



1973

 PARLIAMENT OF TASMANIA

 PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

BELL BAY RAILWAY AND ASSOCIATED WORKS

Laid upon the Tables of both Houses of Parliament on 27 November 1973

The Committee was appointed under the provisions of section 2 of the Public Accounts Committee Act 1970 (No. 54).

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL

Mr Bisdee
Mr Gregory
Mr Mackay

HOUSE OF ASSEMBLY

Mr Mather (Chairman)
Mr Baldock
Mr Corby

REPORT

1. The Standing Committee of Public Accounts have the honour to report having conducted an enquiry into aspects of the Bell Bay Railway and Associated Works.
2. The enquiry was prompted by comments made by the Auditor-General in his 1972 Report (Paper No. 38 of 1972, pp. 196-200). Sections of these comments are reprinted below:—

Estimates

The most notable feature of the construction of this railway and one of great concern is the rapid escalation that has taken place in estimated costs. The cost of the railway and related works was estimated in August 1970 at \$14 735 000 but today this figure has risen to \$30 856 000 and may even rise further as investigations continue into the cost of upgrading the existing lines—Cold Water Creek to Launceston and Fingal to Launceston—two works which are stated to be essential to the whole project.

The construction of a railway to Bell Bay has been the subject of examination and report for many years. In 1950 a Joint Committee of Parliament recommended that Bell Bay be connected to the main railway system by rail. In 1954 the Parliamentary Standing Committee on Public Works, when reporting on the East Tamar Highway, examined the possibility of a rail link to Bell Bay but reported that before any decision to build the Bell Bay railway could be taken it would be necessary for a detailed survey to be made to determine the route and to obtain accurate estimates of costs, together with a complete enquiry into the economics of the proposal. The Committee in evidence had heard a number of conflicting statements on the possible cost of such a railway.

In September 1969 a committee from the Transport Commission under the Chairmanship of a former General Manager of Railways reported that a rail link between Launceston and Bell Bay would be necessary for future development of the Bell Bay port area and recommended that the project be proceeded with subject to Commonwealth financial assistance. In January 1970 consulting engineers reported on the proposed route to Bell Bay and the type of construction which would be involved.

In August 1970 the Commissioner of Transport submitted a detailed report to the Government recommending that the project proceed and that Commonwealth assistance be sought. This report contained a detailed examination of estimated costs and estimated future earnings of such a railway. Return on an estimated capital outlay of \$14 700 000 before payment of interest was set at 5.1% with another 4.1% in anticipated revenue from benefits to be generated by the new rail link.

At that stage it was known that two companies were interested in establishing woodchip industries at Long Reach on the Tamar and that these industries could be substantial customers for a railway joining Bell Bay and Long Reach to the main railway system. Discussions with the companies at the time of the August 1970 report by the Transport Commissioner together with information of comparable bulk freight rates on the mainland resulted in the adoption of a rate of 2.5 cents per ton mile for the purpose of the report, and a rate of approximately 2.5 cents per ton mile was apparently quoted to the two companies.

The economics of the project were related basically to the possible woodchips log traffic. The capital cost could and has escalated dramatically but revenue which in 1970 indicated the project as viable cannot escalate to the same extent. Some rates were finalised as long ago as August 1970 whilst the latest were finalised in January 1972. Some escalation is provided for but at the earliest this does not operate until January 1974 for one company and January 1976 for the other.

The estimated capital cost of \$14 664 460 as shown in the Commissioner's report was made up as follows:—

	\$
Nelsons Creek to Bell Bay	3 274 620
Upgrading—	
Nelsons Creek to Launceston	1 490 540
Conara to Launceston	1 767 400
Fingal to Conara	2 095 900
Central Freight Depot	1 092 000
Rolling Stock	4 944 000
	<hr/>
	\$14 664 460

It should be noted that a detailed survey had still to be carried out. In his report the Commissioner recommended the employment of independent engineering consultants to undertake the detailed surveys of the proposed route, define the actual alignment, prepare designs and supervise construction. The consultants were also to prepare detailed estimates of costs. In the early estimates \$70 000 was provided apparently for the detailed survey to proceed immediately but the survey did not proceed until consulting engineers were appointed in April 1971.

An approach for Commonwealth assistance was made on the basis of costs as outlined in the Commissioner's report. The Commonwealth agreed to assist to the extent of 17/20ths of the estimated cost of—

	\$
New rail link to Bell Bay	3 275 000
Bridge over the North Esk Railway marshalling yards at Dowling Street	300 000
Upgrading of existing line between Launceston and the Bell Bay Link	1 491 000
Detailed survey	70 000
	<hr/>
	\$5 136 000

Commonwealth assistance was limited to a maximum of \$4 250 000 with \$2 500 000 as a loan repayable over thirty years and \$1 750 000 by way of grant. The Agreement was signed on 5 October 1971 and ratified by the Tasmanian Parliament on 17 November 1971.

Engineering consultants were appointed in April 1971 and in the same month both Houses of Parliament resolved to withdraw the proposed rail link to Bell Bay from the provisions of the Public Works Committee Act 1914, thus removing the project from detailed examination by the Parliamentary Standing Committee on Public Works.

In April also, estimated costs were revised to include additional locomotives and wagons for the woodchip industry together with an increase in the estimated cost of upgrading the existing lines from Fingal to Launceston, and the proposed new freight yard at Dowling Street, Launceston. The estimated costs rose from \$14 735 000 to \$18 138 000 but the estimated cost of the works that were subject to Commonwealth assistance and to detailed examination by the Consulting Engineers moved only fractionally from \$5 136 000 to \$5 258 000. The Loan Fund Appropriation Act submitted to Parliament in August 1971 gave a figure of \$5 136 000 as being the cost estimate at that time.

On 4 November 1971 following acceptance of a tender for construction of the new railway, the estimated cost of the new link doubled from \$3 500 000 to \$7 000 000, and the total estimate for works subject to Commonwealth assistance increased to \$8 791 000. The total project cost lifted to \$21 671 000. Commonwealth assistance was still set at \$4 250 000.

In March 1972 a further review of costs increased the estimate for the Commonwealth subsidised works from \$8 791 000 to \$11 075 886 and total costs to \$29 264 562. A later estimate in July 1972 increased the Commonwealth subsidised works to \$12 618 000 and the total to \$30 856 000. The following table shows the escalation from August 1970 to July 1972:—

<i>Commonwealth Subsidised Works—</i>	August 1970 \$	April 1971 \$	4 November 1971 \$	March 1972 \$	July 1972 \$
Railway—Nelson Creek (now Cold Water Creek) to Bell Bay	3 275 000	3 500 000	7 000 000	8 355 886	9 171 000
Detailed surveys	70 000				
*Upgrading—Cold Water Creek to Launceston	1 491 000	1 112 000	1 191 000	2 070 000	2 707 000
Bridge over North Esk ....	....	346 000	300 000	300 000	330 000
Freight Yard, Dowling Street	300 000	300 000	300 000	350 000	410 000
	<u>\$5 136 000</u>	<u>\$5 258 000</u>	<u>\$8 791 000</u>	<u>\$11 075 886</u>	<u>\$12 618 000</u>
<i>Related Works—</i>					
Loading sidings ....	....	79 000	79 000	Included in Item 1 above	84 000
Diesel Locomotives	2 290 000	3 215 000	3 215 000	3 173 518	3 174 000
Wagons—					
Chip industry logs	2 470 000	2 084 000	2 084 000	2 810 158	2 776 000
Woodchips ....	....	1 748 000	1 748 000	....	Not being built
Ballast wagons	84 000	92 000	92 000	35 000	34 000
Mechanical aligner and tamper	100 000	100 000	100 000	100 000	100 000
Upgrading track, Fingal to Launceston	3 863 000	4 362 00	4 362 000	10 570 000	10 570 000
New freight yard, Dowling Street	792 000	1 200 000	1 200 000	1 500 000	1 500 000
	<u>\$9 599 000</u>	<u>\$12 880 000</u>	<u>\$12 880 000</u>	<u>\$18 188 676</u>	<u>\$18 238 000</u>
	<u>\$14 735 000</u>	<u>\$18 138 000</u>	<u>\$21 671 000</u>	<u>\$29 264 562</u>	<u>\$30 856 000</u>

* (See the Committee's comment in paragraph 83 of this Report).

Woodchip Agreements

Two woodchip industries are being established at Long Reach on the Tamar and it was on the proposed use by these companies of the new rail link that it was considered to be a viable proposition. Agreements have been entered into with each company by the Government and the Commission. These agreements set freight rates for log traffic for various routes and are to operate for periods of up to fifteen years. Escalation clauses are provided to meet increasing costs to the railway of labour and fuel but these clauses will not operate for several years yet. Minimum annual payments are provided for in the agreements which are subject to similar escalation as with freight rates. Each company is required to contribute \$250 000 towards the cost of the spur line to Long Reach and is required to pay road tolls for log traffic over the State Highway system. These tolls are to be credited to the State Highways Trust Fund. One company is required to pay tolls on log traffic over Forestry roads.

Freight rates for log traffic for the first company were determined in three stages; the Fingal route by the Commission, the Mole Creek route by the Minister, and the Wiltshire Junction and South Burnie route by the General Manager with later confirmation by the Commission.

Freight rates for the second company were part of an agreement determined by a committee representative of the Commission, Treasury, Public Works, Forestry, Crown Law and the Company.

Need for Enquiry

As already mentioned, the Bell Bay Railway project is notable for its dramatic cost escalation over a relatively short period. Although the project was submitted in August 1970 as a viable proposal with a capital cost of \$14.7m., the estimated cost is now to be not less than \$31m., and the ultimate financial effect of the project on State finances can only be regarded with concern and some apprehension. The Commonwealth Government agreed to make a grant of \$1 750 000 and a loan of \$2 500 000 towards the cost but there is currently no public indication of further assistance from that source.

