and passenger services;
- (c) if necessary, legislative guidelines be amended as soon as practicable to enable these changes to be made; and
- (d) allocation of funds to specific projects should be subject to approval by the Federal Minister for Transport and Communications, and continuation of funding beyond the first year of a program should be subject to efficiency gains being demonstrated by the system(s) involved.

(paragraph 5.40)

EFFICIENCY OF EAST-WEST PASSENGER SERVICES

Conclusions

9. East-west passenger services require large subsidies and cater for a relatively small part of the market. However, they provide sufficient benefits to the communities they serve, both local and tourist, to justify their continuation. If Australian National and Westrail reach an agreement about the western end of transcontinental passenger services, there would be an improvement in their efficiency.

(paragraph 6.50)

10. (a) Transcontinental passenger services should be retained;
- (b) there is scope for amalgamation of and improvements to current services; and
- (c) Australian National in conjunction with the other participating systems should review these services.

(paragraph 6.51)

Recommendations

10. In the short term:
- (a) Australian National, Westrail and SRA negotiate a new schedule for the Indian Pacific involving an earlier departure time from Perth;
 - (b) all bookings on the Indian Pacific and Trans Australian be controlled and co-ordinated preferably by Australian National, with berths and seats made available for intra-state passengers only on a stand-by basis; and
 - (c) V/Line, SRA, Westrail and Australian National negotiate arrangements to refurbish the passenger carriages on east-west passenger services.

(paragraph 6.52)

11. In the long-term:
- (a) Management and operational control of inter-state passenger services should be passed to the single intersystem organisation already recommended, preferably Australian National;
 - (b) the Indian Pacific should be refurbished and marketed as a luxury train; and
 - (c) a large scale marketing campaign be undertaken to maximise the opportunities for a luxury transcontinental train.

(paragraph 6.53)

1 : OVERVIEW

Background

1.1 This report by the House of Representatives Standing Committee on Transport, Communications and Infrastructure is the result of a reference by the Minister for Land Transport and Shipping Support dated 1 March 1989.

1.2 Details of the conduct of the inquiry are contained in Appendix 1.

Structure of the Report

1.3 Chapter 2 will provide some information about the operation of the Australian National Railways Commission (AN) and the other systems with which it interacts. In considering these terms of reference, it was clear to the Committee there were three major issues for examination. Against the general background of recommending ways to improve the efficiency of AN's operations, this report will concentrate on:

- AN's efficiency proposals at and east of Broken Hill;
- proposals to integrate intersystem operations; and
- proposals for intersystem passenger services.

These topics will be considered in Chapters 3, 4 and 6 respectively. Chapter 5 will examine rail/road competition and infrastructure funding issues.

Terms of Reference

1.4 Committee Members agreed that the inquiry should treat the Melbourne-Adelaide-Perth route as an integral part of the east-west corridor. To have concentrated on the Sydney-Adelaide-Perth route alone would have excluded a significant amount of the freight and passenger traffic crossing the continent.

1.5 Use of the words 'transfer of terminal facilities from Broken Hill to Parkes' in the terms of reference for this inquiry was perhaps misleading. This matter demands some explanation. Every Member was aware of the concerns expressed by that city. AN proposed that a number of operational changes and projects be carried out at and east of Broken Hill. It believes that these efficiency proposals will improve its performance in the east-west corridor; they will be dealt with in Chapter 3.

1.6 The track AN uses in NSW belongs to the State Rail Authority of NSW (SRA), which also employs all the staff at Broken Hill. AN pays for the services carried out there on its behalf. As a result of the Booz-Allen and Hamilton review, SRA is implementing significant reductions to its staff at Broken Hill and elsewhere in its part of this corridor. Most of AN's efficiency proposals, if implemented, will be in SRA territory.

1.7 One of the key words in the terms of reference for this inquiry is 'efficiency'. This word can be defined in many ways and a great deal has been written about what it means. In this report it will be used to mean 'obtaining the largest total output of goods and services with the smallest total expenditure of resources'.

Other Significant Issues

1.8 In the course of this inquiry other issues arose which, although not included in the terms of reference, were sufficiently closely related to them and of such importance that they demanded attention. They were:

- subsidies in the transport industry;
- the need to take freight off the national road system; and
- funding of railway infrastructure.

It is not clear to what extent the transport industry is subsidised and there is a similar uncertainty about recovery of the damage caused to roads by heavy vehicles. Because these important issues are related and because what happens to freight services is central to the future of rail in Australia, they have been linked and included in Chapter 5.

National Solutions

1.9 In its first report, *Constructing and Restructuring Australia's Public Infrastructure*, the Committee drew attention to 'the lack of an integrated land transport policy and an imbalance between road and rail transport in funding'. It also referred to an estimate of \$1.4 billion for the under-recovery of road damage costs caused by heavy vehicles. This sum can only have increased since that report was tabled.¹

1.10 In 1982, in a report on AN, the House of Representatives Standing Committee on Expenditure recommended that an inquiry be held into intersystem passenger and freight operations to identify 'the relative benefits and costs associated with any changes to the current institutional arrangements'.²

1.11 The first of the recommendations of that report has been acted upon, that:

AN's management be given decision-making freedom to operate as a commercial organisation ...

Many of the other recommendations have been implemented and changes have occurred inside AN to make it a more efficient organisation. The railway system as a whole in Australia has not progressed as far. That this is so can easily be

¹Parliamentary Paper No 284/1978, Australian Government Publishing Service, Canberra, 1987, pp.164-167.

²*Australian National Railways Commission*, Parliamentary Paper No 46/1982, Australian Government Publishing Service, Canberra 1982, Recommendation 28(b).

demonstrated by the delays which can happen to a container sent from Sydney to Perth by rail. As set out more fully in Chapter 3, these delays can amount to twelve or more hours at sidings because of such things as gauge, crew and locomotive changes.

1.12 Australia can and must do better. National solutions are required for this national problem and that is the central theme of this report.

2: AUSTRALIAN NATIONAL AT THE CROSSROADS

Background

2.1 Australian National (AN) is the business name for the Australian National Railways Commission. It is a Federal Government business enterprise which provides freight and passenger services by rail. AN commenced operations on 1 March 1978, taking over from the former Commonwealth, South Australian and Tasmanian Railway systems.¹

2.2 The *Australian National Railways Commission Act 1983* emphasized AN's role as a commercially oriented business enterprise. The *Australian National Railways Commission Amendment Act 1988* continued this process of commercialisation by allowing AN greater freedom to manage its activities, greater flexibility to compete in the market place and removing most of the remaining day-to-day controls over AN's activities.²

2.3 AN provides freight services in and out of South Australia, Western Australia and the Northern Territory, linking with the State Rail Authority of NSW (SRA), Westrail and V/Line. AN also operates interstate passenger services linking capital cities on the mainland. In addition, it operates freight services in Tasmania, the Ghan between Adelaide and Alice Springs and intrastate services in South Australia.³

Revenue, Losses and Productivity

2.4 In 1987-88, AN's total revenue, including payments from the Commonwealth, was \$361.8m; of this, \$238.8m (66%) came from mainland freight operations and \$29.2m (8%) from passenger services.⁴

2.5 AN has made considerable progress in achieving its corporate objectives and has demonstrated a major improvement in efficiency. Losses have declined from \$167m in 1977-78 to \$52m in 1987-88. While AN's workforce has declined by about 40% since 1978, labour productivity has more than doubled. Although passenger journeys on AN's services have declined since 1977-78, the freight task measured in net tonne kilometres has increased by more than 50%.⁵

2.6 AN's operating losses in 1987-88 were funded by Federal Government grants of two types:

¹Submission No 17, p.3.

²House of Representatives, *Debates*, 16 November 1983, p.2755, and 19 October 1988, p.1912.

³Submission No 17, pp.3,64.

⁴Australian National Railways Commission, *Annual Report 1987-88*, Parliamentary Paper No 298/1989, Finsbury Press Pty Ltd, pp.53,55. This is AN's most recent annual report.

⁵AN *Annual Report 1987-88*, cited earlier, pp.68-69.

- payments for agreed Community Service Obligations (CSOs) for passenger services and Tasrail operations, amounting to \$43 million; and
- grants and supplements for commercial operations relating to certain costs associated with public ownership (primarily excess superannuation costs), amounting to \$12 million.

These grants are agreed between AN and the Federal government each year. When they are taken into account, AN's annual report shows an operating profit for 1987-88 of approximately \$3 million before abnormal and extraordinary items.⁶

Freight Services

2.7 AN's freight operations accounted for 82% of total revenue and 70% of expenditure. They earned a surplus of \$0.7m in 1987-88. About 67% (\$158m) of the freight revenue earned came from interstate freight in the same year. The Adelaide-Perth route is a key part of AN's mainland freight business; it accounted for 48% (\$115m) of freight revenue in 1987-88.⁷

SRA and the East-West Corridor

2.8 In its submission, SRA stated that it carried 2.4% of its tonnage and earned \$43.7m (6.7%) of its revenue in the east-west corridor. The main commodities carried by SRA were steel, concentrates, containers, motor vehicles and paper.⁸

2.9 SRA has a dominant share of the Sydney-Perth market but has not been so successful in the Sydney-Adelaide market. In 1988, the figures were:

	%
Sydney-Perth	66
Perth-Sydney	68
Sydney-Adelaide	27
Adelaide-Sydney	30

This market has been affected by competition with road transport and the quality of the service offered to customers. SRA's submission indicated that the revenue for interstate freight on this corridor only recovered 66 per cent of avoidable costs in 1987-88. However, SRA believed that with proposed efficiency improvements the corridor can become financially viable.⁹

⁶AN Annual Report 1987-88, cited earlier, p.53 and Submission No 17, pp.6-8.

⁷Submission No 17, Table 1, p.5; Transcript 6 June 1989, p.5. Submission No 30, Table 1, p.1.

⁸Submission No 25, p.2; Transcript, 9 June 1989, p.275.

⁹Submission No 25, pp.1,4; Transcript, 9 June 1989, p.275.

2.10 Although the boundary between AN and SRA is currently at the western edge of the city of Broken Hill, intersystem freight trains are marshalled and examined and locomotives changed and fuelled at Broken Hill. AN has no staff of its own there but has an agreement with SRA whereby AN pays 56% of operational (non-crewing) costs for the services carried out on its behalf by SRA at Broken Hill.¹⁰

Westrail and the East-West Corridor

2.11 Westrail provided the following information on interstate freight services in 1987-88:¹¹

Tonnage Carried:	Westbound	1.35m tonnes
	Eastbound	0.45m tonnes
Revenue:	\$ 39.6m	
Costs:	\$ 39.5m	

2.12 At West Kalgoorlie, Westrail fuels and services its locomotives and rolling stock, prepares trains, provides freight yards and depots for crews and permanent way maintenance gangs. Westrail locomotives are attached/detached there for the haul to Perth/eastwards, while AN's locomotives are returned to its depot at Parkeston, seven kilometres east of Kalgoorlie. At Parkeston, AN services its locomotives and rollingstock and maintains storage, train preparation and refuelling facilities, as well as providing a base for its permanent way maintenance gangs.¹²

V/Line and the East-West Corridor

2.13 In 1987-88, a total of 789,500 tonnes was carried from SA/WA to Victoria, generating revenue of \$8.2m for V/Line; 917,500 tonnes were carried from Victoria to SA/WA, generating \$15.8m in revenue. AN controls the Adelaide-Wolseley route in this corridor with V/Line controlling Wolseley-Melbourne. Through-running of locomotives has been in operation for some years on this route.¹³

¹⁰Submission No 17, pp.41-42; Transcript, 7 June 1989, pp.99-100.

¹¹Westrail letter dated 30 August 1989, p.2.

¹²Submission No 17, p.44.

¹³Submission No 33, p.3; see Tables A and B for a breakup of commodities and the journeys involved. Submission No 32, p.10.

3: OPERATIONAL PROBLEMS AND SOLUTIONS

The Nature of the Problem

3.1 An indication of the problems which face customers who wish to move freight Sydney-Perth by rail can be illustrated by outlining the likely plight of a typical container on that route. As it crosses Australia, it will or could be subjected to the following:

- 3 non-integrated rail systems (AN, SRA and Westrail);
- 4 changes of locomotives;
- 5 different safe working systems;
- 6 different sizes of loading gauge;
- 10 different engineering standards of the basic standard gauge rail track; and
- 12 or more hours at sidings/junctions for crew changes, refuelling, inspections, etc.

3.2 Vast as Australia is, with a population of about 16 million people, it cannot afford to have five separate rail systems (Queensland, NSW, Victoria and WA as well as AN) handling interstate freight. Rivalries between systems have spawned such things as different gauges, operational standards, and communications systems, and incompatible rolling stock. Some of these issues have been or are being resolved but others have not, to the detriment of the service which should have been provided.

Background

3.3 AN said that fragmented management of this vital corridor is 'the major obstacle to efficient operations and to improving service to users'. It also referred to its unfavourable debt to equity ratio and the constraints this imposed, among other things, on various efficiency proposals which have been analysed and would, it believed, produce very good financial returns. These efficiency proposals had been drawn up to rectify deficiencies or introduce new, more efficient operating techniques.¹

3.4 Significant problems in the east-west corridor which Committee members saw for themselves, or were dealt with in evidence, included:

- small, outmoded terminal facilities at Chullora (Sydney), Dynon (Melbourne) and Kewdale/Forrestfield (Perth);
- short crossing loops Parkes-Broken Hill;
- an inadequate communications system Parkes-Broken Hill;

¹Transcript, 6 June 1989, pp.7-8.

- delays at Broken Hill; and
- duplication of facilities at Kalgoorlie.

3.5 During the inquiry, three additional projects were also considered:

- a bypass at Port Augusta;
- a bypass south of Boulder in WA; and
- standardisation of the Melbourne-Adelaide route.

In addition, systems operating in the corridor have made proposals to increase its efficiency, as have union representatives and private citizens.

3.6 Many of AN's efficiency proposals demand that work be undertaken in the territory of the State Rail Authority of NSW (SRA). It remains to be seen whether the differing priorities of the two systems will allow cooperation in improving the efficiency of this transcontinental route for the national benefit.

