

May 18, 1999

Ms Helen Silver  
First Assistant Commissioner  
Progress in Rail Reform  
Productivity Commission  
LB2 Collins Street East  
Melbourne VIC 8003

Dear Ms Silver

**RE: DRAFT REPORT ON PROGRESS IN RAIL REFORM**

Great Southern Railway commends the Productivity Commission on its role in developing a competitive and efficient Australian railway industry. Considerable progress has been achieved during the last decade, although much work remains.

We have a few comments on your draft report. First, however, we thought it would be helpful to give you an update on Great Southern Railway's activities.

Great Southern Railway's trains serve two distinct functions

1. Great Southern Railway operates tourist services which are major attractions in their own right. More than 100,000 persons travel each year on the Indian Pacific, which runs twice weekly between Perth, Adelaide and Sydney. This year we expect to carry almost 50,000 passengers on the Ghan, which we have recently extended to run weekly from Sydney and from Melbourne to Alice Springs.
2. Great Southern Railway operates one service, the Overland, which serves primarily a transport function. It is a cost-effective alternative to air and road transport, used by almost 80,000 passengers per year. GSR is currently re-launching this service, with refurbished cars and a new range of discount fares.

Great Southern Railway serves primarily a broad tourist market. Although we offer a First Class service on the Ghan and Indian Pacific, it is priced at less than half the daily rate of luxury trains such as the Great South Pacific Express. Most of our passengers are Australian residents, using the trains as a holiday experience.

Great Southern Railway services make a substantial contribution to the Australian economy. About one third of Ghan and Indian Pacific passengers are international tourists, for whom a journey on one of Australia's great trains is a key part of their holiday experience. These passengers generate significant foreign currency revenues. For Australians, a trip on Great Southern Railway is probably a once-in-a-

lifetime ground trip across their native land, but it may also be an alternative to a foreign holiday.

Great Southern Railway also provides an important transport function. Our services link all major cities except Brisbane at least twice weekly. Between Melbourne and Adelaide, the Overland offers an affordable, safe and convenient mode of travel.

Great Southern Railway's headquarters is in Adelaide where some 270 persons are employed for station and on-train services. A further 100 persons are employed full time by subcontractors who provide catering services, laundry, train cleaning and maintenance.

Great Southern Railway now operates without any Government subsidy. The Commonwealth and certain States continue to pay reimbursement for pensioner discounts and other concessions, however this has now declined to about 10% of income.

We expect Great Southern Railway to become profitable over the next year. However, the long-term survival of the business depends upon Federal and State authorities that provide rail access. The Ghan and the Indian Pacific both now generate significant positive margins which are sufficient to cover fixed costs. Provided there is no adverse movement in track charges or timetable pathing rights, these services should continue for many years to come.

However, the future of the Overland is still not secure. The train continues to lose money, substantially because of the high access charges and slow paths available on the Adelaide-Melbourne route. We are working with Australian Rail Track Corporation to secure faster paths which would substantially improve the financial viability of the train. If we are successful, we may consider introducing a further Ghan service from Alice via Adelaide, Melbourne and Sydney to Brisbane. The train would serve tourist travel from southeastern Australia to both the Red Centre and the Gold Coast.

Viability of any new service depends substantially upon the availability of track access, at the right times and the right price. If we cannot achieve good utilisation, at times when passengers want to travel, a train will not be profitable.

This brings us to our major area of concern, the potential changes to the system for allocating paths and charging for access on the national standard gauge rail system. Historically, paths have been allocated essentially on a first-come first-served basis. Charging rates vary from State to State. Within New South Wales and Victoria we have been able to negotiate charges at an acceptable level. Paths are not ideal and we would of course always wish charges were lower. Rail Access Corporation and VicTrack, now Australian Rail Track Corporation, have generally been mindful of the benefits of passenger rail services, and have worked with us to find acceptable paths and terms.

However, we operate more than half our total train-km on the national standard gauge lines in South Australia. Track charges are

levied by Australian Rail Track Corporation on a posted tariff, calculated on flagfall and GTK.

Generally, Australian Rail Track Corporation charges achieve cost recovery, and are in most cases well above marginal cost. We have no argument in principle with the separation of track charges into flagfall and GTK. We also have no objection to charges, overall, achieving cost recovery if this can be done without serious loss of traffic. However, we think the current level of track charges does have the effect of retarding the development of increased interstate passenger rail services.

Australian Rail Track Corporation charges Great Southern Railway trains on the same tariff as superfreighters, apparently on the basis that passenger trains, like superfreighters, generally take a "fast" path and have relatively light axle loads. We think a separate tariff should be posted for passenger trains.

There is an economic argument for a flagfall charge, reflecting the opportunity cost of paths on what are predominantly single track lines. However, there is no evidence that flagfall charges reflect opportunity cost, and indeed the flagfall charge is lower (approx. \$2.00 per km) on the congested Adelaide-Wolesley section than on the lightly used Alice Springs-Tarcoola route (approx. \$2.50 per km). Flagfall seems in practice to be a tax to recover the fixed costs of the network.