The acceptance of the project by the Government and the Parliament, and its exclusion from the provisions of the Public Works Committee Act appear to have been based on estimated capital costs which will eventually be more than doubled. The recommendation by the Commissioner of Transport in August 1970 was based on similar grounds even though he did point out that a detailed survey had still to be carried out and that consulting engineers had to be appointed to do the survey in detail, prepare designs and supervise construction, and prepare detailed estimates of costs. In his report the Commissioner emphasised, 'it is very important that no time be lost in arranging for detailed surveys of the route for the Bell Bay rail link and in determining the actual alignment'. His time-table was to complete the link by 30 June 1972 but as already pointed out consultants were not appointed to do this work until April 1971.

An examination of Commission records indicates as base reasons for cost escalation the desire to meet the time-table for the commencement of operations of the woodchip industries despite the fact that estimates in 1970 were based only on a projected alignment of the new railway and without the benefit of detailed surveys and test drilling of the route. Estimates at that time were also based on the then current costs in Tasmania and rates for railway construction on the mainland at that time. Detailed surveys and test drilling indicated faults which were to greatly increase the cost of construction of the railway formation as compared with the original projections.

One cannot help but reflect on the prudence of committing relatively vast sums of public money to a programme where the time-table is apparently dictated by non-government requirements and where detailed investigations of civil engineering requirements and estimated costs had not been completed.

In my opinion it is in the interest of effective Parliamentary control of expenditure of public moneys that the reasons for the cost escalations of the Bell Bay Railway and associated works be thoroughly investigated.

An examination of the reasons for the cost escalation and the circumstances surrounding the preliminary costing of the Bell Bay project would undoubtedly enable the Parliament to take any necessary steps to avoid the State's finances being subjected to such heavy and unexpected stresses in the future. The accounts of the Commission relating to the Bell Bay Railway as published in this Report would appear to be clearly a matter which could be subject to examination by the Parliamentary Standing Committee on Public Accounts.

3. In his 1973 Report (Paper No. 23 of 1973, p. 209), the Auditor-General said that he was pleased to note that the Committee had undertaken an examination of the Bell Bay Railway project, for over the past twelve months he had seen no reason to retract his comment on the need for such an enquiry.

Wayne Committee

4. The Wayne Committee Report of September 1969 was the primary source for the Transport Commission's Feasibility Study of August 1970, referred to by the Auditor-General as the 'detailed report to the Government'. It had found that the line 'would cost roughly \$3 000 000'. The Commissioner for Transport provided copies of this report for the Committee, together with a paper written at the same time by the Transport Commission Economist, Mr B. F. Denholm, who was a member of the Wayne Committee. This latter document, headed 'Reservations and Observations', was in the nature of a minority report. In it, Mr Denholm, had pointed out the dangers of basing costs for this project on those experienced in recent Western Australia construction of a line over flat coastal plain and undulating land, on sandy soil.

5. Mr Denholm, in evidence, referred to 'the statement often made that this "expert committee" reported that a rail link between Launceston and Bell Bay was necessary for the future development of the north and north east of Tasmania and the port of Bell Bay, and recommended that the project be proceeded with subject to Commonwealth financial assistance being available. The implication is that this report was unanimous, whereas in fact the completed report never was submitted to a meeting of the Committee.'

He said that in June 1969 the Minister for Transport, Mr Bessell, had announced the setting up of a Committee under the Chairmanship of Mr C. G. C. Wayne a former Commissioner of Railways in Western Australia and a former General Manager of Railways in Tasmania. The other members were the Chief Engineer of the Railways Branch, Mr G. J. Dineen, and Mr Denholm, as Transport Commission Economist. The Minister had said that the services of the General Manager of Railways, Mr C. G. Collins, would be co-opted as required.

6. Mr Denholm said that 'meetings of this Committee were conducted in what could be described as an Alice in Wonderland atmosphere. The only reason I did not resign from the Committee was that I did not want to hurt Mr Wayne, having regard to the state of his health, and his friendship with me'. Mr Denholm said that the Committee was a departmental one. The Chairman had been an enthusiastic advocate for building the railway since before 1950, and could not be expected to be objective. The General Manager of Railways, though only a co-opted member, played an influential part. Mr Denholm said in evidence that

he considered the Committee should have had an independent Chairman and a representative of the Treasury. 'Another mistake was to hold meetings in Launceston at the railway offices. The atmosphere definitely was in favour of building the railway.'

7. He had expressed his doubts on the cost estimates to the Committee but said that no notice was taken. He said that in a memorandum to the Acting Commissioner dated 29 September 1969, he stated that it appeared to him that the tendency was for the Chairman to treat the preparation of the report as an exercise in public relations for the building of the line, whereas Mr Denholm considered he had been appointed to make an economic assessment of the feasibility of the proposal and was obligated to look at it objectively and to examine critically all the evidence presented.

8. Mr Denholm made it clear that he did not disparage the efforts of his railway colleagues who naturally hoped to see the railway project proceed.

9. The report, he said, was presented in a form which had not previously been seen by Mr Denholm. His minority report, mentioned above, was a separate document. The Minister for Transport never officially released it for publication, but was careful to attach a copy to each copy of the 'Wayne Report' he circulated.

The Dillingham/Silverton Report

10. In December 1969, a Committee consisting of Mr Denholm and two other Transport Commission officers was appointed to carry out a reappraisal of Mr Denholm's paper, on the basis that a woodchip industry would be established in the Bell Bay region, but, because the Minister about a fortnight later, appointed Dillingham Constructions Pty Ltd and Silverton Transport & General Industries Ltd to make a preliminary appraisal of the rail link proposal, the departmental committee did not meet. The Dillingham/Silverton exercise was to cost approximately \$1 500, and the Report was forwarded to the Minister on 28 January 1970. The terms of reference were set out by the Company in a letter to the Minister dated 15 December 1969: "to assess all information, plans and reports presently prepared with the object of providing a preliminary appraisal with particular reference to estimated cost."

11. The report states that specifications covering the method of construction had been provided by the Railways Branch, and also that the route had been traversed and assessed. The study had been commissioned following a meeting with a Cabinet sub-committee and an offer to the Minister of services in connection with the railway, "set out as a series of stages covering the project from initial investigations to final construction and maintenance".

12. The report put the cost of the link between Bell Bay and a point on the North Eastern railway, 6½ miles from Launceston, at \$3 550 000. This estimate is qualified in the following terms:

The estimate must be taken as approximate only considering the shortage of information over some sections of the route.

Two of the major costs in the undertaking are earthworks and bridges. Quantities for these are not available from any source. A profile of the whole track has been prepared and a copy is attached as Plan No. 2. From this profile and the contour maps of the area issued by the Lands and Survey Branch, earthworks, stream catchment, flow details, bridge and culvert requirements were estimated. Detailed surveys would no doubt vary these figures. However, they are indicative of costs that can be expected in this type of country.

13. The Transport Commission sub-committee mentioned above met to study the Dillingham/Silverton Report and recommended to the Minister on 5 March 1970 that consultants be asked to submit tenders to carry out a full survey in order to calculate quantities for earthworks and the design of bridges. At this time, some two weeks before the Commissioner for Transport took office, Mr Denholm had an interview with the Premier, Mr Bethune, who asked him for advice on the Bell Bay proposal. Mr Denholm reported this meeting to his Minister. At this meeting the Premier said he thought that the Commonwealth should be asked to accept the Bell Bay proposal in principle before the State committed itself to expenditure for the survey recommended by the departmental committee. Mr Denholm agreed and advised that the link could be a viable proposition provided suitable Commonwealth assistance was forthcoming and a woodchip industry, paying a worthwhile freight rate, established.

14. The Commissioner for Transport, Mr Webb, told the Committee that he thought it unfortunate that the Dillingham/Silverton Report had ever been made. Railway personnel had relied too heavily upon it.

Instructions for the Feasibility Study

15. The present Commissioner took up duty on 16 March 1970. He said that one of his main reasons for accepting the position was to assist with the examination and possible construction of the Bell Bay Railway, and that he had been assured by the Commonwealth Minister for Shipping and Transport and the Secretary of the Department of Shipping and Transport that they would assist in placing proposals before the Commonwealth Government for financial assistance for the construction of this railway. Both the Minister and the Secretary favoured construction of the Bell Bay link in standard gauge and the replacement of the Hobart to Launceston line by a standard gauge line. Upon his arrival in Tasmania, Mr Webb recommended in this direction to the Tasmanian Government.