3.7 Funding of these efficiency proposals will be considered in Chapter 5 as part of the Committee's examination of funding for railway infrastructure.

Australian National's Efficiency Proposals

3.8 AN presented evidence about its program for the next ten years to improve its operations. Essential items included:

- upgrading of its track infrastructure and communications system;
- a large investment in new and refurbished locomotives and rolling stock;
- specific proposals for amalgamating AN and Westrail facilities at Kalgoorlie; and
- an \$18 million package to upgrade infrastructure at and east of Broken Hill.²

3.9 AN's specific efficiency proposals for the east-west corridor, together with capital costs and benefits, are set out in It was proposed to:

- increase terminal capacity at Chullora;
- construct marshalling and loading facilities at Parkes;
- improve the communications system and lengthen selected crossing loops Parkes-Broken Hill; and
- introduce new working arrangements at Broken Hill.³

²Submission No 17, pp.14-16; pp.43-46, and Table 23, p.61. Transcript, 6 July 1989, pp.419-421

³From Submission No 17, Table 23, p.61.

TABLE 3.1

SUMMARY OF AN's EFFICIENCY PROPOSALS

Description	Capital Cost	Benefits
Option A:	\$ m	
Introduce long trains west of Parkes		
– marshalling facilities at Parkes	3.0	Reduction in operating costs
– crossing loops Parkes-Broken Hill	1.2	
Option B:		
Reduce transit times Sydney to Perth from 4-5 days to 60 hours:		
– high speed bogies	1.0	Saving 2 hours in transit time
– train order working Parkes-Broken Hill	5.0	
– through-working of locomotives and mainline fuelling (Broken Hill)	0.75	Saving 2 hours in transit time and 8 locomotives
Develop loading facilities at Parkes	2.0	Allows 1.5 height stacking of containers
Increase terminal capacity at Chullora	5.0	Necessary to avoid delays resulting from increased market share
TOTAL	18.0	

3.10 In all these matters, AN's objectives were to increase the freight carried in the corridor, to improve transit times and service reliability, and to reduce costs by reducing the level of resources required to handle the freight task.⁴

⁴Transcript, 6 June 1989, p.68.

At/East of Broken Hill

3.11 The options in Table 3.1 would, on AN's calculations, provide a satisfactory return on the capital investment proposed. This return would result from reduced operating costs, reductions in the number of locomotives required, and savings in transit time which it expects to translate into increased freight volumes.⁵

3.12 Members of the Committee saw for themselves the problems caused by short passing loops and the antiquated traffic control system between Broken Hill and Parkes. Further, ample evidence was presented concerning the importance of reliable services and shorter transit times. Freight forwarders indicated that the achievement of target reliability standards on a consistent basis would attract considerable extra freight from road to rail.⁶

3.13 While SRA agreed that there was scope for improvement on the Parkes-Broken Hill line, this may not have the same priority for SRA as it clearly has for AN.⁷

Broken Hill and Parkes

3.14 The terms of reference for this inquiry specifically mention the transfer of terminal facilities from Broken Hill to Parkes. This is not an accurate description of what has in fact been proposed by AN and this issue was misunderstood by Broken Hill residents. AN proposed:

- to through-run locomotives at Broken Hill, thus 'saving' itself five locomotives and SRA three locomotives;
- to introduce on-line refuelling of locomotives; and
- to marshal and examine longer freight trains at Parkes rather than at Broken Hill.

Since the inquiry began, through-running of locomotives at Broken Hill has commenced. Cooperation of this type between AN and SRA is commendable. AN estimated two or more hours per freight train could be saved at Broken Hill by these means. It estimated that the proposed changes would affect about 50 positions at Broken Hill but stressed that SRA was the employer.⁸

3.15 The other part of AN's efficiency proposals included the development of facilities at Parkes to allow longer trains to be marshalled there. In evidence, AN said that the things it wanted to do at Broken Hill were 'quite unconnected' with what it had planned for Parkes. These latter measures were worth taking whether the changes proposed for Broken Hill proceeded or not.⁹

⁵Submission No 17, p.59.

⁶See, for example, Submission No 26, p.3 and Transcript, 9 June 1989, p.323.

⁷Submission No 25, p.1; Transcript, 9 June 1989, p.276.

⁸Submission No 17, p.43; Transcript, 7 June 1989, pp.106-107.

⁹Transcript, 7 June 1989, pp.98,102.

Parkes and Goobang Junction

3.16 AN proposed developing facilities at Parkes in two stages. Its estimates were based on the cost of the proposals being carried out in its own territory. It should be noted that SRA opposed selling its Parkes-Broken Hill route to AN.¹⁰

3.17 In the first stage, existing sidings at Goobang Junction would be lengthened to 1.8 kilometres to allow longer trains to be marshalled there. Crossing loops between Parkes and Broken Hill would be lengthened. Signalling equipment and lighting would also need to be improved and the total cost was estimated at \$3m.¹¹

3.18 The second stage, which would depend on usage of facilities provided in the first stage, would involve installation of heavy lifting equipment, the necessary heavy duty paving, additional lighting and access roads. It would then be possible to double stack containers – that is, full height and half containers on flat wagons or two full height containers on well wagons. Because of height restrictions, it would not be possible to use these stacking methods east of Parkes without huge expense.¹²

SRA Staffing in the Corridor

3.19 Significant cuts in staffing levels are to be implemented by SRA at Broken Hill, Parkes and other localities following the implementation of recommendations by the Booz-Allen and Hamilton review.¹³

3.20 A number of submissions referred to the loss of jobs which would follow these staff cuts at Broken Hill and elsewhere. Members understand the attitudes of the citizens of Broken Hill who expressed their concerns about the loss of jobs there, given the already high level of unemployment in the city.¹⁴

3.21 SRA has begun its review process to establish what staff it needs to provide services at Broken Hill. Unions and AN have been involved in this process. SRA believes the reductions planned will be of benefit to both systems. *While the Committee is conscious of the need to improve efficiency by rationalizing SRA's staffing at Broken Hill, it is concerned about the impact of job*

¹⁰Submission No 25, p.7; Transcripts: 9 June 1989, p.276 and 4 October 1989, pp.682-683.

¹¹AN's letter dated 30 August 1989, p.1. Submission No 17, pp.46-47.

¹²AN's letter dated 30 August 1989, Submission No 17, pp.46-47; See Inter-State Commission: *An Investigation Into a Potential Extension of Intermodal Rail Services*, Australian Government Publishing Service, Canberra, 1987, Tables 4.8, p.78, and 4.9, p.84, for 1987 estimates of the costs of removing obstructions east of Parkes. See also Submission No 17, pp.32-35, for AN's views.

¹³See SRA News Releases for Far West, dated 10 July 1989 and Mid West dated 13 July 1989.

¹⁴See particularly Submission Nos 3,7,8,16,19 and 24. Transcript, 7 June 1989, pp.122-204 (passim).

losses there, and elsewhere on the route to Parkes, and expresses the hope that undertakings about retraining, redeployment and voluntary redundancy will be fully honoured.¹⁵ SRA and AN

3.22 The national rail system must become and remain both efficient and competitive to continue to offer jobs. If it improves its market share, it will perhaps be able to offer more jobs in the future. By not becoming efficient and competitive, systems run the risk of even greater staff reductions in the future because of ever-increasing losses and deficits. AN has largely been through this rationalization process and the Committee is aware of the firmness of SRA's resolve in this matter.

3.23 A recent review of staffing at Broken Hill, by AN and SRA, indicated AN's share of SRA staffing costs there should be reduced to 40%. SRA has advised that any staff savings identified at Broken Hill will be shared with AN by virtue of their current agreement.¹⁶

3.24 In general terms, SRA's submission and evidence at the operational level were consistent with AN's proposals. However, doubts remain about the funding of the necessary infrastructure investment, and the priority for this corridor as opposed to other pressing problems facing SRA.

3.25 The extent of common ground between AN and SRA was encouraging, and there should be little difficulty in the two organisations negotiating suitable arrangements to implement the improvements required at the eastern end of the corridor.

3.26 As do other systems, SRA pays Federal excise duty on the diesel fuel it uses. In certain circumstances, projects can be funded from such payments through the Australian Centennial Roads Development (ACRD) Program. AN's efficiency proposals at and east of Broken Hill should be funded in this way, thereby overcoming any difficulties SRA may have with funding them.

Conclusion and Recommendation

3.27 The Committee finds that:

- (a) Australian railway systems must continue to strive for greater efficiency in all areas of their operations;
- (b) SRA's rationalization program will have a serious impact on employment at places in the east-west corridor; and
- (c) undertakings given by SRA about relocation and retraining of staff affected by cuts must be honoured.

¹⁵SRA letter dated 30 August 1989, p.2; NSW Minister for Transport's Media Release *Government Plan to Improve Country Passenger and Freight Services*, 13 July 1989, p.2.

¹⁶AN's letter dated 30 August 1989, p.5; Transcript, 4 October 1989, pp.669-670.

3.28 The Committee recommends that:

Recommendation 1:

- (a) Australian National's efficiency proposals at and east of Broken Hill should proceed;**
- (b) Australian National should discuss the implementation of its proposals with the State Rail Authority as a matter of urgency; and**
- (c) funding for Australian National's efficiency proposals at and east of Broken Hill should be made available to the State Rail Authority of NSW, based on its diesel fuel excise payments to the Federal government.**

Amalgamation of Facilities at Kalgoorlie

3.29 As was mentioned in Chapter 2, both AN and Westrail have depots in the Kalgoorlie area. Negotiations between the systems to reduce the duplication of these facilities by amalgamating them have been underway for some time. AN believed amalgamation would save 'something like \$400,000' per year. Westrail said in evidence that it was 'particularly keen' to put the rationalization into effect.¹⁷

Recommendation

3.30 The Committee recommends that:

Recommendation 2: Amalgamation of Australian National and Westrail facilities at Kalgoorlie should be completed as soon as practicable.

Other Systems' Proposals

3.31 Westrail, SRA and V/Line all have substantial interests in various parts of the east-west corridor. Each system provided a submission to the inquiry, and Westrail and SRA also appeared before the Committee. V/Line's proposals will be dealt with in connection with the standardization of the Melbourne-Adelaide route.

3.32 Particular points raised by Westrail included:

- less than optimal marshalling of trains;
- lack of standardisation of operating practices including locomotive cab design, limitations on train lengths, brake testing and train examination procedures;

¹⁷Submission No 17, pp.43-46; Transcript, 6 July 1989, pp.422,451.

- upgrading of track, rolling stock and yards to accommodate uniform train lengths, train speeds and axle loads; and
- the amalgamation of functions at Kalgoorlie and Parkeston and streamlining of the inter-system interface.¹⁸

3.33 Westrail is taking positive steps to address these matters. Westrail's general approach is in many respects similar to that of AN, and the Committee is confident that the two systems can work together to improve the efficiency of the east-west corridor.

3.34 In its submission, SRA agreed there was an urgent need to improve efficiency and cost recovery in the east-west corridor. It pointed out that a joint working party had been set up with AN to 'achieve a measurable improvement in the operating efficiency' of the corridor; a number of initiatives are already underway. These included:

- proposed introduction of longer trains;
- identification of short and longer term options for locomotive refuelling; and
- proposals for extending crossing loops in the corridor.¹⁹

Industrial Relations Issues

3.35 The Committee was concerned at the apparent lack of consultation between SRA and staff representatives. The Committee urges SRA management to ensure that full consultation on staffing and other organisational matters is undertaken. This is especially important given the magnitude of the changes being made by SRA.²⁰

3.36 There are too many unions involved in the rail industry in Australia. Demarcation disputes bedevil systems and, where increased efficiency has to be the criterion, such disputes are unacceptable. The number of unions in the rail industry should be rationalised at a national level as a matter of urgency to reduce industrial disputation.

Recommendation

3.37 The Committee recommends that:

Recommendation 3:

- (a) Full consultation on organisational changes should occur between management and staff and relevant industrial organisations; and**

¹⁸Submission No 28, pp.28-30.

¹⁹Submission No 25, pp.1,3.

²⁰See Transcripts: 7 June 1989, pp.166-167, 169-170, 180-181, 194, 197-198; and 8 June 1989 p.253. See SRA's comments, Transcripts: 8 June 1989, p.267 and 9 June 1989, pp.296-298.

- (b) the number of unions in the rail industry should be rationalised at a national level as a matter of urgency.

Union Proposals

3.38 A number of submissions were received from rail unions and individuals working for the rail systems. The Committee was very impressed with the level of knowledge, interest and commitment shown by rail staff and their positive and realistic approach.²¹

3.39 The unions drew attention to some aspects of rail operations which suggested that there was scope for improvement in organisation and planning at the operational level. These included:

- mixing of low and high speed wagons on the same train;
- excessive positioning movements by locomotives;
- locomotives lying idle at Broken Hill due to late arrival of trains; and
- unnecessary marshalling at intermediate localities.²²

Conclusion

3.40 It is not the Committee's role to analyse each of these detailed operational matters, but they are commended to the managements of all systems in the corridor for investigation. Systems should not, in concentrating on broader strategic issues, overlook some of the minor operational improvements that are readily available to them.

Bypass at Port Augusta

3.41 The Port Augusta City Council and Trades and Labour Council jointly recommended construction of a rail bypass from Spencer Junction, just north of Port Augusta, to Stirling North, just south of the city, to ensure road transports did not go through the city centre. In reply, AN said that even if such a bypass were to be built, it would still be necessary to send passenger trains into the city. While some benefits would be achieved, this matter was given a low priority by AN.²³

Conclusion and Recommendation

3.42 There could be significant benefits to Port Augusta in the construction of a bypass from Spencer Junction to Stirling North even if passenger trains continue to go through the city.

3.43 The Committee recommends:

²¹Submissions Nos 7, 9, 12, 13 and 19 and evidence taken on 6, 7 and 8 June 1989.

²²See, for example, Transcript, 7 June 1989, pp.172-175.

²³Transcripts: 6 June 1989 pp.51-52 and 18 September 1989, pp.644-645.

Recommendation 4: Australian National and the City of Port Augusta should examine the feasibility, benefits and costs of a bypass from Spencer Junction to Stirling North.