In principle, GTK charges are meant to reflect marginal cost to the infrastructure provider. There is a reasonable basis for believing that track wear is related to train weight, for similar types of trains. However, freight and passenger trains have very different characteristics. Passenger trains usually have a lower absolute and unsprung weight. Experimental evidence is that track wear is proportional to the second power of train weight, and is more affected by unsprung weight. Thus it is likely that passenger trains are paying GTK charges that are well in excess of marginal cost.

In Britain, we pay about 2.5 pence per mile for a 40 tonne passenger car, or about \$0.98 per thousand GTK. By comparison, Australian Rail Track Corporation rates range from about \$1.50 for Port Augusta-Tarcoola to almost \$4.00 from Tarcoola to Alice Springs. Certainly track maintenance is more expensive on the isolated line to Alice Springs, but the current level can only be described as extortionate!

It is apparent that Australian Rail Track Corporation's charges are often well above marginal cost. It may be reasonable to use track charges to recover costs from freight operators, where there are several profitable operators, with inter-modal competition. Economic distortions are likely to be minor as most of the freight on the interstate route is of higher-value goods where transport is only a moderate component of total costs. However, we think it is inappropriate to levy what amounts to a tax on interstate passenger services, which compete in effect with other travel modes and domestic and international holiday destinations. Indeed, the Commonwealth is expected to provide Goods and Services Tax exemption for domestic air travel by foreign visitors, precisely to maintain competitiveness with

foreign holiday destinations. We are pressing for a similar exemption for rail travel.

High track charges also have longer term impact on investment. Although none of the interstate freight operators appear to be highly profitable, private investors clearly see a way to earn a reasonable return on their assets and new investment has been forthcoming. This is not the case with Great Southern Railway. The existing fleet was bought for a small fraction of replacement cost. While Great Southern Railway expects to move into profitability in the coming year, expected returns will not support renewal of the assets in the long term. The situation could be very different if track charges were lower. The current level of track charges is deterring new investment in the passenger rail business.

In the draft report, you suggest a bidding process to allocate paths efficiently using a market mechanism. We have two problems with this. First, we think it will be difficult to devise a method for bidding for paths, given that different trains have different characteristics and so require different types of paths. No doubt this concern will be raised also by the network operators. To our knowledge, no country in the world has devised a working method for selling train paths by competitive bidding.

We have serious concerns that a bidding process would require Great Southern Railway passenger services to compete with freight operators for use of the track. Rail freight operators compete with road haulage and with each other. It makes economic sense to allocate paths between freight operators on the basis of ability to pay. It makes less sense to allocate paths between freight and passenger on this basis. Great Southern Railway already suffers exceptional burdens such as diesel fuel excise tax, and may in the near future be subject to Goods and Services Tax. Our direct competitors, the airlines and foreign holiday resorts, face neither levy.

In conclusion, we think Australian Rail Track Corporation should be encouraged to introduce a new posted tariff for passenger train services, with flagfall and GTK charges more accurately reflecting marginal costs. Flagfall charges on the lightly used route to Alice Springs should be reduced or even eliminated. GTK charges should be adjusted, with a lower rate for passenger cars and perhaps a slightly higher rate for heavy freight cars. These changes would have the effect of encouraging additional passenger train services supporting tourism development in the Northern Territories.

In your draft report, you recommend that a single fee be charged for safety accreditation. We would go further and suggest that all regulation of the interstate rail network be coordinated so that we only need to deal with one agency. The requirement for staff and equipment to satisfy different standards in different states is a major cost to our business. It is also likely a deterrent to new entrants.

We have a few other minor comments:

On page 24 you note that "The Commission is unaware of any competition for the market in rail operations on this network." When

we were assuming control of the former Australian National Passenger services, we secured competitive tenders for provision of hook & pull services.



The contract was awarded to National Rail Corporation however there were two other competent and prospective hook & pull providers, one of which was Australia Southern Railroad. As we had also bid to acquire the SA Rail division of Australian National, which was acquired by Australia Southern Railroad, we can comment that in our opinion Australia Southern Railroad could have submitted a more competitive bid for the hook & pull contract.

On page E10 you state that although British Rail's freight business was split into six companies, these have now been "rationalised" into one company. In fact, EWS has only acquired five of the companies. Although it carries about 90% of the rail freight considered as a whole, Freightliner Limited remains separately owned and competes very effectively in the intermodal container market. Also, British Nuclear Fuels operates its own fleet including locomotives to carry nuclear flasks. It trades as Direct Rail Services and also serves some other customers. Serco and GB Railways, both shareholders in Great Southern Railway, also separately operate limited non-passenger train services for specific customers and GB Railways has declared an intention to enter the rail freight market during the next year.

Yours sincerely

**Stephen Bradford**  
**Chief Executive Officer**