16. In June 1970 the Minister for Transport instructed the Commissioner to prepare, as a matter of urgency, a case for presentation to the Commonwealth because of the proposal for a woodchip industry. In response, Mr Webb, produced draft letters to be sent from the Premier to the Prime Minister and from the Minister for Transport to the Commonwealth Minister for Shipping and Transport. These letters proposed that the line from Bell Bay to Launceston should be constructed in standard gauge, at a cost of \$8 500 000 (including \$6 000 000 for locomotives and wagons). It was proposed that the Commonwealth should provide the initial finance, as a grant of 70% and a loan of 30%. The suggested letters proposed the following preliminaries:

Suggested outline procedure for construction of Bell Bay/Launceston standard gauge railway

1. The Commonwealth to engage engineering consultants with wide experience in railway construction in Australia, and with resources to handle the complete project as referred to later, to carry out all necessary detailed surveys to enable the final alignment of the railway to be determined and reliable overall estimates of cost prepared. (The State would wish to be consulted in the selection of the consultants.)
2. On receipt of the report from the consultants, consideration to be given to proceeding with detailed planning for this railway.
3. With a decision reached to proceed with planning, the consultants to be authorised to prepare a Master Plan for the project, with outline drawings and detailed estimates of cost, and construction time tables.
4. On receipt of the Master Plan, consideration to be given to proceeding with construction of the railway.
5. With a decision reached to construct the railway:—
 - (a) a Commonwealth/State railway agreement to be drafted and settled;
 - (b) legislation to be introduced in the Commonwealth and Tasmanian Parliaments,
 - (c) the consultants to be authorised to prepare working drawings, and tender specifications.
6. On the passing of Commonwealth and State legislation, the consultants to be authorised—
 - (a) to call public tenders for the construction of the railway, including laying of track, installation of signalling and communication lines;
 - (b) to call public tenders for the supply of the agreed locomotives and wagons (the railway workshops at Launceston would tender to construct some wagons);
 - (c) to supervise the construction of the railway.

17. The Premier declined to negotiate in this form, but wanted, rather, a fully documented case. He wrote to the Minister for Transport on 2 July 1970 that since it was not intended to convert the Tasmanian Railways to standard gauge, all references to this standard of construction should be deleted. He directed that the Commonwealth be asked to finance the project fully by a grant, in view of grants for railways and beef roads in other states. He also asked that the submission include—

... particulars as to the anticipated operational costs and revenue from the line, having regard to the extra tonnage which will now be available as a result of the contract being signed for a major chip industry in the northern part of the State. It will be necessary to show to the Commonwealth that this line would at least break even operationally if we are to put a realistic case to them for a capital grant, and I believe this can be done.

18. The former Premier, Mr W. A. Bethune, M.H.A., on whose instructions the Feasibility Study was prepared was asked in the course of giving evidence what was expected of the Transport Commission in producing the feasibility study. He said that the Commission was expected to correlate the available information in order that a case could be submitted to the Commonwealth Government. The Commissioner for Trans-

port had earlier said essentially the same thing. He emphasised that with the finance and time available, it would not have been possible to have produced firm estimates. He said that they 'were intended to be the basis for negotiations only with the Commonwealth for financial assistance, they were not intended to be used as a firm figure for a railway agreement for a fixed amount of money'. Mr Webb said that the figures in the Feasibility Study were based on the earlier Wayne and Dillingham/Silverton studies. He said that the figures included in the Feasibility Study were thus the best available.

19. The Commissioner for Transport had informed the General Manager of Railways early in July 1970 that besides estimates for the Bell Bay rail link, preparation of the Feasibility Study would require estimates for rolling stock and other works. These additional works related to upgrading of the North Eastern railway from Launceston to Nelson's Creek (the take-off point for the Bell Bay railway), construction of a new railway bridge over the North Esk River at Launceston, construction of a new freight yard at Dowling Street, Launceston, construction of new running and marshalling lines between the proposed Dowling Street freight yard and the North Eastern railway, and upgrading of the sections of the existing railway over which the log traffic would pass, namely the Main Line from Launceston to Conara Junction, the Fingal Line from Conara Junction to Fingal, and the Mole Creek Line.

Preparation of the Feasibility Study

20. Three senior engineering officers were allocated to this work. They were instructed by the General Manager of Railways as follows:

Following the report issued by Mr C. G. C. Wayne, dated September 1969, and Dillingham Constructions Pty Ltd, issued January 1970, a report must now be compiled containing information relative to the feasibility of the project, i.e. constructing a railway link from the existing North-East Branch Line to Bell Bay, including the upgrading of various existing railway tracks over which logs for the woodchip industry would travel.

The preparation of this report is extremely urgent and if possible the work should be completed within a period of two or three weeks. The Premier, Mr Bethune, has already mentioned the urgency of the report to the Commissioner on several occasions and we have been requested to complete the report as early as practicable.

It would be necessary to estimate the anticipated revenue arising from the haulage of logs for A.P.P.M. and Northern Woodchips to the quantities provisionally provided. Revenue arising from the carriage of logs would be based on a rate of 2.5 cents per net ton mile.

An assessment of other revenue should be made on the basis of anticipated inwards and outwards tonnage through the Port of Bell Bay, and as generally outlined in the Wayne Report.

The cost of constructing the railway should be based on the preliminary estimates provided by the Dillingham and Wayne Reports respectively. Since detailed surveys were not available, a Bill of Quantities could not be prepared and it would therefore be necessary to estimate for the basic construction functions on a cost per mile basis, some work having already been done regarding locomotive and rolling stock. Current estimates can only be produced in the light of Departmental experience in civil construction and wagon building and cost indications previously provided by G.E.C. in respect of locomotives.

The report should take the form of comprehensive appendices which examines in some degree of detail, the construction, operation and maintenance costs of the permanent way, rolling stock and locomotives, and these should be compared on a feasibility study basis with anticipated revenue arising from the transportation of logs to the woodchip plants and freight to and from the Port of Bell Bay. The financial calculations thus prepared to be used in the final analysis to prepare a statement of the return anticipated on the estimated capital outlay.

21. The Commissioner for Transport said that the three officers had averaged about thirteen hours per day for six days a week and six or seven hours on Sundays. They presented their results to him in Hobart on 3 August 1970. Collation of the report was completed at 2.00 a.m. on 6 August and the Feasibility Study was handed to the Premier at 10.00 a.m. on the same day.

The Feasibility Study

22. The escalation in costs noted by the Auditor-General is based on the estimates contained in the Feasibility Study of August 1970. The Committee went to considerable pains to examine not only the report itself, but also how it was interpreted at the time by the various witnesses. As the Auditor-General told the Committee, the study, on the face of it, was a very comprehensive and detailed document, and confident in tone. It included fifty-six schedules and an assessment of the overall results of the project

including generated benefits showing a return of 9·2% on capital in the third year, 'after allowing for all working expenses including depreciation (but not interest on the new capital).' The Feasibility Study concluded in the following terms—

49. The result of the detailed investigation has shown that the Bell Bay project should be proceeded with, and this should be done without delay in order to have a rail link ready within two years to handle the woodchips traffic.

50. Having regard to the financial assistance given by the Commonwealth Government to all other State Government railways, the fact that Tasmania is a claimant State and that the deficits on the operations of the Tasmanian Government railway are reimbursed by the Commonwealth (through the Commonwealth Grants Commission), and the announced intention of the Commonwealth Government to make funds available to the States for capital works, interest free, it would be appropriate for the Commonwealth to provide the funds required for this project as a non-repayable grant. It is suggested the Government should consider an approach to the Commonwealth Government on this basis.

51. It would not be appropriate for the Commonwealth to require the State to repay all or part of the finance advanced for this project, or interest, thereon, as any financial benefits from the project would reduce the annual deficits on the railway operations which otherwise would require Commonwealth reimbursement through the agency of the Commonwealth Grants Commission.

52. A note on the arrangements which might apply for this project is given in Schedule 'K'.

53. It is very important that no time be lost in arranging for detailed surveys of the route for the Bell Bay rail link and in determining the actual alignment.

54. I recommend that the project, as outlined in this report, be proceeded with, the Commonwealth financial assistance be sought for the complete project, and that the target date for completion of the complete project be 30 June 1972.

23. In the opinion of the Committee, the Commissioner neither in the penultimate paragraph above, nor any where else in the report stated clearly that the estimates were as unreliable as they proved to be. By way of contrast, the approach he originally suggested for Commonwealth appointed consultants to carry out planning prior to any commitment by either side to the project was sound. In the Feasibility Study this point was not made with any emphasis.

Negotiations for Commonwealth Assistance

24. On 21 August 1970 the Commissioner for Transport drafted a letter for the Premier to approach the Prime Minister for assistance for the project. The letter was to accompany the Feasibility Study and said that in view of the imminent establishment of woodchip plants in the area, the Tasmanian Government had decided it was essential to arrange for the construction of the Bell Bay Rail Link. The need for full surveys 'before any arrangements could be entered into for construction', is pointed out, and the letter goes on:

In view of the time it will take to carry out these preliminary works, as completion of the project is required by 30 June 1972, to fit in with the construction programmes for the two woodchip plants, it is of the utmost importance that an early decision be reached on proceeding with this project.

25. The Committee believe that at the least, this could have been taken to imply that the surveys should be undertaken following a decision on the project by the Commonwealth and the State. However, this letter was never sent. The Commissioner was informed that the Premier required a more specific application: 'This should be as precise as possible, but should include all the relevant details of the economics of the case for assistance. He was of the opinion that if this were done, the Prime Minister might make a direct decision based on the information contained in the letter.' The Premier also specified as being of first priority a non-repayable grant for the railway from the junction with the North East line. No request was to be made for financial assistance for rolling stock.

26. The Commissioner for Transport accordingly revised the letter, and this was sent on 4 September 1970. The application sought simply a non-repayable grant of \$3·275m to meet the cost of the new section of railway, Bell Bay to Nelson's Creek (the route was, of course, later changed to meet the North

East line at Cold Water Creek). The associated works (\$11.4m) were also to be considered for later assistance if necessary. The following summary of estimated costs was given:

	\$ (million)
Construction of new section of railway, Nelson's Creek to Bell Bay	3.275
Upgrading of existing track, Nelson's Creek to Launceston	1.491
Upgrading of existing track, Launceston to Conara Junction and Fingal	3.863
New locomotives, wagons and equipment	4.944
New freight yard in Launceston	1.092
	<hr/>
	\$14 665
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The need for further engineering work was mentioned. The letter concludes—

This work, by engineering consultants, should be put in hand immediately if the target date for completion of the railway of 30 June 1972, is to be met. The estimated cost of this work is \$70 000, and my Government would, of course, not be prepared to enter into this further expense unless there was an assurance it would be reimbursed by the Commonwealth.