Bypass South of Boulder

3.44 The Kalgoorlie/Boulder Chamber of Commerce recommended the establishment of a transshipment centre for freight at Kalgoorlie which would require re-routing the existing railway line to the south of Boulder. The cost of the bypass was later estimated by the Chamber to be in the order of \$0.2m per kilometre. AN did not see a great deal of benefit in constructing such a bypass and has no plans to undertake it.²⁴

3.45 During its visit to Kalgoorlie/Boulder in July 1989, Members of the Committee were able to see something of the disruption caused by the present route of the railway line. Relocating the line as proposed by the Chamber of Commerce has the potential to overcome some of these problems. If, following the amalgamation of AN and Westrail facilities, new terminal and workshop facilities were to be built on the bypass, land at both Parkeston and West Kalgoorlie would become available for expansion of the city. The land so released could be of such value as to finance wholly or partly the relocation of the terminal and workshop. Because it will not directly benefit from either the relocation of facilities or the bypass, if they were to proceed, AN should not be called upon to provide the quite significant costs which would be involved.

Conclusion and Recommendation

3.46 The construction of a bypass and new facilities south of Boulder could have value for Australian National, Westrail and the local community.

3.47 Accordingly, the Committee recommends that:

Recommendation 5: There should be further investigation by Australian National, Westrail and the City of Kalgoorlie/Boulder of the feasibility, benefits and costs of building a bypass from the main line south of Boulder, together with new terminal and workshop facilities.

Standardisation of the Melbourne-Adelaide Route

3.48 The joint submission from the City of Port Augusta and the Trades and Labour Council drew attention to 'the enormous savings to both VicRail and AN' which would result from the standardisation of the Melbourne-Adelaide line. This proposal was dealt with extensively in submissions from both the Victorian government and AN.²⁵

²⁴Transcripts: 5 July 1989, pp.359-362 and 18 September 1989, pp.645-646.

²⁵Submission No 15, p.2; Transcript, 6 June 1989, pp.46-49. Submission Nos 33 and 32.

3.49 The Victorian government's submission set out two options. The first, which would cost \$304m (in 1988 dollars), would convert much of the existing track in SA and Victoria to standard gauge, build a new line Freeling-Murray Bridge to bypass Adelaide and build a new standard gauge line beside the current Geelong-Melbourne track. Such a route would avoid the grades and speed restrictions of the Adelaide Hills and the Bacchus Marsh section in Victoria. It would add 117 kilometres to the existing line, create a route Melbourne-Adelaide 168 kilometres longer than the present journey by road and would increase rail's transit time at existing speeds.²⁶

3.50 The Victorian government's second option would require additional work, including use of concrete sleepers and heavier rails, together with provision of longer crossing loops, improved safeworking techniques and upgraded terminal facilities. This option would cost \$491m (in 1988 dollars).²⁷

3.51 A 1984 evaluation by V/Line showed that, on the basis of revenue sharing and capital costs, standardisation of the Melbourne-Adelaide route was financially viable for AN but not for V/Line. The Victorian submission suggested there should be joint V/Line-AN evaluation of a number of options, business strategies and technical matters.²⁸

3.52 In its submission AN also gave details of two assessments of the proposal. A 1983 preliminary V/Line-Australian National joint study briefly examined costs and benefits of standardisation, and identified a possible standardised route between Melbourne-Adelaide. The cost was estimated at \$190m (in 1983 dollars). Another study conducted in 1988 and 1989 extended the work of the first and examined a route similar to the one identified by V/Line in its first option. It also proposed improving the standard of the track. Preliminary analysis of costs suggested conversion to standard gauge would cost \$370m and \$160m would also be needed to upgrade the alignment, a total (in 1989 dollars) of \$530m.²⁹

3.53 Both AN and the Victorian government stated that the goal for freight transit times between Melbourne and Adelaide could be reduced to about ten hours if the route were upgraded for higher speeds when it was standardised. If the Melbourne-Gheringhap/Geelong route were converted to standard or dual gauge, thus linking the important port of Geelong to the national rail network, there would be significant benefits for both systems and the country.³⁰

3.54 AN stated that, because it could not earn the necessary benefits, it could not justify upgrading the route around the Adelaide Hills and/or to the South Australian-Victorian border because the rest of the route would remain in its

²⁶Submission No 33, pp.4-5.

²⁷Submission No 33, p.5.

²⁸Submission No 33, pp.6,11-12.

²⁹Submission No 32, pp.17-20; Transcript, 18 September 1989, pp.588-591, 598-602.

³⁰Submission Nos 32, pp.18-19 and 33, pp.7-8. See Submission No 1, p.1; Transcript, 9 June 1989, p.311.

present condition. AN would also want to see changes made at Dynon Railway Yards in Melbourne. Costs for the project would have to include standardisation of other routes in both Victoria and South Australia.³¹

3.55 Both the Victorian government and AN made it clear a great deal of more detailed work was required on the proposal. The Victorian government does not believe that either of the options outlined in its submission would be economically viable.³²

3.56 The Committee endorses the view of a witness from BHP Transport Ltd who said 'there cannot be a national rail system without a standard gauge linking all the capital cities.' That this would be a costly project is not open to doubt. There appear to be significant 'national benefits so that it cannot continue to be ignored on the basis of cost alone. The Victorian government said that, because of the size of the project, Commonwealth funding would be required, but gave no indication of any contribution it might make. This project could be a candidate for ACRD funding.³³

Conclusion and Recommendations

3.57 Considerable benefits would flow to the nation from the standardisation of the Melbourne-Adelaide route.

3.58 The Committee recommends that:

Recommendation 6: Joint V/Line-Australian National feasibility studies on the standardisation of the Melbourne-Adelaide route should continue.

Recommendation 7: If standardisation of the Melbourne-Adelaide route proceeds, it should be considered for funding under the provisions of the Australian Centennial Roads Development Program.

³¹Transcript, 18 September 1989, pp.599-601. Submission No 33, p.5.

³²Submission Nos 33, pp.11-12 and 32, p.20.

³³Transcript, 7 August 1989, p.547; Submission No 33, p.12.

4: INTEGRATION OF INTERSYSTEM OPERATIONS

Background

4.1 During this inquiry, the Committee was struck by the paradoxical combination of unanimous agreement that the present situation was ineffective and inefficient, and that one system for intersystem freight operations was a necessity, together with a corresponding lack of agreement about how that system should be structured or managed.

4.2 Evidence was taken from a number of AN's customers about their problems with the existing system and, if a more efficient operation were in place, how much more freight would be sent by rail. AN said that the biggest single obstacle to greater efficiency was the fragmented management of the east-west corridor. It was pointed out that AN interacts directly with three other systems and to a lesser extent with a fourth. AN stated that there was no structure to ensure the national transport task was managed efficiently and effectively. It believed that corridor management of freight services by particular systems would be an appropriate first step towards the creation of a single organisation to manage the national freight task.¹

4.3 Intersystem passenger operations appear to be moving towards corridor management of the interstate services and they will be considered separately in Chapter 6. They should, however, be included in any national system which may be devised.

Organisational Options for Change

4.4 There are four major options for the organisation of intersystem freight:

- continuing the current situation;
- amalgamation of AN and Westrail;
- AN operation of interstate freight; and
- formation of a national freight consortium.

It is possible that there could be combinations of the last three options; adoption of one would not necessarily exclude either of the others. There could be a number of variations to these options but because they are the most important the major features and possibilities will be examined.

Continuing the Current Situation

4.5 The Committee utterly rejects the view that there should be no change to the current unsatisfactory situation and will not consider this option further.

¹Transcripts: 9 June 1989, pp.319-330, 322; 6 July 1989, p.487 and 7 August 1989, pp.494, 497. Submission No 17, p.51; Transcripts: 7 June 1989, p.91 and 6 June 1989, pp.11,15.

Amalgamation of AN and Westrail

4.6 In 1988, the Bureau of Transport and Communications Economics (BTCE) published its assessment of the options for integration of Westrail and AN. The study found that:

- in the event of integration, there would be clear financial savings to railways and governments and economic savings to the nation;
- full system integration would provide much larger savings than integration of intersystem operations alone; and
- savings would be in operational, managerial and marketing areas.²

4.7 Discussions between AN and Westrail are continuing about AN's management of passenger services between Perth and Kalgoorlie and also about amalgamation of facilities at Kalgoorlie.

4.8 Although Westrail's submission mentioned amalgamation of facilities at Kalgoorlie, the Railways of Australia (ROA) national corridor study and the agreement with AN to run interstate passenger trains west of Kalgoorlie, there was no mention of integration of Westrail and AN. No action has been taken publicly by either system but AN was aware of the benefits of integration. The tone of Westrail's evidence, and the important role it saw itself playing in Western Australia, suggested that any sort of integration between the two systems was unlikely, at least in the short term. However, during 1989 there have been some press reports of discussions concerning the possible merger. In view of the potential benefits already referred to, the Committee regards these discussions as a positive development and would encourage their continuation.³

AN's Operation of Intersystem Freight Services

4.9 In its first submission, AN argued that the basis for strong, single management of interstate freight services already existed and should be used. AN said it was capable of taking responsibility for managing and operating these services, with continuing support from the other State systems. This claim was based on its commitment to intersystem freight, and to the east-west corridor in particular, as well as its profitable business in that corridor. It also stated that all the other systems existed largely to serve the interests of the various States, so that structures did not exist for national transport objectives. Finally, given its view of the problems in the existing divided system, AN believed it would take years to establish a national freight system.⁴

²Bureau of Transport and Communications Economics, Report 63, *AN-Westrail Integration - An Assessment of Options*, Australian Government Publishing Service, Canberra, 1988, p.xvi.

³Submission No 28, pp.2,3. Submission No 17, p.53; Transcript, 18 September 1989, pp.586-587. Transcript, 6 July 1989, p.449.

⁴Submission No 17, pp.51-52; Transcripts: 6 July 1989, p.418, and 18 September 1989, p.592.

4.10 While all witnesses were in favour of a single authority to operate intersystem freight, there was mixed support for AN taking on this role. A representative of the NSW Freight Forwarders' drew attention to AN's size, compared with the State Rail Authority of NSW (SRA). Concerns were also expressed that there would be conflicts of interest between AN and the other systems if AN were to take these services over.⁵

4.11 On the other hand, Mayne Nickless said AN was the most logical body to handle intersystem freight because it was most aware of what the requirements were. That organisation also had some reservations about the quality of AN's service, suggesting it should concentrate more on actually running its trains.⁶

4.12 These views, coming from some of AN's freight forwarder customers, have been accorded considerable weight. It was their belief that if the proposed new body was not acceptable to all parties, as a second preference AN should control interstate freight services.⁷

National Freight Consortium

4.13 Of all the options, most evidence was taken from witnesses about the creation of a new national freight consortium.

4.14 The most detailed view of how such a body might be structured and how it could operate was provided by SRA. The first step in the process of forming such a body would be a joint railways system/private sector study to establish whether interstate freight could be commercially viable. SRA had not made any judgement on the structure which might emerge from the examination of all the options in this study. It envisaged, however, that the resulting organisation would recruit the best people for the task it was taking on, that it would own its rolling stock and operate terminals with the private sector, and that it would absorb staff from existing systems to provide one point of contact with customers. This organisation would negotiate the services it would require on a commercial basis from the existing systems.⁸

4.15 SRA saw the resulting consortium as being jointly owned by the participating State systems, but not subject to any veto by them, making decisions on the best commercial basis. Involvement of the private sector would remove the ability of the State systems to influence decisions in favour of their own, more limited ends. The Committee acknowledges that if such conditions could be made to apply they could represent a useful basis for more unified national freight management. However, AN suggested that it would be difficult in practice to make such a proposal operate successfully, because of political, financial and operational factors which had always frustrated moves in this direction.⁹

⁵Transcripts: 9 June 1989, pp.325-326 and 6 July 1989, p.483-483.

⁶Transcript, 7 August 1989, p.499.

⁷Transcripts:9 June 1989 pp.320-321 and 6 July 1989, p.484.

⁸Transcript, 4 October 1989, pp.669-693(passim).

⁹Transcript, 4 October 1989, p.693.

National Studies

4.16 ROA has established a national corridor working party to study the options for closer integration of intersystem passenger and freight operations. This working party proposed two options which corresponded to the national consortium and AN's operation of the system outlined above. Westrail suggested a compromise: adoption of the consortium operated by AN, but owned and controlled by all the participating systems through a board of management.¹⁰

4.17 On 19 September 1989, the Minister for Land Transport and Shipping Support announced that the Commonwealth would join with the States to conduct a feasibility study into the establishment and operation of a national freight organisation. The Minister's statement referred to the following major issues:

- terminal developments;
- the need for structural reform to address problems in rail freight;
- private sector involvement;
- single management of rail freight operations; and
- improvement in the competitiveness of Australian industry.¹¹

4.18 Contrary to indications given at a public hearing, AN has advised the Committee that it will participate in this feasibility study, 'on the understanding that it will thoroughly examine a range of options for managing national rail freight.' Membership of this body includes the major participants and seems to be the ideal vehicle to deal with these important issues. The Committee welcomes both the study and AN's involvement in it, and hopes that all participants cooperate to provide a national solution.¹²

The Committee's Views

4.19 The Committee was not impressed by many of the arguments advanced to support creation of a consortium. One of the most significant deficiencies of the present situation is the number of systems involved in interstate freight. Creation of another body would only add another system competing for the opportunity to schedule its services. This is an extraordinary proposal: to solve problems which result from too many systems by creating another. In this context, the admission by SRA that the proposed consortium would be an additional organisation was significant; that it would absorb the interstate freight activities of the existing systems missed the point. Westrail said it was undesirable to create a new body and the Committee endorses this view. Another system would be created and Australia needs less systems rather than more.¹³

¹⁰Submission No 28, p.26; Transcript, 6 July 1989, p.460.

¹¹Media Release 188/89, p.1.

¹²Transcript, 4 October 1989, pp.669,676-677,686; AN's letter dated 13 October 1989, p.2.

¹³Transcripts: 4 October 1989, pp.675-676 (but see also p.669 for a seemingly contradictory statement) and 6 July 1989, p.460.