If any delay is likely in reaching a decision on the granting of Commonwealth financial assistance for the construction of this railway, it would be appreciated if the State could be given an immediate authorization to proceed with these detailed surveys.

27. The Committee believe that the Commonwealth Government would have been entitled to take this as meaning that planning would be required to enable construction to start on time, rather than as an indication that the estimates could be so unreliable as to preclude an immediate decision on the project.

28. The Prime Minister replied somewhat coolly to this letter—

Your proposal raises issues to which my Government will need to give careful consideration. In particular you have indicated in your letter that it is not possible for the State to meet the amount of \$3.275 million for the new rail link. However, particularly in view of your State's large per capita share of the Loan Council borrowing programmes, I would welcome any further details you are able to supply bearing on the State's capacity to finance the line.

He declined to authorise expenditure for detailed surveys of the route until his Government had made a decision on assistance for the project.

29. The Premier sent a reply to this letter on 21 October 1970, drafted by the Commissioner for Transport. Unaccountably, nothing was included in response to the Prime Minister's request for 'any further details you are able to supply bearing on the State's capacity to finance the line.' The Premier's letter also said that 'it will take some time after a decision has been reached on this project to carry out detailed surveys in order to determine the final alignment of the new railway.'

30. At this point it seems fair comment that the State had in the letter from the Prime Minister received a definite indication that adequate Commonwealth assistance would not necessarily be forthcoming. It seems also that on both sides, the figures contained in the Feasibility Study were being treated as firm estimates in the correspondence. The Committee agree with the Auditor-General that the Feasibility Study was a very confident and detailed document and that anyone reading it would have been entitled to regard it as having been based on reasonably accurate estimates.

Acceptance of the Feasibility Study

31. The Commissioner for Transport placed the greatest emphasis in evidence on his recommendation that detailed surveys be carried out. For example, when asked whether he had expected such a survey to be made he replied: 'Yes, a survey of this nature was fundamental to the whole exercise. I fully expected the Government to agree to allow the survey to be undertaken. It was a matter of concern to me throughout that this was not allowed'.

32. The former Premier was asked about this matter:

I asked the Commissioner for Transport, prior to asking the Transport Commission to prepare this submission, whether this survey would result in any material difference being made in the estimates. In his opinion it would not. This is a perfectly reasonable attitude for him to take when you look at it. The survey recommended would only be for aerial mapping, ground surveys, the preparing of large contour maps and the survey of suitable alignment for the railway for the cost of \$70 000. It did not involve any sort of drilling programme, so that the problems that arose later on, in regard to the terrain would not have been revealed by the recommended survey. The real problem was the large boulders they encountered. Not going ahead with the survey did not appear to be a matter of moment in regard to the estimates. It was a matter of moment as far as the construction was concerned. The other point is in regard to the actual estimates. Here again the estimate appears to me to be fairly low, it was \$3½ million. Again the matter was taken up with the Commissioner for Transport and it was suggested to him that the estimate was low and it was further suggested to him that having regard to the problems that had been encountered by the Public Works Department in the construction of the East Tamar Highway that instead of \$3½ million the cost of the link could well be in the region of \$7 million. However, the Transport Commissioner, and I, do not imagine it was his private individual opinion, felt, having regard to the recent construction costs in Western Australia, which were, in the opinion of the Commission, comparable, perfectly satisfied this was a realistic estimate. On that basis the case for submission to the Commonwealth Government was prepared.

Mr Bethune later said that in view of the extremely tight schedule for the project, had it been known that negotiations with the Commonwealth would take so long, such a survey would have been commissioned to avoid the overtime that was worked later.

33. Subsequently, the Commissioner for Transport was asked whether the survey he envisaged would have included a drilling programme and he said it would have, and also that in his previous evidence he should have made this clear. It was put to Mr Webb that—

It has been said to us that the proposed survey did not appear to be a matter of moment in regard to the estimates, though it was a matter of moment when you came to lodging tenders and going ahead with the contract.

Mr Webb responded as follows—

It is fundamental to the preparation of the estimates, Mr Chairman, and I made this quite clear right through. You will see it in the correspondence and reports right through, and the letters to the Prime Minister and the Federal Minister of Shipping and Transport and to the Premier. It was fundamental that we must do this detailed survey to obtain the alignment and for the preparation of the detailed estimates of costs. Without this actual knowledge of the route it would not be possible to take out the detailed estimates.

34. The question of what importance was placed upon the recommendation for detailed surveys has been traced from the original draft letter to the Prime Minister dated 24 June 1970. All of the documents were prepared by the Commissioner for Transport, and the emphasis seems to the Committee to have become weaker with each. Where in June the survey had been represented as necessary to establish costs prior to any decision on the project, by October it was being discussed as the first priority after a decision to proceed with the railway.

35. The Committee are convinced that optimism in the Railways Branch affected the judgment of some officers in preparing cost estimates for this project. The doubts expressed by the Transport Commission Economist Mr Denholm, at the time the Wayne Committee Report was tabled, not only were justified by subsequent escalation, but were expressed clearly and forcefully at the time. During the year following the Wayne enquiry, the most serious consideration should have been given to his warning on the dangers of basing estimates for the region on mainland projects in easier country. The Public Works Department would have had considerable knowledge of the area, gained in the course of road construction, and could have assisted. The Wayne estimates, essentially, were incorporated into the Feasibility Study which was used as the basis for the application for Commonwealth assistance, but these figures were so unreliable that it would not be going too far to say that they were not really estimates at all.

Handling of the Negotiations

36. In view of the terms of the application to the Prime Minister in October 1970 and the manner in which estimates had been prepared, the Committee went on to pay close attention to the way the Feasibility Study was used in arriving at the policy decision to proceed with the project. The Commissioner for Transport had told the Committee that 'the Treasury became involved in the negotiations with the Commonwealth, once the Feasibility Study was handed over to the Premier. From that point on the Treasury took over any negotiations with the Commonwealth'. He had earlier said in a written submission 'Negotiations for financial assistance to construct the Bell Bay railway were carried out between September,

1970, and April 1971, by the Premier and Under-Treasurer with the Prime Minister and the Commonwealth Treasury. The Transport Commission was not involved in these negotiations, and the Minister for Transport and the Commissioner for Transport were not present at the discussions with the Commonwealth relating to the proposed financial assistance.' Because of this, a number of questions were directed to the Under-Treasurer, Mr K. J. Binns, in order to discover the assumptions and general thinking which went into the negotiations. Mr Binns said that the Commissioner's statement was 'wholly misleading and incorrect. I was not directly involved in negotiations with the Commonwealth before June, 1971. In fact, Treasury did not become associated in any way with the railway project before April 1971'.

37. Consequently, the Under-Treasurer felt unable to provide answers to several questions bearing on the period immediately following the submission of the Feasibility Study, on the basis that he had not been involved at that stage. However in answer to a question asking whether the Treasury had felt any apprehension as to the reliability of the estimates, in view of the great haste with which the Feasibility Study had been prepared, he replied—

Treasury did not become involved with the Bell Bay Railway project until April through June, 1971. Although the Department was not called upon to make an appraisal of the August, 1970, Feasibility Study, nevertheless, it was always concerned about the accuracy/reliability of the estimates going back to the 'Wayne' Committee report of September, 1969. Treasury was very doubtful whether the overall railway project as outlined in the August, 1970 Feasibility Study could be completed within the total cost estimates of \$14.7 million.

The role of Treasury is limited in this type of case to advising the Government on financial and economic considerations relating to the capital expenditure proposal involved. The Department is not qualified to make quantitative assessments of capital cost estimate submitted by consulting engineers or engineering staff employed by Departments of Authorities.

I discussed the new railway proposal informally at various times with knowledgeable persons. Having regard to the nature of the terrain and other factors, I formed a personal opinion that the Bell Bay rail-link itself, which was then estimated to cost approximately \$3.3 million, could cost as much as \$10 million. I expressed this view from time to time to the Government.

38. The question of whether the Treasury or the Transport Commission handled negotiations with the Commonwealth in the period August 1970 to April 1971 never impressed the Committee as one of particular importance. Mr Binns had stressed the non-involvement of the Treasury during this period throughout his evidence with such emphasis, that the Committee felt bound to try to clear the matter up. The former Premier and Treasurer, Mr Bethune, said that the negotiations were conducted 'until April 1971 at a departmental level and wholly by the Transport Commission, except for my initial interview with the Prime Minister. No-one else was involved. The Treasury was not involved at that stage.' Mr Bethune expressed complete satisfaction with the Commission's handling of the negotiations. He did think in retrospect, that had the Treasury been involved from the start it might have been possible for an earlier decision from the Commonwealth to have been obtained. He said that the only involvement at a Ministerial level was a series of phone calls and telegrams to the Prime Minister asking for an early decision.

39. Since the evidence denying Treasury involvement before April 1971 was so categorical, the Commissioner for Transport was asked—

In view of subsequent definite evidence to the contrary, the reasons for the Commissioner's statement in evidence on 29 May, 1973 that the Treasury took over negotiations with the Commonwealth once the feasibility study had been submitted.

Mr Webb responded by objecting to the manner in which this question had been phrased. He felt that it was implicit that the Committee had rejected his previous evidence and had accepted later evidence. It should hardly be necessary to say that the question sought merely to ensure that the Commissioner realised that his statement had been seriously contradicted, and to provide an opportunity for him to elaborate on his own submission.

The Committee went on to examine Mr Webb in some detail on this point, but at no stage was anything cited which convinced the Committee of anything more than that the Transport Commission was not involved with the Commonwealth Treasury in the period in question. The then Premier, Mr Bethune was very actively involved in the Bell Bay proposal throughout. Mr Webb might well have assumed that he had had discussions with the Under-Treasurer. The question seems to be how influential were these discussions in determining the course of these negotiations? As has already been said, the Committee do not regard this as vital to the investigation.

Government Transport Policy, late 1970

40. The former Premier, the Under-Treasurer and the Transport Commission Economist all stated that they had regarded the estimates as suspect prior to application being made to the Commonwealth Government for financial assistance for the Bell Bay project. The application was made on the State's behalf by the former Premier and Treasurer, Mr Bethune, who in the course of evidence provided the Committee with the background to the Commonwealth's offers in April and June 1971. He said that when it was known that a substantial woodchipping industry would be developed at Long Reach near Bell Bay, a decision had to be taken whether the logs would be carried by road or by rail. A decision in favour of road transport would have meant a programme of upgrading for the 240 miles of roads to be used by the industry, at a cost estimated by the Public Works Department at \$16 million. It was doubtful, Mr Bethune said, whether any Commonwealth assistance would have been forthcoming for this, since there was no precedent for assistance in upgrading, as distinct from new road construction. There would have been no power to compel the users to make any contribution to maintenance, and in construction, the State's public works programme would have been decimated and severe adverse adjustments by the Grants Commission incurred. On the other hand because of the potential of Bell Bay as a port, a rail link to the Tasmanian rail system would have made rehabilitation of the railways worthwhile. The Transport Commission had reported on the general state of disrepair of the railways, and the Government was faced with having to close them down.

41. In the light of these considerations, the Government had decided in favour of the rail link, provided financial assistance would be gained. Mr Bethune said that following meetings by a Committee of Commonwealth officers with the Transport Commission at the end of 1970, both he and the Commissioner for Transport were very confident that the Department of Shipping and Transport would recommend an allocation of about \$15 million to the State, or the full estimated cost of the items covered in the Feasibility Study. He said that he had no doubt that this is what was recommended. This prospect was viewed with satisfaction because of the alternative of spending \$16 million on road upgrading, with no assistance at all.

42. As to his intuitive doubts on the estimates, Mr Bethune explained that in the circumstances 'it was a matter of concern, but not a matter of great concern, if it was going to be \$7 million instead of \$3½ million. The only area of concern, was that we would not get as much from the Commonwealth as we would have liked, and this placed a strain on our Loan Funds'.

43. Mr Bethune emphasised that the Bell Bay project had to be considered in the context of the whole of the State's transport system, and it is only in this way that the Government's policy can be understood. It is not the Committee's function either to endorse or to disagree with policy decisions, but unreliable estimates notwithstanding, and putting aside any indirect benefits resulting from the project, there were indications that the rail link and rehabilitation of the railways were to be preferred to a road upgrading programme.

44. It was said in the course of the enquiry that 'Australian Pulp and Paper Mills stampeded the Government into going ahead and the Transport Commission was anxious to see the railway built.' In making this statement, which is in step with the Auditor-General's complaint in his 1972 Report 'that the timetable had been dictated by non-Government requirements', the Under-Treasurer did go on to say that without the traffic from A.P.P.M. the chances of building the railway would have been severely prejudiced. This accounts for the urgency of the project. A.P.P.M. were under contract to have a stock of woodchips ready for shipment to Japan in July of 1972. In the absence of any assurance that a railway would be available the Company would have had no alternative but to prepare their plant at Long Reach for bringing the logs in by road. The effect of such a development on the economics of the Bell Bay railway, in view not only of loss of revenue, but also of highway use, would have been fatal in terms of the Government's assessment of the overall transport situation.

Commitment to A.P.P.M., February 1971

45. Mr Bethune said that at the beginning of 1971 A.P.P.M. did not know whether to prepare for rail or road freight. Since at that time the Company was the biggest potential user of the Bell Bay railway a decision was by then overdue. By February there was still no decision on assistance by the Commonwealth. In that month there was a Premier's Conference and the Premier took the opportunity of making a personal approach to the then Prime Minister, Mr Gorton: 'He was not in a position to give me a precise figure, but he said to me "You can take it you have the green light to go ahead" '.

46. Upon his return to Tasmania, the Premier advised his cabinet, and A.P.P.M. were informed that the railway would be constructed. Mr Bethune said that he considered that from that point the State was committed to the project and this view was supported in evidence by the Under-Treasurer. However, the Commissioner for Transport, as will be explained later, did not share this opinion.

Commonwealth Offers

47. What the Prime Minister's 'green light' meant is not clear. The State had applied for a non-repayable grant, which request had in October 1970 been acknowledged without encouragement by the Prime Minister. On the other hand, the Department of Shipping and Transport appear to have recommended favourably in December. In the event a letter was at last received on 7 April 1971 offering 85% of the funds required for the Bell Bay link alone: a grant of 35% and a loan of 50%. Thus from the grant of 15 million which the Committee agree seemed possible between December and February, the State had by April come to an offer of a grant of \$1.225 million and a loan of \$1.75 million. What the State had come to, Mr Bethune said, after an interview with the new Prime Minister, Mr McMahon, was—

. . . a complete dead end. Federal Government policy had changed and because the Government had felt it was necessary to do so, to check inflation, Mr McMahon's Government was firmly determined to cut back capital spending in the States.

48. A further request was made on 26 April 1971, based on a revised assessment of costs—

	\$
1. Construction of new railway	3 500 000
2.—	
(a) Upgrading of line between Launceston and Nelson's Creek	1 758 000
(b) (c) Rolling Stock	6 927 000
(d) Loading Sidings	79 000
(e) (f) Equipment	192 000
	<hr/>
	\$8 956 000

49. After, what Mr Bethune called 'the most strenuous argument', in meetings between the Premier and the Prime Minister and later officers of the State and Commonwealth Treasuries, the Commonwealth offered a 50% loan and a 35% grant for upgrading the line between Launceston and Cold Water Creek. This offer was conditional upon the State arranging finance for the remainder of the works specified in the application, including rolling stock, though the other works mentioned in the application of 4 September 1970 would be considered on receipt of detailed submissions together with a Feasibility Study. The works referred to here were—

Estimated Cost as at 4/9/1970

Up-grading of existing track, Launceston to Conara Junction and Fingal	3 863 000
New Freight Yard in Launceston	1 092 000

Mr Binns pointed out that unofficial estimates for this work have since been supplied by the railways branch of \$10 570 000 and \$1 500 000 respectively. The Under-Treasurer said that—

When I put the State's case for additional Commonwealth assistance on 8 June, 1971, it was made quite clear to me that Commonwealth agreement to further aid for construction of the Bell Bay Railway was conditional on no further approach being made by the State for the new link and the up-grading of the existing track, Launceston to Nelson's Creek (now Cold Water Creek) and associated works.

Since May, 1972, from which time Treasury ceased to play an active part in the Bell Bay Railway negotiations, several further applications for Commonwealth financial assistance were submitted on behalf of the State. To date, no additional assistance has been made available.

Evaluation of the Commonwealth Offers

50. Since as a result the Government took action which amounted in their view to committing the State to the Bell Bay rail link, it appears that at the meeting between the Premier and the Prime Minister which took place in February 1971, the indications were that the State would be treated rather more gener-

ously. In the view of the Committee an assurance of this nature, given at this level, would constitute a definite moral commitment. The critical time factor involved with the project, which had not even been planned but had to be completed within less than seventeen months, meant that the State had to rely more heavily than usual on Mr Gorton's assurances. The Commonwealth Government was not entitled to regard these assurances as simply requiring the payment of some assistance. Changes in leadership and in economic policy were irrelevant.

51. The delay by the Commonwealth in reaching a decision on the application by the State for assistance led by itself to some additional costs. In particular, Mr Bethune said, ' . . . the \$800 000 extra which was required for the escalation in award rates, was due to the fact that construction had to be rushed, instead of having a reasonable time to construct. . . . it telescoped the whole of the timetable for construction and added immensely to the cost '. The Committee accept the obvious, that to this delay must be attributed a part of the escalation impossible to determine, but observe that in any case time was so short for the project that some additional cost would have been inevitable.

52. All those who were most closely involved at the time told the Committee, in different ways, that they doubted the estimates for the Bell Bay rail link contained in the Feasibility Study. The Commissioner for Transport said that they were the best available and the Committee accept that his position throughout was that only detailed planning would establish what the costs would be. The important thing is that until 1971, when this planning had been carried out and tenders received, no real estimates existed. As the former Premier said, the Transport Commission was expected merely to correlate the information available from the Wayne and the Dillingham/Silverton reports. However this instruction must be understood in terms of shortage of time rather than as an indication of satisfaction in the Government with the estimates. Railways Branch judgment had been decisive in the estimates included in these two reports and as had been pointed out by the Transport Commission's own Economist, almost a year before the Feasibility Study was prepared, was not entirely sound. In view of the opportunity over this period to examine critically the work of the Wayne Committee, the Feasibility Study should at least have made it perfectly clear that the cost of the Bell Bay link could be very much higher.

53. The estimate for rehabilitation of the line from Launceston to Fingal, \$3 863 000, was included in the list for which a grant of around \$15 million was apparently considered. Mr Bethune pointed out that through the Commonwealth's restriction of assistance in 1970 to the Bell Bay to Launceston line, assistance for the Fingal line had not yet been negotiated. But, he said, the discrepancy between the original estimate, \$3 863 000 and the current estimate, \$10 570 000, was ' quite incredible ', since the work was upgrading an existing line, where there should be no unknown factors. The Commissioner for Transport disputed the Auditor-General's figure. He said it originated from a revised estimate by the General Manager of Railways, using the per mile costs of the Bell Bay railway for calculations, which naturally produced a figure which is too high for upgrading work. This, on the other hand, would be offset to a greater or lesser extent by the revised estimate failing to provide sufficiently for replacing bridges on the line.