4.20 There were two other significant and related issues: the ownership of the proposed organisation and its commercial focus. It is clear that introduction of the possibility of a veto by a system of proposals from one or more of the others cannot be countenanced. The implications of equal and direct ownership by the existing systems would need careful consideration. Another possibility for ownership which was suggested was shares based on the amount of interstate track owned by each system. This is the basis of the present revenue apportionment arrangement, which is acceptable to AN but which SRA wishes to renegotiate. If these two issues cannot be satisfactorily resolved in advance, any new national organisation for intersystem freight will be doomed for the same reasons the present arrangements are not working: divided control and the lack of a commercial focus.¹⁴

4.21 Whether AN or a new consortium runs interstate freight, and regardless of what ownership arrangements are made, this body will be dependent on the cooperation and goodwill of the existing systems. They will continue to own the tracks and, probably in the short term, some of the rolling stock which will be used. They will also provide any necessary services. It therefore seems wise to include State representation on the controlling body. AN made it clear there were a number of membership possibilities, the most important of which was the appointment of representatives from across the country, rather than the delegates who would be appointed by the States in the consortium. This is not a matter on which the Committee can or should adjudicate.

4.22 Should a new national consortium come into existence, AN's future would have to be resolved. Shorn of its interstate responsibilities it would only have a small task within South Australia and Tasmania. The Committee assumes staff, rolling stock and facilities would be taken over by the new body.

4.23 The Committee supports the view that AN should own and operate a national system which will provide interstate freight services. On the basis of its achievements since 1978, AN could run such a body efficiently and effectively. AN must be suitably restructured and given the necessary capital and other resources to carry out this task. This option was preferred over the creation of a new body but it is clear there are substantial issues which must be resolved, particularly:

- involvement of and relationships with State systems;
- membership of the controlling body;
- additional staff and rolling stock; and
- technical and operational differences between the existing systems.

Resolution of these complex issues will take time. Transitional arrangements, such as interim management of particular corridors by nominated systems, would seem to be the most sensible way to proceed towards the goal: national management of intersystem freight and passenger services.

¹⁴Transcripts: 4 October 1989, p.665 and 18 September 1989, p.633.

Conclusion and Recommendation

4.24 There should be one national body to operate interstate freight and passenger services in Australia. A restructured Australian National, retaining its strongly commercial charter, with additional equity from the Federal government and State governments, should own and operate such services with appropriate resources. The feasibility study into the establishment of a national organisation for rail freight is supported because its very existence and membership provide a crucial opportunity to move in the direction of a national solution.

4.25 The Committee recommends that:

Recommendation 8:

- (a) A single national organisation should be the long term goal for effective and efficient management of interstate rail freight and passenger services;**
- (b) current studies and negotiations should be moving towards this goal as a matter of the greatest urgency;**
- (c) active consideration be given to a restructured Australian National with an appropriate organisation and the necessary resources carrying out this role; and**
- (d) as an interim measure, corridor management of existing interstate rail freight and passenger services be implemented as soon as practicable.**

5: RAIL-ROAD COMPETITION AND INFRASTRUCTURE FUNDING

Background

5.1 Evidence was received on related subjects which were not included in the terms of reference for this inquiry:

- the subsidy received by the road transport industry and rail systems for freight carried; and
- present methods of funding railway infrastructure construction and improvements.

In addition, there were references to safety on highways and to the number of serious accidents involving heavy vehicles. These matters are of sufficient importance to justify some consideration of the issues they raise.

5.2 An argument put to the Committee, principally by the railway systems, was that the full cost of damage to roads caused by heavy vehicles was not fully recovered from these users. Rail has to pay the full cost of maintaining its own permanent way. If the user pays principle applies, it should be applied equally to both modes; if one mode is to be publicly funded, there should be equal funding under similar conditions for the other. Railway systems pay excise on diesel fuel, little of which is returned to them; a great deal of this excise has been spent on the national road system. This is of considerable assistance to rail's competitor, the road transport industry. This issue will be considered in the first part of this chapter.

5.3 The Committee has already referred to its belief that certain projects should be funded from excise payments for diesel fuel. This issue will be dealt with in the second part of this chapter.

5.4 In 1988, the Bureau of Transport and Communications Economics (BTCE) published 'Review of Road Cost Recovery' which set out to provide estimates of the level of road cost recovery on Australian roads for the financial year 1986-87. This paper also included discussion of the theory of pricing and reviewed some recent studies on road cost recovery. In 1987, the Inter-State Commission (ISC) published a study on road/rail cost recovery which, in broad terms, can be compared with the BTCE's results. The Committee also received material from the Australian Road Transport Federation (ARTF) which sought to refute the BTCE's figures and cast doubt on its methodology. Appendix 2 gives an analysis of the various figures and the methodologies used by each organisation.¹

¹Bureau of Transport and Communications Economics: *Review of Road Cost Recovery*, Occasional Paper 90, Australian Government Publishing Service, Canberra, 1988 p.xv. Inter-State Commission: *A Review of Federal Registration Charges for Interstate Vehicles*, Australian Government Publishing Service, Canberra, 1987. Exhibit 19.

The BTCE Paper

5.5 During the inquiry, there were a number of references to the BTCE's figures for the under-recovery from road transport of the cost of repairing the damage done to roads by heavy vehicles ²

5.6 Based on figures from 1986-87, and including all classes of vehicles, the BTCE's estimate of about \$18,400 for under-recovery of road damage costs per heavy vehicle per year was based on a six-axle vehicle carrying 16 tonnes travelling about 100,000 kilometres per year on all types of roads in Australia. In the absence of direct information, the BTCE estimated the cost of road damage by heavy vehicles by reference to levels of expenditure on roads and on engineering relationships. The BTCE itself conceded that these figures involved assumptions and estimates, and that different assumptions would provide different results. On the revenue side, there is considerable debate over which of the various taxes paid by vehicles should be attributed for road cost recovery purposes. The BTCE took a middle course by including all State and federal fuel taxes and registration charges but excluded sales taxes and import duties. ³

5.7 Other factors in these calculations included the standard to which roads were originally built and annual maintenance and restoration costs. BTCE figures did not include external factors such as safety, environmental pollution, noise and, perhaps most importantly, the capital cost of building the road in the first place. ⁴

5.8 It was the Bureau's belief that including some of these additional social costs in its calculations would increase the figure for under-recovery of road damage by an average heavy vehicle from about \$18,400 per year to about \$40,000 per year. ⁵

The ISC Review

5.9 The ISC calculations, on the other hand, were for 1985-86 and were based on six-axle transports travelling about 150,000 kilometres per year on interstate routes only. It also used a financial approach which allocated expenditure on roads to categories of expenditure and then allocated that expenditure to the different road user groups. The result of these calculations was a figure of about \$27,000 per year for road damage caused by these vehicles.

5.10 The ISC calculated cost recovery ratios using road and vehicle operating costs from the trucking industry with revenue, including payments hypothecated from fuel taxes and registration charges. The ratio for the standard vehicle was 92 per cent, or an under-recovery of about \$20,000 per vehicle per year.

²See for example, Transcripts: 8 June 1989, p.227; 9 June 1989, p.310 and 7 August 1989, p.515.

³Transcript, 7 August 1989, pp.561-563.

⁴Transcript, 7 August 1989, pp.563, 567-568.

⁵Transcript, 7 August 1989, p.568.

5.11 There were significant differences in the numbers and methodologies used in these studies because they were not examining the same sectors of the transport industry in the same way. The principal differences were the distances travelled per year, the inclusion/exclusion of local roads and the definitions of revenue each used. If the BTCE figures are adjusted for these differences, comparisons can be made with the results of the ISC study.

The ARTF Response to BTCE Paper

5.12 Material provided by the ARTF drew attention to what were perceived to be deficiencies in the BTCE paper. The ARTF took particular exception to the inclusion of local roads in the study. An example of 'outlandish results', according to the ARTF, was the Bureau's allocation of 85 times the cost of grass-cutting and litter collection to a six-axle semi-trailer than to a passenger car.⁶

5.13 The ARTF accused the BTCE of making assumptions to increase the value of the damage caused by trucks, of bias in the selection of these assumptions and in the allocation of costs attributed to trucks. The Federation pointed out that trucks incur registration charges, sales tax and import duties on vehicles, tyres and service parts, as well as Federal and State fuel taxes. It calculated that, over a four year ownership and on the basis of 100,000 kilometres travelled per year by a particular truck, annual payments to governments would amount to over \$44,000 per year. The Committee acknowledges that trucks do pay charges such as sales tax and import duties, but questions whether these general taxes, paid by all sectors of the economy, should be credited to their cost recovery. AN also pays customs duty and the Federal government has stated its intention to remove AN's exemption from sales tax.⁷

Subsidy for Freight Carried by Rail

5.14 If it is true that heavy vehicles do not pay for all the road damage they cause, it also seems that there is a significant subsidy to freight carried by rail. The Department of Transport and Communications (DOTC) said that, based on information brought together by the ISC, road freight was subsidised by 0.6 cents per tonne kilometre compared to 1.4 cents per tonne kilometre for freight carried by rail. The Committee notes that no subsidy is received by AN or Westrail for their freight operations in the east-west corridor. Overall, however, the subsidy to the industry seems to be significant and, if recovery of the cost of damage to roads is important, the subsidy paid to the entire transport industry should be thoroughly researched.⁸

⁶Exhibit No 19.

⁷Exhibit No 19. 1988 Statement on Government Business Enterprise reform

⁸Transcript, 7 August 1989, pp.564,567.

Possible Solutions to Road Cost Recovery Problems

5.15 It was suggested that there were a number of measures which could be taken to work towards a more equitable situation in the transport industry. These included enforcement of existing laws relating to weights carried and driving hours per day, to the installation of tachographs in heavy vehicles and the introduction of a weight/distance tax. Each of these proposals could go some way towards improving the present position, but would incur substantial costs if they were to be implemented.⁹

The Committee's Views

5.16 The Committee acknowledges the complexities of the issues and the different methodologies which have been used in the studies outlined above. While the Bureau and the Commission came up with apparently similar figures, the ARTF pointed out that the inclusion by the BTCE of local road costs was not usual practice. This was a reasonable comment in the context of inter-state traffic, but the Committee was not impressed by the Federation's response to the Bureau's study. The Federation was highly critical of the Bureau but appeared itself to be highly selective in the material it used. It concentrated on the amounts the industry paid to governments but totally ignored the issue of any damage trucks might do to roads, whether national or local. It cannot be denied that damage is done to roads and that passenger cars cause little or none of it.

5.17 The Committee was not convinced that the sometimes emotive arguments of the ARTF proved that the results of research by either the ISC or BTCE were wrong. The Committee accepts the argument put by the State Rail Authority of NSW (SRA) that both road and rail should pay for any damage they cause. This issue is essentially one of equity. There is another more general, economic efficiency argument which is relevant to this issue. If the Australian rail system were to be made more efficient, more freight would travel by rail and there would be less damage to roads which would mean reduced capital costs to build and later maintain/restore them. Social and environmental costs would also be reduced.¹⁰

5.18 If rail's freight services were made more efficient and the nominal amount of 100,000 tonnes of freight per year were transferred from road to rail, the Committee estimates there would be a net annual economic benefit of \$6.8m on the Sydney-Perth route alone. This would justify capital investment of up to \$58m in railway infrastructure to generate this diversion of freight from road to rail. The economic and financial impacts of the diversion of this amount of freight are shown in Tables 5.1 and 5.2.

⁹Transcripts: 4 October 1989, p.664 and 7 August 1989, p.523.

¹⁰Transcript, 4 October 1989, p.665.

5.19 In this context, AN estimated that if the east-west corridor was operated efficiently it could achieve about 50% of the existing road market share for itself. This, it said, would increase its tonnage by about 85,000 tonnes over a two or three year period and would be equivalent to taking 3000 trucks off the highway.¹¹

5.20 Diversion of more significant amounts of freight would have larger impacts on both railways and the road transport industry. The Committee recognises the magnitude of this change to the transport industry but believes that these national problems are so serious that they demand prompt and effective national solutions, costly though these may be.

TABLE 5.1

**ECONOMIC ASSESSMENT OF FREIGHT DIVERSION
SINGLE YEAR COSTS AND BENEFITS
(\$ M)**

	Sydney- Perth	Adelaide- Perth	Sydney- Adelaide
Benefits			
Saving of truck operating costs	13.1	9.0	4.7
Saving of road damage costs	2.7	1.9	1.0
Road accidents avoided	0.7	0.4	0.2
	16.5	11.3	5.9
Costs			
Rail operating costs	8.9	6.2	4.1
Delivery/pick-up costs	0.8	0.8	0.8
	9.7	7.0	4.9
Net Benefit	6.8	4.3	1.0
Capitalised Value of Net Benefit^a	57.8	36.5	8.5

Source: Committee estimates

Note: a. Calculated over 20 years at a 10 per cent real discount rate

¹¹Transcript, 7 June 1989, p.93.

TABLE 5.2

FINANCIAL IMPACTS OF FREIGHT DIVERSION

	Sydney- Perth	Adelaide- Perth	Sydney- Adelaide
Trucking Industry			
– loss of turnover	\$18m	\$13.5m	\$6.5m
– reduction in truck numbers	132	91	47
– reduction in employment	260	180	95
Rail Industry			
– added turnover	\$14.8m	\$12.8m	\$4.2m
– profit improvement	\$4.1m	\$5.9m	(\$0.3m)

Source: Committee estimates

5.21 There is scope for more research into subsidies for the transport industry and into road damage cost recovery. This research should seek to determine which costs should be included in calculations, what methodology should be used and the nature and scope of subsidies to the industry. The ISC has a further study on the subject of road cost recovery due for publication late in 1989 and that the Australian Transport Advisory Council will be considering studies on related issues at its March 1990 meeting. Debate and research on the topic may then make further useful advances.

Funding for Railway Infrastructure Improvements

5.22 There remains the issue of what happens to the excise on diesel fuel which is paid by systems to the Federal government, whether the existing system is effective and equitable and, if not, what reforms could be made to improve it for the benefit of the national rail network.