54. The Committee do not know what the cost of this work will be. The basis of the revised estimates seems no better than the basis for the original calculation and it is to be hoped that it can be taken for granted that complete and thorough investigation will be carried out before any commitment is made to this work.

55. Since the Feasibility Study estimates for the Bell Bay to Launceston line could have been closer, even allowing for the urgency of the exercise, the Committee think it worthwhile to direct attention to the effect that they had on the Commonwealth assistance offer. At the same time it is fully realised that the question what would have been forthcoming had the estimates been accurate is hypothetical in the extreme. The Government thought at the time that it could make a difference in the level of assistance. The Treasury expected a loan of 50% and a grant of 35% for the project, excluding rolling stock, which is essentially what was offered. If it is concluded from this, and it is not certain that it can be, that there was never any possibility that assistance would be more generous, the inaccuracy of the Feasibility Study estimates is very important indeed. If it was ordained that assistance would be limited to the 50/35 formula that was applied, then obviously the true estimates would have yielded much more, or alternatively, nothing at all. The Commissioner for Transport said it is unclear what the Commonwealth would have done. Whether the project would have been supported or road upgrading assisted is a matter for conjecture.

56. The Committee have established that the Government believed that the estimates for the Bell Bay to Launceston construction (though not those for upgrading the Fingal line) were unreliable. The policy decision, based on the strategic importance of this link to the whole of the State's railway system, was taken therefore on information of which the estimated cost was only one part.

Formal Acceptance of Commonwealth assistance

57. The State made application in September 1970 to the Commonwealth for assistance for the Bell Bay railway proposal. Approval in principle was indicated by Prime Minister Gorton in February 1971 and an offer of 50% loan and 35% grant of the Feasibility Study estimate for the new line was received in April 1971. An extension in the same proportions was made in June 1971 to cover the estimated cost of upgrading the North Eastern line from Launceston as far as the commencement of the Bell Bay link.

58. By the beginning of September 1971, contract documents had been prepared by the engineering consultants (appointed on 8 April 1971) and tenders received. The Committee have already said that in a sense the first real estimates only came into existence at this stage, some months after negotiations with the Commonwealth had concluded. It was thus at this point the State had a definite idea of the cost involved, though in a report dated 2 June 1971, the Commissioner for Transport had warned that costs were expected greatly to exceed the estimate. The 'escalation' that occurred in the Commonwealth subsidised works from August 1970 to November 1971 was as follows:

	August 1970 \$	November 1971 \$
Railway-Nelson's Creek (now Cold Water Creek) to Bell Bay	3 275 000	7 000 000
Detailed surveys	70 000	....
Upgrading-Cold Water Creek to Launceston	1 491 000	1 191 000
Bridge over North Esk .....	....	300 000
Freight Yard, Dowling Street	300 000	300 000
	<hr/> \$5 136 000	<hr/> \$8 791 000

59. The Commissioner for Transport's reaction when an agreement with the Commonwealth was about to be signed and subsequently confirmed by legislation is explained in a memorandum to his Minister—

Office of the Commissioner for Transport,
Hobart
15 September 1971

The Hon. the Minister for Transport

Subject: Bell Bay Railway—Commonwealth/State Agreement

I attended a meeting in the Treasury Board Room on 8 September, when the following also were present—

The Under-Treasurer,
The Director of Public Works,
The Chief Commissioner of Forests,
The Crown Solicitor.

Mr Binns advised he had received a letter dated 6 September from the Commonwealth Treasury regarding the draft agreement for the Bell Bay railway. A copy of this letter is attached.

Mr Binns proposed replying to this letter in the form of the attached draft which he had prepared.

I suggested the State should not accept the reply by the Commonwealth Treasury on two points which had been raised, and also that at this stage the terms of the draft agreement should not be accepted.

I further suggested that an approach be made to the Commonwealth, advising of the result of tenders received for construction of the Bell Bay railway and the additional expenditure which will be involved, and requesting that the Commonwealth give consideration to increasing the financial assistance for the construction of this railway.

Mr Binns would not accept these views, and indicated that he would arrange for the Hon. the Premier to attend a meeting of the Committee the following morning.

A further meeting of the Committee was held in the Treasury Board Room on Thursday morning, 9 September, at which the same members of the Committee were present, together with the Premier. I put forward the views I had expressed the previous day, but the Premier was not prepared to have any discussion on the matter and ruled that the agreement was to be accepted and no further approach was to be made to the Commonwealth Government for additional funds relating to this railway at the present time.

On Friday, 10 September, the Acting Minister (the Hon. the Minister for Health and Road Safety) asked me to see him about this project and enquired whether an approach could be made to the Commonwealth for additional funds. I advised him the Premier had decided against such action at the present time.

G. T. WEBB, Commissioner.

60. In support of his position, the Commissioner for Transport told the Committee that he considered the State was not committed to the project before October 1971, when the tender was accepted. Apart from services undertaken by the consultants in arranging for detailed surveys and preparation of specifications and working drawings, no funds had been committed for the actual work. ' . . . we could have pulled out. We needn't have gone ahead with the project . . . There were political factors of course, but this is not in my field'. He was asked whether in consequence of any agreement, undertaking or offer to the woodchip companies, the State was bound to provide the rail link and he replied that he thought the State was not so bound until agreements had been signed in December 1971.

61. Both the former Premier, Mr Bethune, and the Under-Treasurer, Mr Binns, said they thought the State was committed from much earlier than this, in February 1971. At that time it had been indicated to A.P.P.M. that the link would be built. Mr Bethune said that—

The Commissioner knew as well as everyone else that the Commonwealth offer had been accepted and it was only a matter of drawing up a formal agreement. It had been accepted on 7 July. A letter came from the Commonwealth with the proposal setting out in detail their offer of assistance, as to how the \$1.275 million would be allocated. The State accepted by letter on 19 July. We had no option. It did not have Parliament's ratification and Parliament could have rejected it at that point, but the Government had accepted the offer in writing. The reason why the Transport Commissioner's advice was not accepted, was simply, because it was not responsible advice in the circumstances.

On the Commissioner for Transport's memorandum of 15 September to the Minister for Transport, quoted above, Mr Binns told the Committee that he had received from the Premier a copy of an earlier memorandum of 3 September 1971, written by the Commissioner to the Minister for Transport. Arrangements were made at the Treasury for copies of this memorandum to be distributed to his other colleagues on the Committee of State Officers. The Commissioner stated in the memorandum of 3 September that—

The amount allowed by the Commonwealth towards the construction of this railway is only 85 per cent of \$3.5 million, and the agreement, which includes this figure, has already been drafted and probably will be ready for signature in the near future and submission to the Commonwealth and State Governments for ratification. I suggest that an immediate approach be made to the Commonwealth for the amount of \$3.5 million, for construction of this railway to be increased to \$6.5 million (together with \$1.5 million for upgrading of the existing North Eastern railway between Launceston and Cold Water Creek, and associated railway works including the new railway bridge over the North Esk River and new running lines in Launceston).

The Commonwealth apparently accepted the principle that funds (to the extent of 85 per cent) for construction of the Bell Bay railway should be made available by the Commonwealth, but that the State should be responsible for arranging funds for the supply of locomotives and wagons for operations relating to the woodchip industry.

Mr Binns said that the important point to note is that this memorandum (and the memorandum of 15 September) were prepared after tenders had been closed for the construction of the Bell Bay rail link:

. . . If I may say so, the Commissioner takes advantage of hindsight. At the same time, the Commissioner overlooks the fact that the State had accepted the Commonwealth offer on 19 July 1971. By early September 1971, negotiations were only then possible as to matters of detail included in the draft Agreement. At that stage, the scope of financial assistance had already been agreed to in principle between the Commonwealth and State Governments.

Mr Binns went on to say that the Commissioner for Transport's recommendation had been "no more than shadow sparring. The agreement only commits to writing matters agreed between the Commonwealth Treasury Officers and myself. . . . Mr Bethune very rightly and very properly was not prepared to go back on the understanding reached with the Commonwealth. . . . The present Government has seen fit to

depart from the arrangement agreed upon by the former Government, that there would be no further requests for financial assistance. There have been requests made to Mr Nixon and now to Mr Jones, but we have not, to date had a brass razoo”.

62. Whether the State was committed in September 1971 or earlier is a somewhat hypothetical question, since the Government's decision to proceed with the project had been one in which costs had not played a decisive part. The escalation in the estimates, while placing a severe strain on the States loan funds, need not of itself have nullified the considerations which led to the decision. Whether or not the Commonwealth should have been approached for re-negotiation of the agreement appears to be a matter upon which the former and the present Governments differ, and because of that, the Committee do not express a view.

Negotiation of Freight Rates

63. The Auditor-General when calling for this enquiry, included among the matters which should be investigated the freights negotiated for cartage of woodchips to Long Reach.

64. There were two Companies involved, Associated Pulp and Paper Mills Ltd, and Northern Woodchips Pty Ltd. As a rate that could be expected to attract traffic, a freight rate of 2·5 cents per net ton mile was used in the preparation of the Feasibility Study. This originated from the fact that road transport operators in July 1970 were charging 2·9 cents per net ton mile. The study allowed for 150 000 tons of logs annually from Fingal in respect of A.P.P.M., but it was expected that this quantity would rise substantially once the railway was in operation. 200 000 tons in the first year, rising to 400 000 tons in the third year, were estimated for Northern Woodchips Pty Ltd. This rate of 2·5 cents was, the Commissioner for Transport said, comparable to rail freight rates being charged at that time by the railway systems on the mainland for the bulk transport of iron ore and coal. Both companies signified that they were interested in log cartage at this rate, prior to preparation of the Feasibility Study.

It will be remembered that while this freight was a major factor in the Government's decision to proceed with the Bell Bay rail link, the urgency which attended preparations and construction arose from the necessity for A.P.P.M. to meet its mid 1972 deadline. The State's commitment to the project was said by the former Premier and the Under-Treasurer to have dated from advice to A.P.P.M. in February 1971 that the railway would be built. Therefore serious negotiations with A.P.P.M. began before those for the other Company. In fact the first relevant firm quote was given in a letter to the Manager of the Tamar Division of A.P.P.M., Mr W. G. Meadows, on 16 November 1970. This concerned the rail transport of approximately 50 000 tons of logs per annum from Mole Creek to Long Reach. Mr Webb said that the purpose of offering this rate was to secure additional traffic for the Mole Creek line as consideration had been given to closing this line because of maintenance costs and low traffic volumes. Negotiations at that time also were proceeding for the possible transport of lime over this line in the event of the establishment of a lime extraction industry in the area. It was considered desirable to secure as much rail traffic over this line as possible in order to ensure the retention of this branch line.

65. Mr Webb set the background for his description of what followed by saying, in reply to a question, 'The railway was not under discussion when the contract was signed between A.P.P.M. and the Japanese and irrespective of whether there was a railway or not but because of escalating costs, A.P.P.M. were in difficulties with the project and they were suggesting they may cancel the project unless they had assistance at getting the logs in by rail at a much cheaper cost than by road'.

66. In a lengthy written submission dealing with the matter of quotation of bulk freight rates, Mr Webb said that—

On 11 January 1971, Mr Meadows rang the General Manager of Railways (Mr C. G. Collins), and advised the Company proposed moving 150 000 tons of logs per annum from Wiltshire Junction to Long Reach.

The original contract of A.P.P.M. with the Japanese buyers was for the supply of 600 000 tons of woodchips a year for eleven years. In order to achieve a more profitable operation, because of increased costs in establishing the woodchip plant at Long Reach and expected greater operational costs arising from inflation, the Company sought a second contract with the Japanese buyers for a further 300 000 tons of woodchips a year.

From the information made available to the Transport Commission later, at this time (January 1971), the Company had concluded preliminary negotiations with the Japanese buyers for the supply of this extra quantity, and with the Chief Commissioner of Forests for the supply of approximately 150 000 tons of logs a year from

areas of Crown land around Wiltshire Junction and west of Burnie. However, this cutting was approved for a period of five years only. The remaining 150 000 tons of logs a year would come from private land—mainly around the Mole Creek area.

Mr Meadows sought from Mr Collins a rail freight rate of 1·5 cents per net ton mile from Wiltshire Junction to Long Reach. He advised this was equivalent in terms of the amount paid for freight on each ton of logs—to the rate of 2·5 cents per net ton mile from Fingal to Long Reach (a much shorter distance), and that the Company could not pay more than this for freight. In the event of the Bell Bay railway not being constructed, he asked for the railways to move this quantity of logs by road from Launceston to Long Reach (at a suggested rate of \$3·50 per net ton).

On 12 January 1971, Mr Collins wrote to Mr Meadows advising that the railways would undertake this work at the rates sought by Mr Meadows. A copy of this letter is attached. The rate of 1·5 cents per net ton mile, from Wiltshire Junction to Long Reach, a distance of 189 miles, is equivalent to \$2·84 per ton. A copy of this letter is attached.

In response to a further telephone request from Mr Meadows, Mr Collins again wrote to Mr Meadows on 18 February 1971, confirming the rates advised in his letter of 12 January, and advising agreement to Mr Meadows' request that the rates be firm until 31 December 1974. A copy of this letter is attached.

Letters of January-February

In considering the letters from Mr Collins to Mr Meadows of 12 January and 18 February, it is necessary to have regard to the following—

- (a) at that time an application was before the Commonwealth Government for financial assistance for construction of the Bell Bay railway and provision of locomotives and log wagons, but no decision had been reached;
- (b) Mr Meadows clearly understood his discussions with Mr Collins and the proposals he put to Mr Collins for rail transport of logs, were subject to a favourable decision being obtained from the Commonwealth; and
- (c) the State railway system was very run down and required extensive work, and large capital funds, to put it in good order. If this work were proceeded with, every possible bulk movement of goods which could be carried by rail should be sought for rail.

March 1971

In a letter dated 26 March 1971, from Mr Meadows, I was informed that the Company had undertaken major commitments with their Japanese buyers, on the basis of the freight rates quoted in the General Manager's letter of 18 February 1971. (I am sure this was not the situation at that time).

I was asked to provide assurances that, in any event, the Transport Commission would safeguard the interests of the Company by providing the operations in the terms of the letter of 18 February 1971.

The Company further advised that transport requirements from South Burnie and/or Wiltshire Junction areas could rise to a possible maximum of 300 000 tons per annum.

At that stage (March 1971) the Company envisaged that log movements by rail would be as follows—

South Burnie and/or Wiltshire	300 000 tons per annum
Fingal	125 000 tons per annum
Mole Creek	60 000 tons per annum

Mr Meadows also referred to discussions with Mr Collins, whereby he sought agreement that, in the event of the Bell Bay railway not being constructed, the railways would transport pulpwood from Fingal to Launceston by rail, and then by road transport to Long Reach, at a rate of \$2·39 per net ton.

A copy of this letter (26 March 1971) is attached.

April 1971

Following receipt on 29 March of the letter of 26 March, and throughout April 1971, I had extensive discussions with Mr Meadows on the questions of ability to undertake the rail movements he sought, and the rail freight rates he required.

At the time of writing his letter of 26 March 1971, Mr Meadows was ready to go to Japan to conclude the second contract with the Japanese buyers (for the additional 300 000 tons of woodchips a year), and he pressed me very strongly for confirmation by the Transport Commission that—

- (a) the rail freight rates were acceptable;
- (b) the quantities required could be moved by rail; and
- (c) the railways would accept responsibility for onward movements by road from Launceston, of logs railed to Launceston for Long Reach, if the Bell Bay railway was not constructed or was not ready by the time the Company's plant commenced production.

I informed Mr Meadows I could not give any assurances on these matters and would not submit them to the Commission for confirmation. In fact, the rail freight rates eventually agreed with the Company were never formally agreed or minuted by the Commission, other than by the Commission sealing the agreement negotiated by the Government with the Company in which these rates appear. I also informed Mr Meadows—

- (a) I was prepared to recommend acceptance of the rate discussed of 2.5 cents per net ton mile, by rail from Fingal to Long Reach;
- (b) I was prepared to recommend acceptance of the rate offered by Mr Bessell of 1.75 cents per net ton mile, by rail from Mole Creek to Long Reach;
- (c) I was not prepared to consider undertaking road movement of logs to Long Reach, brought to Launceston by rail;
- (d) the tonages of logs which could be moved by rail would depend on the financial assistance given by the Commonwealth Government for the acquisition of new main line locomotives and log wagons; and
- (e) I considered the Company should not proceed with the proposed second contract, requiring rail movement from Wiltshire Junction to Long Reach, in view of the difficulties we would experience with this operation—lack of locomotives and log wagons and very poor condition of the track in some sections (particularly between Wiltshire Junction and Wynyard).

Mr Meadows was extremely concerned at my attitude in this matter and deferred his visit to Japan. He indicated the second contract was vital to a viable operation at Long Reach, and a large part of the logs for this contract would have to come from Wiltshire Junction, and would have to be moved by rail (at not more than 1.5 cents per net ton mile) as road transport was far too expensive.

Early May 1971

On 29 April 1971, Mr Meadows forwarded to Mr Collins a draft agreement which, amongst other things, included the following freight rates for rail transport to Long Reach—

- From Wiltshire—1.5 cents per net ton mile;
- From South Burnie—1.6 cents per net ton mile;
- From Fingal—2.5 cents per net ton mile; and
- From Mole Creek—1.75 cents per net ton mile (\$1.50 per ton).

A copy of this draft agreement is attached.

I received this draft agreement from Mr Collins on 7 May. The same day I rang Mr Meadows and again informed him I could not accept the proposals in this draft agreement, and the same day advised him in writing that—

Whilst everything possible is being done I regret that at this stage I am unable to give you any definite assurances beyond the arrangements we will be making to have the rail link between Nelson's Creek and Long Reach operable by 1 July 1973.

Mr Meadows was still waiting to go to Japan to conclude negotiations for the second contract, but was not prepared to leave without written confirmation from the Transport Commission of the rail freight rates, and that the additional quantities would be carried by rail from Wiltshire Junction to Long Reach.

At this stage the Melbourne directors of A.P.P.M. took this matter over, and I had several long discussions with Mr Stock who rang me from Melbourne. As I would not authorise the Commission to issue the written confirmations, the Company required, Mr Stock took this matter up with the Acting Premier (Hon. K. O. Lyons, M.H.A.)—the Premier (Hon. Angus Bethune) being overseas.