5.23 Before 1 January 1989, when the Australian Centennial Roads Development (ACRD) Program was introduced, it was possible for States to have road funding transferred to urban public transport (UPT) funding. No UPT projects have yet been approved for funding under the ACRD, but between 1982-83 and 1988-89 nearly \$30 million of UPT funds was spent on urban rail infrastructure projects.¹²

5.24 Under the Australian Land Transport Programs (ALTP), which was replaced by the ACRD program, small amounts were allocated to specific projects:

¹²DOTC letter dated 22 September 1989, Attachment 1, p.1.

- \$1m to Westrail to upgrade the interstate mainline Koolyanobbing-Kalgoorlie; and
- \$1.01m to AN to buy two piggy packers.

In addition, AN received \$1.4m from the ACRD program for development of its road/railer; this is the only capital rail project to be funded from that program.¹³

5.25 DOTC estimates of the amount of diesel fuel excise paid by the systems in 1987-88 are set out in Table 5.3.

TABLE 5.3

DIESEL FUEL CONSUMPTION AND FUEL EXCISE FIGURES 1987-88

SYSTEM	Diesel fuel consumed (millions of litres)	Total product excise paid (\$m)	Road Funds fuel excise component (\$m)	Fuel excise paid to consolidated revenue (\$m)
AN	88.63	18.16	4.73	13.43
SRA	177.37	36.35	9.46	26.89
QR	198.62	40.71	10.59	30.12
V/Line	53.79	11.02	2.87	8.15
STA (SA)	8.86	1.82	0.47	1.35
Westrail	42.80	8.77	2.28	6.49
Transperth	4.16	0.85	0.22	0.63
		117.68	30.62	87.06

Appendix 3 provides more detailed information about these funding programs and the criteria under which funds could be provided.¹⁴

5.26 About one third of the amount paid by the systems (\$30.62m) was hypothecated to road funds while the balance (\$87.06m) was paid to consolidated revenue. In return for significant contributions to both road funds and consolidated revenue, rail systems received little or no funding.¹⁵

¹³DOTC letter dated 22 September 1989, Attachment 1, p.2.

¹⁴DOTC letter dated 22 September 1989, Attachment 1, p.3.

¹⁵DOTC letter dated 22 September 1989, Attachment 1, p.3.

5.27 Since the completion of the Alice Springs-Tarcoola route and standardisation of the Adelaide-Crystal Brook route in the mid-1980s there has been no 'substantial direct investment' in the national railway system. During the application of the ALTP (1982-83 to 1988-89) \$1.25 billion was allocated to land transport, almost all of which was spent on roads.¹⁶

Options for Change

5.28 There are a number of ways the present situation could be changed, including:

- the so-called Swedish model;
- exemptions from paying diesel excise for railway systems;
- creation of a special fund for railway infrastructure improvements; and
- return of part of the excise paid by railway systems.

5.29 Dr P G Laird stated that the Swedish government has undertaken to spend equally on road and rail infrastructure over the next ten years. According to SRA, a Swedish government agency owned and maintained the rail right of way and charged rail operators the same levy per tonne kilometre that it charged heavy vehicles for the use of the highway.¹⁷

5.30 The second option could be to exempt railway systems from the payment of diesel fuel excise, as they were until 1982-83. This was SRA's preference because payments are and have been largely invested in roads.¹⁸

5.31 The third option could be the creation of a special fund for railway infrastructure improvements. This was AN's preference.¹⁹

5.32 A final option, particularly in the short term, could be the return to the contributing systems of that portion of the fuel excise they pay which is hypothecated to the ACRD program, about \$30 million in 1987-88.

The Committee's Views

5.33 The Committee notes the comments of the Western Australian Road Transport Association that it would be better for everyone to put as much cargo as possible on rail because 'trucks in any great quantity on roads cause problems.' Dr Laird said that an efficient rail freight operation was three or four times more energy efficient than road freight and drew attention to the benefits

¹⁶Transcripts: 7 August 1989, p.533, 573 and 9 June 1989, p.336.

¹⁷Transcripts: 9 June 1989, p.343 and 4 October 1989, p.664.

¹⁸Transcript, 4 October 1989, p.671.

¹⁹Transcript, 18 September 1989, pp.595-596.

to motorists if heavy freight was taken from roads. A number of witnesses were aware of the paradoxical situation whereby rail was paying excise on the fuel it used which was then spent so as to help its competitor operate more efficiently.²⁰

5.34 The present situation cannot be justified on economic grounds. Figures already discussed made it clear there would be significant economic and financial benefits if large amounts of freight were transferred from road to a more efficient rail system. Rail cannot break out of the situation whereby one of the reasons it loses money is the unsatisfactory service it provided; unless and until it is given or finds more money to provide an acceptable level of service, rail will not be able to generate sufficient funds to make the necessary changes to improve that performance.

5.35 One way to break this situation would be to increase productivity per employee. AN and Westrail have done this while SRA has begun to rationalize its staff. Such things as long-standing deficits and unfavourable debt to equity ratios hamper systems in their quest to improve their performance.

5.36 Changes to the current legislative guidelines for the ACRD Program are necessary to do justice to the national railway system, to reduce the unfair impost under which it is operating and to reduce the hidden costs the public does not know about or understand. It also believes that AN's efficiency proposals for implementation at and east of Broken Hill, discussed in Chapter 3, would be suitable for ACRD funding. Another suitable project would be construction of an alternate main route into/out of Sydney which used an easier, more fuel-efficient path. In view of the discussion of standardisation of the Melbourne-Adelaide route in Chapter 3, this project too could also be considered. These two projects would be very expensive.²¹

5.37 In the last year, there have been a number of horrific accidents involving heavy vehicles. In October 1989, 20 people who were travelling by passenger bus lost their lives near Grafton, NSW. A more efficient rail service would drastically reduce the need for so many heavy vehicles on highways, reduce the chances of such tragedies as the Grafton accident and reduce pollution. It is imperative that action be taken to do these things. AN estimated taking 85,000 tonnes of freight from road to rail would remove 3000 trucks from the highways over a two or three year period.²²

Conclusions and Recommendation

5.38 Where rail systems are making necessary changes to improve their efficiency, it is iniquitous that their competitors are effectively being supported by diesel fuel excise payments. There is an urgent need for a change to the present system of railway infrastructure capital investment. Safety issues alone demand that appropriate freight is taken off national roads and transferred to rail.

²⁰Transcripts: 6 July 1989, p.487; 9 June 1989, p.337; 6 July 1989; p.440; and 9 June 1989, p. 309.

²¹Transcript, 5 July, 1989, p.405.

²²See paragraph 5.19.

5.39 In the short term, each system should have returned to it the amount of its excise payment which was contributed to road funds. In the longer term, excise payments should be returned to rail systems on the basis of the results of a study which should determine the most equitable amounts and means of doing so, given both the urgent need for capital investment in rail infrastructure and the needs of the national road system.

5.40 Accordingly, the Committee recommends that:

Recommendation 9:

- (a) A percentage of the fuel excise rail systems pay to the Federal government should be available to them for the explicit purpose of infrastructure improvements; the amount should be equal to the percentage level of funds available for the national road system from the fuel excise paid by the road transport industry;**
- (b) in the short term, and to compensate for the detrimental position rail systems have been in, the component of the excise each has paid to road funds should be returned to them to improve the efficiency and reliability of their freight and passenger services;**
- (c) if necessary, legislative guidelines be amended as soon as practicable to enable these changes to be made; and**
- (d) allocation of funds to specific projects should be subject to approval by the Federal Minister for Transport and Communications, and continuation of funding beyond the first year of a program should be subject to efficiency gains being demonstrated by the system(s) involved.**

6: EFFICIENCY OF EAST-WEST PASSENGER SERVICES

Background

6.1 Australian National (AN) operates:

- the Indian Pacific (IP), with SRA and Westrail, between Sydney and Perth three times per week in both directions;
- the Trans Australian jointly with Westrail between Adelaide and Perth twice per week in each direction; and
- the Overland jointly with V/Line between Adelaide and Melbourne daily in both directions.

6.2 AN shares revenue, costs and losses on these trains with the other systems as follows:

- Indian Pacific – AN 59.07%; SRA 25.87%; Westrail 15.06%;
- Trans Australian – AN 75.39%; Westrail 24.61%; and
- Overland – AN 40.31%; V/Line 59.69%.

These proportions are based on the kilometres in each route which belong to the participating systems.¹

Intersystem Passenger Services

6.3 Details of these services are provided in Table 6.1.

6.4 The Overland is the most popular of the three trains, carrying over 170,000 passengers in 1987-88. Sharp growth in the last year or so has reversed the trend in passenger numbers which was evident through most of the late 1970s and 1980s. The Overland required a subsidy from the Victorian and Federal governments of about \$17 million in 1987-88, representing a cost recovery ratio (the percentage of costs recovered from revenues) of about 45 per cent.²

6.5 The IP has also recorded a turnaround in growth trends since 1984-85, with passenger numbers increasing by 10 per cent over the last four years to a level of 38,000 in 1987-88. However, the cost of operating this train is very high, and the three governments (Federal, Western Australia and New South Wales) paid out a total of \$33 million in 1987-88 to subsidise the train's operations. The cost recovery ratio was a low 40 per cent.³

¹AN's letter dated 4 September 1989, Attachment 2.

²Submission No 32, pp.14-15; AN's letter dated 4 September 1989, Attachment 2.

³Submission No 17, pp.64-68; AN's letter of 4 September 1989, Attachment 2.

TABLE 6.1

EAST-WEST PASSENGER RAIL SERVICES

	Indian Pacific	Trans Australian	Overland
<i>Operational Data</i>			
Frequency (per week)	3	2	7
Passengers Carried(1987-88)	38,000	31,000	173,000
Growth in Passengers Carried (1984-85 to 1987-88)	+ 10%	+ 10%	+ 12%
<i>Financial Data (1987-88, \$m)</i>			
Revenue	19	11	14
Costs (fully distributed)	52	22	30
Profit (Loss)	(33)	(11)	(17)
Cost Recovery	40%	50%	45%

Source: AN Submissions

6.6 The twice weekly Trans Australian carried 31,000 passengers in 1987-88. This patronage represented a similar pattern of growth to that of the IP. The subsidy by the Western Australian and Federal governments amounted to \$11 million in 1987-88, while the Trans Australian recorded the best cost recovery figure of the three trains at 50 per cent.⁴

6.7 Total losses on the three services amounted to over \$60 million in 1987-88, for the carriage of about 240,000 passengers. These losses were about \$250 per passenger on average: in the case of the IP the losses reached \$850 per passenger, a level which is above the cost of a first-class air fare between Sydney and Perth.

6.8 For AN and Westrail subsidies for these trains are paid as specifically identified Community Service Obligations. For SRA and V/Line, subsidies are paid by the State governments as part of their general funding of each system.⁵

⁴AN's letter of 4 September 1989, Attachment 2.

⁵Transcript, 6 June 1989, p.9.

Comparisons with Other Modes

6.9 An indication of the role of rail passenger services in the carriage of people in the east-west corridor can be gained by comparing such aspects as fares, service frequencies, travel times and market shares with those of the main modes. Table 6.2 provides such a comparison for the Sydney-Perth route.

TABLE 6.2

PASSENGER SERVICE COMPARISONS – SYDNEY-PERTH ROUTE

Mode	Fares (one-way \$)	Frequency (number of Services per week each way)	Transit Time (hours)
Rail			
- First Class ^a	780	3	67
- Economy ^a	580		
- Sit Up	185		
- Child/Pensioner (Economy) ^a	380		
- Apex (Economy) ^a	464		
Air			
- First Class	753	27 (direct)	4-5
- Economy	502	42 (indirect) ^d	
- Child	251		
- Apex ^b	327		
- Flexifare ^c	276		
Coach^e			
- Standard	225	Approx 30	60
- Child/Pensioner	200		

Notes: a Sleepers including meals
 b 30 days advance booking, seven nights' minimum stay
 c On airlines choice of flight for nominated date
 d Via Melbourne and/or Adelaide
 e Normally via Canberra and Adelaide

Source: Rail, Air and Coach timetables and fare schedules

6.10 Rail is the slowest and least frequent mode in the corridor. Evidence also suggested there were problems with the reliability of rail services.⁶

⁶Transcript, 7 June 1989, p.125.

6.11 Fares for sleeper accommodation by rail are comparable with those by air, although air has the lower APEX-type fare for holiday travellers.

6.12 Fares for sit-up rail seats are set at a level just below those of the main national coach operators. Rail, in fact, offers both the cheapest and the most expensive fares in the corridor.

6.13 While precise statistics are not available, it is clear that rail has a very small market share of Sydney-Perth passenger traffic. Aviation statistics show a total of 276,000 passengers in 1987-88 on direct Sydney-Perth air services, and there may be significant numbers of air passengers travelling via Melbourne and Adelaide. Estimates of the number of coach passengers are about 120,000 per year. Therefore the 38,000 passengers carried by the IP amounted to less than 10 per cent of the total passenger market.

Operational Issues

6.14 A number of operational issues relating to east-west passenger services were raised in submissions and evidence.

Timetabling Problems

6.15 Several witnesses raised concerns about problems with timetabling of passenger services. These concerns particularly related to the east-bound IP services, and were not mentioned in respect of either the Overland or the Trans Australian.⁷

6.16 Mr GL Vale, of the SRA Unions at Broken Hill, drew attention to the ludicrous situation for the IP because of the combination of different time zones, particularly as a result of daylight saving:

So there was the Indian Pacific leaving Perth terminal 60 minutes early but on time, arriving in Broken Hill 60 minutes early but late, and leaving Broken Hill 60 minutes late but early.

The systems involved can do little about some of the causes which contribute to this position. It is, however, indicative of the need to examine the IP's schedule for the benefit of all involved, not least the intending passengers.⁸

6.17 Under the present timetable, the IP departs from Perth on Sundays, Mondays and Thursdays at 9pm (Western Standard Time). It is scheduled to arrive in Sydney at 2.55pm (Eastern Standard Time) on Wednesdays, Thursdays and Sundays respectively. It leaves Sydney at 2.40pm (Eastern Standard Time) on Sundays, Thursdays and Saturdays, arriving in Perth at 7.00am (Western Standard Time) on Wednesdays, Sundays, and Tuesdays respectively. Specific problems related to:

⁷Transcripts: 7 June 1989, pp.125,168 and 8 June 1989, p.247.

⁸Transcript, 7 June 1989, p.168.

- the late arrival of the IP, leading to conflicts with peak-period Sydney metropolitan trains; and
- delays at and west of Broken Hill resulting in long waits there and consequent cost increases.⁹

6.18 While AN's efficiency proposals set out in Chapter 3 can, if implemented, provide more time in the current schedule, the Sydney suburban peak hour and connections with other inter-capital services from Adelaide and Sydney will remain as limiting factors in the IP's timetable.

6.19 AN pointed out that there have been a number of problems in the last twelve months, including derailments and delays from track upgrading programs. In the longer term, the timekeeping performance of the east to west trains should be improved significantly as a result of the completion of the new train control system based on the fibre optic cable across the Nullarbor, and of track upgrading (concrete sleepers, rail grinding etc).¹⁰

6.20 In the short term, AN has proposed that the scheduled departure time for the IP from Perth be advanced from 9pm to 7pm or possibly earlier. This would permit an earlier arrival time to be scheduled at Sydney and reduce the incidence of late arrival at Broken Hill.¹¹

6.21 Westrail and witnesses from the City of Kalgoorlie/Boulder were opposed to this idea, primarily because of the effect of the earlier departure from Perth on arrival times in Kalgoorlie and the consequent loss of business opportunities to tourist interests there. An earlier arrival time would also be less convenient for travellers wishing to leave or join the train at Kalgoorlie. Similar views were expressed in Broken Hill.¹²

6.22 While AN drew attention to the possibilities of providing different types of IP services, Westrail observed that:

The primary objective has to be the trade between capital cities. Other objectives, such as local considerations, do have to take second place.

The Committee endorses this view and believes there is scope for a greater variety of services across the continent.¹³

6.23 However, the Committee is particularly concerned that narrow local interests in Western Australia should not take precedence over the broader question of the maintenance of reasonable timetables by trains of national significance.

⁹Submission No 17, p.70 and Figure 3, p.40.

¹⁰Transcripts: 8 June 1989, pp.218-219 and 6 July 1989, pp.420-421.

¹¹Transcripts: 6 June 1989, p.28 and 6 July 1989, pp.430-431.

¹²Transcripts: 5 July 1989, pp.369-384 (passim) and 7 June 1989, p.133.

¹³Transcript, 6 July 1989, pp.438-455.

6.24 The present timetable allows well over 60 hours to travel in the IP across the continent. Changes AN and the other systems intend to make could shorten that journey but there will always be freight trains which will have an impact on the IP's schedule. Such is the time it currently takes to travel from, say Kalgoorlie to Perth (11 hours) or Adelaide to Broken Hill (seven hours 28 minutes), it is not possible for the IP to arrive at every place on the route at an appropriate time for local tourist operators. Stops of two hours at each location are not necessarily conducive to efficient scheduling of other, more financially sensitive parts of system business. The needs of local tourist interests and those of the systems, even with the best will on both sides, are not always easily reconcilable to the satisfaction of all parties.

6.25 The Committee is aware of the negotiations between AN and Westrail about management of operations of the IP and the Trans Australian between Kalgoorlie and Perth. These negotiations should proceed with the utmost speed to resolve this matter for the benefit of both systems and the public which uses these services. Should AN take over management of this section it has said no changes in scheduling will take place in the first year of the new arrangements. Such an agreement would immeasurably improve the chances of better east-west passenger services.¹⁴

Booking Systems

6.26 The Committee received a number of complaints about problems with bookings for the trans-continental trains. Complaints centered on:

- the inability to book seats/berths between Sydney/Broken Hill and Perth/Kalgoorlie; and
- the inability to book seats/berths Sydney-Perth/Perth-Sydney because of passengers on intra-state journeys.

One Member of the Committee experienced problems in Adelaide because his Perth-Sydney berth had been rebooked by SRA from Broken Hill-Sydney.¹⁵

6.27 These problems reflect the broader issue of the conflict between the intra-state role of these long-distance trains, and their trans-continental role. It is clear that both Westrail and SRA regard the IP as a train that provides intra-state links and they both promote the train on this basis.

6.28 However, the primary role of the IP (and the Trans Australian) should be to provide a trans-continental service. Intra-state passengers should only be carried on a stand-by basis, and should rely on alternatives for their primary transport requirements (the Prospector in Western Australia and SRA rail/bus services in NSW).

¹⁴Submission Nos 30, pp.12-14 and 28 pp.19-23; Transcripts: 6 July 1989, pp.425,452, and 18 September 1989, p.593. AN's letter of 4 September 1989, Attachment 4.

¹⁵See for example Transcripts: 6 June 1989, pp.37-38; 7 June 1989, pp.123-126; 7 August 1989, p.571 and 5 July 1989, pp.377-378.

6.29 Some of these problems appear to arise from the fragmentation of control of services in general, passenger services and the absence of a single booking system in particular. In the longer term the solution to these problems lies in a single organisation controlling inter-state trains, or at least trains in individual corridors, and options for this solution are discussed later in this Chapter.

Replacement of Passenger Carriages

6.30 The Australian Railways Union pointed out that the Overland's carriages were nearing the end of their life and in urgent need of replacement. In due course, passenger carriages for the IP and the Trans Australian will also need to be replaced.¹⁶

6.31 While it is difficult to quantify how much customer resistance is involved, there is anecdotal evidence that airlines lose patrons when antiquated aircraft are used. AN believed refurbishing the Ghan carriages, at a cost of about \$2 million, had resulted in 'consistent increases in patronage and cost recovery levels'. The success of the Ghan is a clear example of what a system can do with a service which it controls in all respects.¹⁷

6.32 The three trains, the IP, Trans Australian and Overland, use a total of about 200 carriages. AN owns the carriages for the IP and the Trans Australian and shares ownership of the Overland carriages with V/Line. Detailed estimates of the cost of new carriages are not available, but it is likely that the cost of wholesale replacement would be well over \$100 million.

6.33 Given the financial performance of east-west passenger services, it would be very difficult to justify new capital investment on this scale. However, the idea of refurbishing and upgrading the existing passenger carriages to extend their operating life is attractive. The carriages for the three services could probably be refurbished for a significantly lesser amount than the cost of providing new carriages. The Committee regards this as an appropriate response to current problems in order to provide more efficient services.

Approaches to Passenger Services

6.34 While the measures in the above section addressed the short-term operational problems with east-west passenger services, they did not consider the underlying problems of these three services. They require a total subsidy of about \$60 million a year to meet the travel needs of a very small part of the market.

6.35 The infrastructure improvements which have been proposed, and which have generally been endorsed, will assist in preventing significant increases in subsidies. Streamlining booking systems, improving timetabling and refurbishing

¹⁶Submission No 13, p.15. But see Transcript, 6 June 1989, p.9, for an estimate of the life of the carriages.

¹⁷AN's letter of 4 September 1988, Attachment 1, p.2.

carriages may draw additional passengers to these services. However, without radical changes to the services themselves, a large subsidy will continue to be required.

6.36 The most radical alternative would be to terminate these three passenger services. This would reduce the overall losses, release several hundred employees and capital resources for use elsewhere and would provide extra business for coach services and airlines. On the other hand, some passengers would no longer be willing to travel, and there would be economic losses and inconvenience to localities currently served by the trains.

6.37 AN was absolutely opposed to the immediate cessation of these services because of the costs which would then be redistributed across the rest of its operations. However, it said that these services could be satisfactorily phased out over a reasonable period.¹⁸

Reasons for Maintaining Services

6.38 Long-distance passenger services should be regarded as a national community service obligation, and therefore be continued in some form or another. In particular, these rail services can be seen as:

- safer than travel by road;
- reducing road damage caused by coaches;
- providing a tourist attraction for overseas visitors;
- providing an alternative link if air or road services are disrupted; and
- maintaining employment levels in railway centres.

Disruptions to the airline industry in 1989 reinforce the need for an efficient national rail passenger service.

6.39 A significant subsidy is needed to keep these three east-west trains operating. Although this is a concern, they do make a contribution to AN's fixed overheads and costs which can be seen as an additional reason for retaining them. However, there is scope for significantly reducing the level of subsidy by developing a long term strategy to rationalise their management, reduce costs and enhance their marketing.¹⁹

An Alternative Strategy

6.40 The Committee was very impressed with the approach adopted by AN to the management and marketing of the Ghan. This approach involved a deliberate effort to market the train to the luxury tourist market, including the

¹⁸Transcript, 18 September 1989, pp.649-650, 653-655.

¹⁹Transcript, 18 September 1989, p.649.

complete refurbishment of the carriages, a well-focussed advertising campaign and the development of various holiday packages.²⁰

6.41 The result has been a sharp upturn in passenger numbers and a much better cost recovery ratio (about 60 per cent) than for any of the other long distance trains. This is AN's goal for passenger service cost recovery.²¹

6.42 An important element in the success of the Ghan is that management is completely under the control of one rail authority, with no need to negotiate arrangements or strategies with other systems. A similar approach could be successful in improving the fortunes of other trains. The IP would appear to be the best candidate for Ghan-style treatment because it has an image which could be marketed successfully both in Australia and overseas.

6.43 The elements which might go towards an alternative strategy include:

- refurbishment and upgrading of passenger carriages to standards comparable with those of the Ghan;
- some rationalisation of services between the IP and the Trans Australian;
- marketing a luxury train as the 'journey of a lifetime', concentrating on the US/Japanese/European tourist market;
- continuing the separate provision for sit-up passengers on the same train;
- alterations to schedules to reduce costs where possible but also to provide tourism opportunities at localities on the route; and
- a concentrated marketing effort.

6.44 Single management and operational control of passenger services, including the booking system, is critical; the rest of the strategy is dependent upon this.

6.45 Several models of single management of east-west passenger services were put forward, including:

- corridor management with each train under the separate control of one of the existing rail systems;
- AN taking over all long distance inter-state passenger trains; and
- the creation of a new organisation to operate all inter-state passenger trains along the lines of ViaRail in Canada or Amtrak in the US.²²

²⁰See for example, the advertisement in 'The Good Weekend' *The Sydney Morning Herald Magazine*, 16 September 1989, pp.52-53. AN's 4 September 1989 letter, Attachment 1. Transcript, 6 June 1989, p.9.

²¹AN's letter of 4 September 1989, Attachment 1. Transcript, 18 September 1989, p.610.

²²Transcript, 6 June 1989, p.10.

The Committee's Views

6.46 The Committee favours the option of the restructured AN operating these three inter-system passenger services, on the grounds that it has made the Ghan a success. These trains would be part of the national system recommended in Chapter 4. A new organisation to operate inter-state passenger services only is not favoured because of the additional costs which would be involved and the additional inter-face with the existing systems. Management of particular services by selected systems would be acceptable as an interim step to the restructured AN taking over full control.

6.47 Further market research is required to establish whether the Trans Australian should be withdrawn and whether the frequency of the IP should be increased or decreased. It is notable that the Ghan is aimed at a small but well-targeted market, and only operates once a week. This permits costs to be controlled and fares to be set at competitive levels. However, the Ghan does not seem to meet the everyday travel needs of people living between Adelaide and Alice Springs, and is directed much more at the demands of tourists seeking luxury rail travel.

6.48 There appears to be considerable scope for improving the operations and marketing of these three intersystem trains. This extends over such matters as staff training, an emphasis on customer service, flexibility for passengers wishing to break their journey at intermediate points, and the development of travel packages including both transport and accommodation. Putting the operations and management under single control (particularly with regard to the booking system) is an important first step in improving marketing. However, it also requires a considerable investment of time and money by the service manager to maximise the opportunities which seem to be available for this style of train.

6.49 At the same time, the budget market should not be ignored as it is an important market segment for both foreign tourists and domestic travellers. This could be done by continuing present arrangements for coach-style seating separate from the rest of the train. AN's experience with the Ghan and the Overland has shown that setting fares which compete with road coaches improved patronage in this part of the market.²³

Conclusions and Recommendations

6.50 East-west passenger services require large subsidies and cater for a relatively small part of the market. However, they provide sufficient benefits to the communities they serve, both local and tourist, to justify their continuation. If Australian National and Westrail reach an agreement about the western end of transcontinental passenger services, there would be an improvement in their efficiency.

²³Transcript, 18 September 1989, pp.609,615.

6.51 The Committee concludes that:

- (a) Transcontinental passenger services should be retained;
- (b) there is scope for amalgamation of and improvements to current services; and
- (c) Australian National in conjunction with the other participating systems should review these services.

6.52 In the short-term, the Committee recommends that:

Recommendation 10:

- (a) Australian National, Westrail and SRA negotiate a new schedule for the Indian Pacific involving an earlier departure time from Perth;
- (b) all bookings on the Indian Pacific and Trans Australian be controlled and co-ordinated preferably by Australian National, with berths and seats made available for intra-state passengers only on a stand-by basis; and
- (c) V/Line, SRA, Westrail and Australian National negotiate arrangements to refurbish the passenger carriages on east-west passenger services.

6.53 In the long-term, the Committee recommends that:

Recommendation 11:

- (a) Management and operational control of inter-state passenger services should be passed to the single intersystem organisation already recommended, preferably Australian National;
- (b) the Indian Pacific should be refurbished and marketed as a luxury train; and
- (c) a large scale marketing campaign be undertaken to maximise the opportunities for a luxury transcontinental train.

JOHN SAUNDERSON, MP
Chairman
23 November 1989

APPENDIX 1

CONDUCT OF THE INQUIRY, EVIDENCE AND WITNESSES

Conduct of the Inquiry

1. The House of Representatives Standing Committee on Transport, Communications and Infrastructure was appointed under Sessional Order 28B on 24 September 1987. The Committee is empowered to inquire into and report on any matters referred to it by either the House or a Minister.
2. On 10 November 1988, the Committee tabled *Efficiency Audit Review: Australian National's Commission Traffic*. In that review the Committee stated that it was seeking a reference from the Minister to examine ways in which Australian National's efficiency could be improved. At the time of tabling that report, the Committee had already written to the Minister seeking this reference.
3. On 1 March 1989, the Minister for Land Transport and Shipping Support replied, giving the reference which has been the subject of this inquiry.
4. The inquiry was advertised in some capital and some provincial newspapers between 10 and 15 March 1989. It was also advertised in the April 1989 issue of *Australian Transport and Distribution Management*. These advertisements contained the Committee's terms of reference, called for submissions by 5 May 1989 and said the Committee would commence public hearings in June 1989.
5. On 5 April 1989, the Committee appointed a sub-committee comprising Mr Saunderson (Chairman), Mr T A Fischer and Mr O'Neil to take evidence on the inquiry. The inquiry took oral evidence and inspected facilities as follows:

Date	Location	
5 June	Adelaide	Inspection
6 June	Adelaide	Public Hearing
7 June	Broken Hill	Inspection/Public Hearing
8 June	Parkes	Inspection/Public Hearing
9 June	Sydney	Public Hearing
4 July	Perth	Inspection
5 July	Kalgoorlie	Inspection/Public Hearing
6 July	Perth	Public Hearing
7 August	Melbourne	Public Hearing
18 September	Adelaide	Public Hearing
4 October	Canberra	Public Hearing

Members of the Sub-Committee travelled from Adelaide to Parkes by train. In addition, the sub-committee deliberated privately on several occasions.

Evidence

6. The evidence consists mostly of written submissions made and exhibits presented to the Committee, together with the oral evidence taken at public hearings. The submissions and exhibits received are listed below; with the exception of some confidential material, they were authorised for publication. They will be bound and the volumes available for inspection at the Secretariat in Parliament House, Canberra. Volumes will also be sent to the National Library and the Parliamentary Library.

SUBMISSIONS RECEIVED

SUBMISSIONS	ORGANISATION/INDIVIDUAL
No 1	Mr Mark Watson
No 2	Dr P G Laird
No 3	Barrier Industrial Council
No 4	Consumers Transport Council
No 5	Orange Trades and Labor Council
No 6	Rail Sub-Committee, National Freight Forwarders' Association
No 7	RA Unions, Broken Hill
No 8	Broken Hill City Council
No 9	Mr N W Schrader
No 10	Action for Public Transport
No 11	Parkes Shire Council
No 12	Mr G A W Bishop
No 13	Australian Railways Union
No 14	Operative Painters and Decorators' Union
No 15	City/Trades and Labour Council of Port Augusta
No 16	Broken Hill Chamber of Commerce
No 17	Australian National Railways Commission
	(Note: Authorised with the exception of Appendix D)
No 18	Action for Public Transport
No 19	Ivanhoe Branch, AFULE

- No 20 Fremantle Port Authority
- No 21 Australian Federated Union of Locomotive
Enginemen
- No 22 Department of Transport
and Communications
- No 23 The Chartered Institute
of Transport in Australia
- No 24 Broken Hill
Interagency Group
- No 25 Premier of NSW
- No 26 NSW Freight Forwarders'
- No 27 Dr P G Laird
- No 28 Westrail
- No 29 Freight Forwarders'
Division, WA Road
Transport Association
- No 30 Australian National
Railways Commission
- No 31 BHP Transport Limited
(Note: Authorised with the exception of a confidential addendum)
- No 32 Australian National
Railways Commission
(Note: Authorised with the exception of Table 3 on p.4)
- No 33 Premier of Victoria

EXHIBITS RECEIVED

- No 1 Correspondence dated 5 June 1989 from Mr A Buckley, General
Manager, Railex, Woodville, SA.
- No 2 Article: *The Planning and Evaluation of Rail Standardisation
Projects in Australia* by G R Webb.
- No 3 Correspondence dated 7 June 1989 from the Mayor of Broken Hill.
- No 4 Copies of correspondence between the State Rail Authority, NSW
and the Broken Hill City Council concerning the location of the fuel
depot at Broken Hill.
- No 5 Copy of an article from *The Age* dated 16 March 1989.
- No 6 Article *Australian Rail Freight Upgrading Options* by Dr P G Laird.
- No 7 Correspondence from Action for Public Transport.

- No 8 Copy of correspondence from Kalgoorlie/Boulder Tourist Bureau Inc to Australian National dated 5 February 1988.
- No 9 Notes, dated 4 July 1989, from Goldfields-Esperance Regional Development Advisory Committee.
- No 10 Letter from Dr P G Laird dated 22 June 1989.
- No 11 ARU Pamphlet, dated November 1987, *Australian Freight Transport Deficits – The Facts*.
- No 12 Paper: *Interstate Passenger Services – Does anybody want this wretched bloody train?*
- No 13 ARU Speakers' Notes on Road Pricing and the Road Freight Deficit.
- No 14 Extracts from the *Daily Commercial News* dated 13 April 1989.
- No 15 Extract from *The Australian* dated 24 July 1989.
- No 16 State Transport Authority of South Australia, Extract from Traffic Operating, Permanent Way, Workshops and Miscellaneous Grades Award, 1988.
- No 17 RIC Rail Safety and Infrastructure – Discussion Paper on the need for an Australian Rail Regulatory Authority.
- No 18 Paper: National Railway Infrastructure Investment.
- No 19 A to D Papers from the Australian Road Transport Federation relating to road/rail cost recovery.
- No 20 Material used and tabled by CEO, SRA of NSW at the public hearing on 4 October 1989.

7. Copies of the proof transcripts of proceedings were sent to witnesses. The corrected proofs will be bound and sent to the National Library and the Parliamentary Library. One set will be retained in the Committee Secretariat.

Witnesses

8. The following witnesses appeared before the Sub-Committee and were examined.

ORGANISATION/WITNESS	Date(s) of Appearance
<i>Action for Public Transport</i>	
Mr K K Bendall Assistant Secretary	9.6.89
<i>Australian Federated Union of Locomotive Enginemen</i>	
Mr H Brownlee Vice Chairman, Ivanhoe	7.6.89

Mr N Rosewarn Branch Secretary, Parkes	8.6.89
Mr N W Schrader Divisional Councillor, Parkes	8.6.89
Mr S Wake Ivanhoe	7.6.89
<i>Australian National Railways Commission</i>	
Dr F N Affleck	6.6.89
General Manager	7.6.89
Corporate Relations	8.6.89
	18.9.89
Mr B T Conroy Marketing Manager	6.6.89
Mr J V Hallion Corporate Services Manager	6.7.89
Mr R M King Managing Director	6.6.89
	18.9.89
Mr K T Norley Acting General Manager Corporate Relations	6.7.89
Mr R A Pool Area Manager	6.6.89
Port Augusta	7.6.89
	8.6.89
Mr R A Robertson Operations Manager	6.7.89
<i>Australian Railways Union</i>	
Mr R Jowett National Industrial Officer	7.8.89
<i>Australian Worker's Union</i>	
Mr M J Dwyer Port Pirie	6.6.89
<i>BHP Transport Limited</i>	
Mr C Baker Rail and Road Freight Manager	7.8.89
Mr J S Gorrell Manager, Marketing and Operations	7.8.89
Mr P J Laver General Manager	7.8.89

<i>Barrier Industrial Council</i>	
Mr P A Leonard Secretary	7.6.89
<i>Broken Hill Chamber of Commerce</i>	
Ms E A Horton Executive Officer	7.6.89
Mr K R Matthews President	7.6.89
Mr J D Williams Chairman, Far Western Industry Development Board	7.6.89
<i>Broken Hill City Council</i>	
Mr P L Black Mayor of Broken Hill	7.6.89
Mr G R Inglis Deputy Town Clerk	7.6.89
<i>City of Kalgoorlie/Boulder</i>	
Mr M R Finlayson Mayor	5.7.89
<i>Community Transport Concern</i>	
Mr J S W Donovan	9.6.89
<i>Department of Transport and Communications</i>	
Mr P R Field Assistant Secretary, Land Transport Operations Branch	7.8.89
Mr J B Neil Assistant Secretary, Land Transport and Development Branch	7.8.89
Dr M Haddad Director, Bureau of Transport and Communications Economics	7.8.89
<i>Fremantle Port Authority</i>	
Mr A T Poustie Chairman of Commissioners and General Manager	6.7.89

Goldfields-Esperance Regional Development Advisory Committee

Mr R J Walster 5.7.89
Chairman

Goldrush Country Tours Pty Ltd

Mr A Young 5.7.89
Managing Director

Kalgoorlie/Boulder Chamber of Commerce

Mr D R L Johnston 5.7.89
Director

Mayne Nickless Pty Ltd

Mr A C Buckley 6.6.89
General Manager, Railex Transport

Mr A Logan 7.8.89
State Manager, Railex Transport

Mr S C Telford 7.8.89
Director, Freight Forwarding
Services

National Freight Forwarders' Association

Mr W J Gibbins 7.8.89
Chairman, Rail Sub-Committee

New South Wales Freight Forwarders'

Mr A J Davidson 9.6.89

Parkes Shire Council

Mr C R Mills 8.6.89
Shire Clerk

Mr T W Morrissey 8.6.89
Shire Engineer

Mr M Sinclair 8.6.89
Development Officer

Mr R I Wilson 8.6.89
President, Parkes Shire

Port Augusta City Council/Trades and Labour Council

Mrs N J Baluch 6.6.89
Mayor of Port August

Mr I D McSparran Town Clerk	6.6.89
Mr C D Morton Secretary, Trades and Labour Council	6.6.89
<i>SRA Unions, Broken Hill</i>	
Mr G L Vale	7.6.89
<i>State Rail Authority of New South Wales</i>	
Mr L Di Bartolomeo General Manager, Express Rail	9.6.89 4.10.89
Mr S D Henricks Marketing Manager	9.6.89
Mr I V Hill Regional General Manger, West	8.6.89 9.6.89 4.10.89
Mr C W Hoppe Consultant	4.10.89
Mr R E Sayers Chairman and Chief Executive	4.10.89
<i>Western Australian Road Transport Association</i>	
Mr J L Meadowcroft Chairman, Freight Forwarders' Division	6.7.89
<i>Westrail</i>	
Mr M G Baggott Director, Rail Operations	6.7.89
Dr J I Gill Commissioner of Railways	6.7.89
Mr R W McClure Passenger Business Manager	6.7.89
<i>Private Citizens</i>	
Mr G A W Bishop	6.6.89
Mr G Campbell, MP Member for Kalgoorlie	5.7.89

Mr N J Hicks, MP
Member for Riverina-Darling
Dr P G Laird
Mrs M Patterson
Mr M E Watson

7.6.89
9.6.89
18.9.89
9.6.89

APPENDIX 2

ROAD COST RECOVERY

Background

1. A number of witnesses and submissions raised the question of road cost recovery and the 'level playing field' between road and rail. The argument was that rail meets the full cost of its permanent way or track, whereas road transport, particularly the large and heavy vehicles engaged in long distance inter-state transport, did not meet the cost of maintaining and building the roads they use.

2. The Committee's attention was drawn to *Review of Road Cost Recovery*, published by the Bureau of Transport and Communications Economics (BTCE). The estimate contained in this paper, that six-axle semi-trailer rigs under-recover their road damage costs by about \$18,400 per year per vehicle, was mentioned in evidence a number of times.¹

3. This Appendix examines the basis for this estimate, looks at similar work undertaken by the Inter-State Commission (ISC), and considers the objections raised by the Australian Road Transport Federation (ARTF) to the Bureau's work.

The BTCE Paper

4. The BTCE paper canvassed a wide variety of issues in road cost recovery, including previous studies, alternative methodologies, theoretical aspects, and possible charging schemes. In general terms, it addressed cost recovery from an economic efficiency viewpoint in the framework of the economic theory of pricing.

5. While the figure of \$18,400 was quoted in evidence in an authoritative sense, it needs to be understood that there is still considerable debate over many of the issues involved in cost recovery analysis. The Director of the BTCE made the point that the BTCE analysis involved a large number of assumptions, and making different assumptions would provide different results. Major areas of debate include:

- the actual extent of damage caused by trucks as distinct from, for example, damage resulting from wet weather;
- the effect of low quality roads, where the damage from trucks is much higher;

¹Bureau of Transport and Communications Economics, Occasional Paper No 90, Australian Government Publishing Service, Canberra, 1988. Table 6.2, p.105.

- which of the taxes and charges paid by truck operators should be regarded as charges for road use (as opposed to general revenue raising to fund government expenditure);
- who should pay for the common costs of maintaining roads such as non-damage related maintenance (e.g. grass-cutting) or traffic controls and policing, and on what basis;
- how, if at all, should the intangible costs of noise, congestion, air pollution and accidents be brought into the equation.²

6. The purpose of the BTCE exercise was to compare expenditure on Australian roads in 1986-87 with revenue raised by State and Federal Governments from road users and to calculate cost recovery levels for different classes of users.

7. The BTCE used the following steps:

- identification of expenditure on roads which could be regarded as repairing damage caused by axle loads;
- identification of the revenue raised from road users and from each class of road user;
- allocation of the road damage repair expenditure to each class of user using engineering relationships;
- comparison of the revenue and road damage repair expenditure for each class of user, both for the class and per average vehicle;
- identification of a method for allocating that part of road expenditure not related to the repair of road damage to each class of user; and
- comparison of the revenue from and the total expenditure on each class of user.

8. The BTCE estimated that total road expenditure on Australian arterial and local roads, in 1986-87 dollars, was \$4.2 billion. Of this amount, \$2 billion, or nearly half, was spent on routine maintenance due to axle loads, resealing and reconstruction. This amount was regarded as representing the road damage caused by all vehicles. The remaining \$2.2 billion was accounted for by other routine maintenance, bridge repair and upgrading and new road construction. This amount includes road damage purely due to weather or floods. It should be noted that road authority accounting systems do not record road expenditure in categories consistent with the BTCE analysis, and for this reason the Bureau figures could only be estimates.

²See, for example, Transcripts 8 June 1989, p.227, and 9 June 1989, p.310. Transcript, 7 August 1989, pp.561-564.

9. There are various ways of defining the revenue raised from road users to compare it with the level of road expenditure. These included, for 1986-87:

- revenue hypothecated to road expenditure, comprising vehicle registration fees, about half of State government fuel franchise fees, and excise committed to the Australian BiCentennial Roads Development (ABRD) Fund and the Australian Land Transport Program (ALTP), amounting to \$2.8 billion;
- revenue from charges unique to road users, which adds drivers licence fees and the full amounts of excise and fuel franchise fees, amounting to \$7.3 billion; and
- revenue from road use related activities, which, in addition to the above, also includes customs duties and sales taxes on motor vehicles and parts, amounting to \$9.5 billion.³

10. The definition used in the BTCE study was that of revenue from charges unique to road users. Of the \$7.3 billion raised, about \$5.8 billion was estimated to have come from motorists and \$1.3 billion from truck operators, based on road use data.

11. It should be noted that none of the definitions of revenue used by the BTCE include the crude oil production levy, payable by some domestic oil producers on some of their output. This levy is regarded as a resource rent rather than a road-user charge, and economists would generally accept that it should not be included in road cost recovery analyses.

12. However, the debate is not so clear cut with regard to customs and sales tax and the non-hypothecated part of excise and fuel franchise fees. It can be argued that they are all general revenue raising measures which may be applied to areas other than road use.

13. Using the BTCE definition, in 1986-87 there was clear over-recovery by comparing the \$7.3 billion raised with the \$2 billion spent on repairing road damage. However, a further step is required to look at each group of road users separately.

14. It is a well-established engineering principle that road damage is directly related to the number of equivalent standard axle loads (ESALs) of the vehicle using the road. This principal is based on the fourth-power rule which is widely but not universally accepted amongst road engineers. ESALs range from 0.0003 for passenger cars to 2.38 for six-axle semi-trailers with an average 16-tonne load; the implication is that the typical semi-trailer does the same damage to roads as about 8000 cars.

³Now the Australian Centennial Roads Development (ACRD) Program.

15. ESALs were multiplied by the number of vehicles of each type (8.7 million cars, and 26,000 semi-trailers) and the number of kilometres travelled by each vehicle on average each year (about 100,00 kilometres for heavy vehicles and about 20,000 kilometres for passenger vehicles).

16. The result of the calculation, in the form of ESAL kilometres for each vehicle type, was that 45 per cent of road damage was caused by six-axle semi-trailers, 54 percent by other trucks and buses, and less than one percent by passenger cars.

17. For trucks as a whole, therefore, a total of \$2 billion was spent on road damage, while about \$1.3 billion was recovered from them. In the case of six-axle semi-trailers, the expenditure was \$900 million and the recovery \$430 million, leaving a deficit of \$470 million. The conversion of this deficit to a per vehicle basis resulted in the figure of about \$18,400 for each six-axle semi-trailer quoted in evidence.⁴

18. Passenger cars, in contrast, contributed \$5.8 billion to meet costs estimated at \$7 million on the same basis.

19. The BTCE examined several other aspects of road cost recovery, including:

- the recovery of the remaining \$2.2 billion of other road maintenance/construction, by application of Ramsey pricing principles;
- the allocation of total road costs among vehicle types by a quite different methodology known as the cost-occasioned approach; and
- possible ways of implementing more efficient road pricing and its consequences.

20. In approximate terms, the report estimated that efficient road charges for trucks as proposed by the Bureau would add about 30 cents per kilometre to the running costs of a semi-trailer (currently about \$1 per kilometre). This added cost amounted to between one and two cents per tonne kilometre, and might result in a 20 to 40 per cent increase in road freight rates.

The ARTF Response

21. The ARTF provided the Committee with its arguments against the BTCE approach. The main areas of concern for the ARTF were:

- the inclusion of local road costs in addition to the costs of arterial roads;
- the allocation of specific costs entirely to trucks;

⁴BTCE, Occasional Paper 90, cited earlier, Table 6.2, pp.105-106.

- the use of theoretical Ramsey pricing principles for allocating the other road maintenance/construction costs;
- the rejection by the BTCE of fuel taxes as a means of recovering costs from trucks, in favour of tonne-kilometre charges; and
- the liberal use of the BTCE estimates rather than independent sources for much of the analysis.

22. The BTCE certainly included local road damage costs in its calculations, and those costs had a significant affect on the results. About 40 per cent of damage costs related to local roads, but only 7 per cent of distance travelled by trucks were on them. This reflected the generally low quality construction of local roads, so that even low levels of heavy vehicle traffic can cause severe damage. The Bureau's approach is correct when assessing the impact of heavy vehicles on the road network as a whole. When inter-state traffic alone is considered, local road usage is likely to be minimal and it may be appropriate to exclude those local road damage costs. Such an exclusion would reduce the \$18,400 under-recovery to something like \$5,000 per year per heavy vehicle.

23. The allocation of specific costs entirely to trucks was only undertaken under the alternative cost-occasioned methodology, which was not the methodology promoted by the BTCE. However, its preferred methodology did allocate 99 per cent of certain road-damage costs to trucks. In the complete absence of trucks, there would still be a significant maintenance requirement, estimated at \$530 million a year to repair damage resulting from wet weather and to cover the cost of grass cutting, repairs to guard rails and traffic lights and similar activities. Roads would last for a much longer time if they were not used by trucks.

24. The use of Ramsey pricing principles is a debatable issue, and it is notable that the BTCE emphasised the \$18,400 figure (being road damage only) rather than the Ramsey-based under-recovery of \$32,000 a year for a six-axle articulated vehicle. Given a requirement to recover the non-road damage costs from road users, the Ramsey technique was argued to be the most economically efficient method of allocating those costs to user groups. While there may be practical problems with implementation of the Ramsey methodology, it is clear that the Ramsey principles are superior to such accounting or engineering based allocation bases as vehicle numbers, vehicle kilometres travelled or road space occupied by vehicles.

25. Fuel taxes have a number of advantages as a basis for collecting road-user charges, including ease of collection and being very difficult to avoid. Fuel consumption rates for different vehicle sizes do not, however, directly reflect the damage costs derived from the fourth-power rule. For example, a six-axle semi-trailer might consume five times as much fuel as a passenger car, but cause 8000 times as much road damage per kilometre travelled. In fact the implementation approach suggested by the Bureau involved continued collection of fuel taxes, albeit at a lower level, in conjunction with a properly calculated tonne-kilometre charge for heavy vehicles.

26. Use of BTCE estimates was a necessity because of the limited number of authoritative studies by other analysts.

The Inter-State Commission Report

27. In October 1987, the ISC published *A Review of Federal Registration Charges for Interstate Vehicles* which examined cost recovery figures for interstate road and rail services for 1985-86. The ISC is examining this topic again and is expected to publish its results before the end of 1989.⁵

28. There were both similarities and differences in the ISC and BTCE approaches:

- the BTCE covered the whole road network and the whole road transport industry, where the ISC was concerned only with interstate transport and roads;
- both adopted the 'pay-as-you-go' principle for estimating the cost of road usage, whereby current levels of expenditure on roads were used as a proxy for the calculation of costs; and
- both used financial costs and revenues, although the BTCE applied them to an economic framework whereas the ISC used a financial approach to calculate fully distributed road costs for user categories.

29. The ISC used a cost allocation methodology based on a New Zealand approach which, in turn, was derived from guidelines developed by the European Economic Community. The methodology involved the allocation of road expenditure to four categories, and then allocating the expenditure in each category to user groups according to various parameters such as vehicle kilometres travelled, vehicle populations and ESAL-kilometres. This approach was similar to the cost occasioned approach used by the BTCE as a less preferred alternative in its study.

30. The result of the ISC analysis was the calculation of separable and joint/common road costs. For a six-axle articulated vehicle, road damage costs were estimated at \$27,000 a year for the average distance travelled each year (150,000 kilometres) by interstate road transport vehicles.

31. The equivalent cost estimated by the BTCE was \$35,000. However, if the cost of local roads is excluded, this cost would be reduced by about 40 per cent to \$21,000 per vehicle. Further, the cost would need to be increased to take account of the higher average distance travelled by interstate vehicles, which resulted in costs per vehicle per year of just over \$30,000.

32. It could be argued that both ISC and BTCE road damage costs are in the range of \$25,000 to \$30,000 for vehicles travelling 150,000 kilometres a year solely on arterial roads.

⁵Australian Government Publishing Service, Canberra, 1987.

33. The ISC then calculated cost recovery ratios, taking account of road costs and vehicle operating costs, but using only hypothecated revenue derived from fuel taxes paid into the ALTP and ABRD and registration charges. For six-axle articulated vehicles the ratio was 92 per cent equivalent to an under-recovery of about \$20,000 per vehicle per year.

34. Although this under-recovery was very similar to the BTCE estimate of \$18,400, the numbers are not directly comparable. This is because the ISC included only hypothecated revenue, whereas the BTCE included the full amounts of excise and State fuel franchise fees.

35. Using the BTCE definition of revenues (adjusted for the additional distance) and the ISC estimate of road costs would result in an under-recovery of costs of about \$6000 per annum for a six-axle articulated truck operating on arterial roads. This result would be similar to the BTCE's figure, if local road costs and revenues were excluded.

36. The ISC report also examined the question of rail cost recovery for intersystem rail freight operations for 1985-86 for purposes of comparison with road cost recovery. On the basis of costs and revenues supplied by each system, the overall recovery ratio was estimated at 70 per cent for fully distributed costs (compared to 92 per cent for road). For individual systems, cost recoveries by AN and Westrail were both about 90 per cent, while SRA achieved 68 per cent cost recovery. Information from AN and Westrail indicated an improvement to 100 per cent cost recovery by 1987/88. However a deterioration in the SRA financial performance, as a result of changes in accounting methods, suggests that there may have been little change in the overall cost recovery ratio since 1985-86.⁶

⁶Transcript, 4 October 1989, p.672.

APPENDIX 3

RAILWAYS AND FUEL TAXES

1. A number of witnesses raised the issue of railways and fuel taxes. Under current arrangements, railways pay the same level of excise on the diesel fuel they use as road transport does, without necessarily getting the same return from these taxes.

2. The following information is based on evidence from the Department of Transport and Communications (DOTC).⁷

3. The Australian Centennial Roads Development (ACRD) Program, which commenced on 1 January 1989, replaced the Australian BiCentennial Roads Development (ABRD) and Australian Land Transport (ALTP) Programs.

4. The ACRD program brings together and continues the initiatives of the ALTP and ABRD programs for limited funding of rail infrastructure projects.

5. Under the ACRD program, States have the option of directing a portion of their State arterial and/or national arterial roads allocations to Urban Public Transport (UPT) projects, including urban rail projects, and interstate mainline capital rail projects. AN can also submit capital rail projects for consideration by the Minister for funding.

6. To date, no UPT rail projects have been approved for funding under the ACRD program. Over the life of the ABRD program, from 1982-83 to 1988-89, nearly \$30 million of UPT funds were expended on urban rail infrastructure projects.

7. To be eligible for funding, all interstate mainline rail projects must meet the following legislative criteria:

- the project is likely to result in improvements to the capacity of, or the quality or efficiency of operations in relation to, interstate mainline railways;
- the State or authority has taken such steps to improve its operational or commercial practices as will, in the Minister's opinion, be likely to ensure the early achievement of the benefits of those improvements; and
- in the case of a project submitted by the State - the undertaking of the project will be given priority by the State.

⁷Transcript, 7 August 1988, pp.557-582; DOTC letter dated 22 September 1989, Attachment 1.

8. Projects to be funded from the ACRD must meet the additional criteria of assisting Australia's export or import competing industries or to a significant extent tourism. Projects must also have an advantageous cost/benefit ratio.

9. To date, only one capital rail project has been approved under the ACRD program. This involved an investment by AN of \$1.4 million to develop its road/railer technology.

10. Projects approved under ALTP were:

- \$1m for upgrading of a section of the interstate mainline between Koolyanobbing and Kalgoorlie in WA; and
- \$1.01m for AN's purchase of two piggybacker multi-modal freight loading units to improve mainline service to Alice Springs and on east-west routes.

11. No other State put forward interstate mainline rail projects for funding under ALTP.

12. The Department provided estimates of diesel fuel consumption and excise tax payments by railways in Australia. It pointed out that this information was not readily available and the material provided represented its best estimate.

13. These estimates are shown in Table 1. Over \$30 million was paid to the various hypothecated road funds in 1987-88, including nearly \$5 million paid by AN. Payments of excise to consolidated revenue amounted to \$87 million.

TABLE 1

DIESEL FUEL CONSUMPTION AND FUEL EXCISE FIGURES 1987-88^(a)

SYSTEM	Diesel fuel ¹ consumed (millions of litres)	Total product ² excise paid (\$m)	Road Funds ³ fuel excise component (\$m)	Fuel excise paid to consolidated revenue (\$m)
AN	88.63	18.16	4.73	13.43
SRA	177.37	36.35	9.46	26.89
QR	198.62	40.71	10.59	30.12
V/Line	53.79	11.02	2.87	8.15
STA (SA)	8.86*	1.82	0.47	1.35
Westrail	42.80**	8.77	2.28	6.49
Transperth	4.16	0.85	0.22	0.63
		117.68	30.62	87.06

- (a) Department of Transport and Communications estimates.
- Figures calculated from expenditure on locomotive diesel fuel as listed in respective Annual Reports assuming diesel price of \$0.47 per litre (Average price for 1987-88, Source: IEA Energy Prices and Taxes 1989). As rail systems purchase fuel on a contract basis, it would be reasonable to assume that the actual price might be less than this.
 - Figures calculated from consumption using product excise levels current during 1987-88 (see Table 2 below). Also assumes uniform daily consumption of fuel.
 - Figures calculated from consumption at a rate of 5.241 cpl for period 1 July 1987 to 3 February 1988 and 5.469 cpl for remainder of financial year 1987-88.
- * Actual consumption figure.
- ** Based on 1986-87 figures as the current information is not available.

TABLE 2:**PRODUCT EXCISE LEVELS CURRENT DURING 1987-88**

Date	Excise (cpl)
1. 7.87	19.84
18. 7.78	19.808
15. 8.87	20.097
17.10.87	20.83
15.12.87	20.295
3. 2.88	20.802
30. 6.88	20.802