Mr Stock drew Mr Lyons' attention to the following—

- (a) the Company, over a long period, had been an important employer of labour in Tasmania and had extensive investments in the State;
- (b) the Long Reach woodchip plant would not be a viable operation with an output of 600 000 tons of woodchips a year, and it was necessary to increase the output of the plant by 50 per cent;
- (c) arrangements had been made to secure orders in Japan for sales of another 300 000 tons of woodchips a year, and the State had already agreed to supply timber from Crown lands to enable the additional contract to be undertaken;
- (d) about half of the additional timber would have to come from Wiltshire Junction and West of Burnie, and could only be moved economically (to meet the rates in the Japanese contract) by rail, and for this purpose a rail rate of 1.5 cents per net ton mile was required;
- (e) if the State would not assist with the second contract, the Company would need to consider stopping work on the Long Reach plant and cancelling the woodchips project; and
- (f) in the event of (e), the Company would have to give consideration to limiting expansion of the existing plants in Tasmania and locating the next wood pulp plant in Victoria.

The Acting Premier referred Mr Stock's complaints to the Under-Treasurer, and I discussed the position with Mr Binns on 13 May.

I took the view that the freight rates advised the Company by the General Manager of Railways in his letters of 12 January and 18 February did not constitute a contractual relationship with the Company, that Mr Meadows was well aware of the conditions under which he sought and was given these letters, that the Company recognised there was no binding arrangements (I had refused the Company's request to recommend to the Transport Commission approval of the rates and conditions required by Mr Meadows on behalf of the Company).

Further, that there was no certainty the Bell Bay railway would be constructed—at that time (May 1971) arrangements for Commonwealth financial assistance had not been concluded, and no contracts had been entered into for construction of the railway—and until we reached that stage we could not take on a firm commitment.

In addition, that we could not take on a definite responsibility to move logs, carried by rail to Launceston, from Launceston by road to Long Reach.

The Under-Treasurer took the view that the implied commitments in these letters, given by a State officer, would have to be honoured by the Government.

Committee of State Officers

From this point onwards, the negotiations relating to the rail freight rates were conducted between the Company and the Government—with a Committee of Senior State Officers meeting frequently to review developments, report to the Government, and prepare draft replies to letters addressed to the Premier from the Company.

The Committee consisted of the Under-Treasurer (Chairman), Director of Public Works, Chief Commissioner of Forests, Crown Solicitor and myself. Mr J. Firth of the Treasury attended most of the meetings. Between May and December (when the draft agreement with the Company was concluded and signed) this Committee met on many occasions.

These meetings related not only to consideration of freight rates and the terms of the agreement with the Company, but also to such matters as construction of the spur line and sidings to the woodchip plants of A.P.P.M. and Northern Woodchips, and whether level crossings or grade separations (road/rail bridges) should be provided on the Bell Bay railway.

No doubt the individual members of the Committee have notes of some of these meetings.

The subsequent meetings between the Committee and representatives of the Company were the most difficult I have experienced.

67. Following examination of this submission, the Committee heard evidence from the Commissioner for Transport, the General Manager of Railways, Mr Collins and his Personal Assistant, Mr Duckworth, and attention was directed to the circumstances in which Mr Collins wrote his letters of 12 January and 18 February 1971. A member of the Committee quoted from the letter of 12 January: “It is confirmed that the Railway Branch would undertake this haulage on the following freight rate conditions? . . .”. From Mr Collins' letter of 12 January 1971: This would seem to be a very definite offer? Because of the significance of these letters the response of the witnesses is quoted in full:—

(Mr Webb) I think Mr Collins would agree with me that it was most unfortunate that it was not qualified in writing in these terms by Mr Meadows. We did not know whether the project would go ahead, we did not know whether the rolling stock, locomotives, etc., would be provided. Certainly all of these things should have been made clear in writing. Mr Collins in discussions with Mr Meadows made all this clear.

(Mr Collins) One of the points which of course does not come out into the open is the insistence on the part of Mr Meadows that without a letter of this nature, couched in similar terms, his Company doubted very strongly that the Japanese would be prepared to enter into the contract. He stated we must take this type of letter and deal with both sections of it. This is the freight rate that we will be handling from Wiltshire and the additional safeguard that if the rail link to the woodchip site is not constructed we have to show in writing to the Japanese that the commitment is still binding and that it will carry a firm rate figure from somewhere in Launceston to the woodchip site and this is the framework and the commercial conditions that I was facing at the time I gave this undertaking to them. The point that is not clarified there, is that I had to give the impression that the road cartage vehicles were railway owned vehicles. Mr Meadows had already clarified in a verbal way what we both clearly understood, that the Company would have to obtain a fair number of new road vehicles, but rather than them do that, they would be prepared to sub-contract this movement from Launceston to Long Reach at a cost of \$3.50 per net ton of logs for the whole journey, including unloading and loading at Launceston, for the road movement. This was suggested and agreed to by Mr Meadows himself, because we were both working on the knowledge that if the worst came to the worst and there was a serious holdup in the Commonwealth negotiations and the Company had to meet the conditions as laid down in their Japanese contract, it would have to go by road or someone was going to be very red faced. So it was this type of letter they were asking for to complete their negotiations with the Japanese and that is how that came about.

The basis was that if the rail link did not go ahead A.P.P.M. would sub-contract to the Transport Commission, or arranged a sub-contract from Launceston to Long Reach?—That is right.

Do you have a letter from Mr Meadows to indicate this?—No, it was all done by telephone.

You provided him with a letter, but not he you?—Yes, it was all one way. In the matter of the 1.5 cents it was intended to show good faith on the part of the Company in their negotiations with the Japanese. It would enable them to have a binding agreement, but not binding between the Commission and the Company.

So that they could let the Japanese rely on the belief that it would cost them 1·5 cents per ton mile, but between you and Mr Meadows there was not that arrangement?—That is why there is a clause in the sealed agreement between the Company and the Commission, binding this sort of thing, but this letter was preparatory to the signing of any agreement for the cartage of these logs.

You regarded the 1·5 cents as still as negotiable as say 2·5 cents or 3 cents?—Yes. It was a negotiable rate at that time and I was speaking of large volumes. I gave it as an indication, if the Company wanted to use it that was their privilege, but this rate can only be agreed upon by the Commission.

And a little later Mr Webb said—

I still hold the view that the rates were not binding because Mr Meadows knew the circumstances under which they were given. He couched the terms of the letter for Mr Collins. He did not disclose all the information. He knew all the circumstances and for this reason he did not go to Japan and could not until he got a letter from the Commission. I wouldn't give it to him, with the result he did not go to Japan until the following December, until the Agreement was signed and in his hand. So from their point of view they did not regard it as binding. If it came to a test, I don't think Mr Meadows would like to disclose the manner in which these letters were handed to him.

68. Mr Bethune supported the Under-Treasurer's view on the State's obligation to provide what was offered in Mr Collins' letters. He said that in the view of Cabinet, there was no doubt that the Government was morally bound to uphold these freight rates. While he was overseas at the time, he said that he wholly agreed with the view that Cabinet took. 'All credibility of the Government would have been lost had we not honoured these freight rates, I am sure, and it was a base freight rate from which we could not very well depart'.

69. Following the evidence heard from the Transport Commissioner on the background to the agreement with A.P.P.M., Mr Meadows, as the recipient of the letters of 12 January and 18 February, was invited to attend in a letter from the Committee in the following terms—

The Public Accounts Committee is conducting an inquiry into the Bell Bay Rail Link and Associated Works. In the course of the inquiry three letters from the General Manager for Railways, Mr C. G. Collins, to yourself, dated 12 January, 18 February and 24 February 1971, have come to notice. These letters dealt with freight rates for woodchip logs to Long Reach. The Committee has been told that these letters arose from discussions between yourself and Mr Collins, and were supplied at your request to enable you to negotiate a contract in Japan. It was understood, the Committee has been told, that the letters were not to constitute a commitment on the part of the Transport Commission, and that at that time, when Commonwealth assistance for the rail link was still being negotiated, it was not known whether the project would be constructed.

The Committee believes you may wish to comment on these matters and is prepared to hear evidence . . .

70. This letter has been quoted fully in order to make it clear that Mr Meadows understood what it was the Committee wished to raise with him. Mr Meadows duly attended and said that in view of negotiations with Japanese interests that were in hand, 'at that time we wanted to be quite secure with the transport position, and we had discussed the freight rates either just before or just after early November or during December. I am not sure of the exact date, but the discussions were between Mr Collins and myself. These discussions culminated in a letter from Mr Collins to me dated 12 January'.

71. Referring to the Committee's letter, Mr Meadows countered in this way: 'I categorically state I have never had a reference such as yours, made to me personally, as contained in your letter to me of 2 August. We have never stooped to gain an advantage in the way that has been suggested'.

72. The Under-Treasurer, Mr Binns, was asked whether he considered the letters from the General Manager of Railways amounted to a definite commitment. In a written reply he stated—

I personally felt that the State was not committed in a purely contractual sense as there was room for doubt whether the correspondence was capable of being litigated. However, the Acting Premier (Hon. K. O. Lyons) told me he construed the correspondence as morally binding upon the Government. (I believe that this view was shared by at least some of his then colleagues). This was a view which I could not oppose.

73. Mr Binns elaborated on this answer in the course of giving evidence as follows—

The Treasury involvement between April and June was gradual. Mr Lyons rang me from Melbourne on 13 May, he asked me, because he had been approached by Mr Stock and Mr Meadows, whether we were committed to these freight rates, because he had reservations about them. I had not seen any of the correspondence and I told Mr Lyons that I would have a quick look at it and ring him back. I rang back and spoke

to Mr Johnson, who is the Manager of the Tourist Bureau in Melbourne, as Mr Lyons had already left for an appointment, and he took down the message and subsequently sent me a copy. I now table a copy of that message for the information of the Committee. It reads—

'The Acting Premier
Agreement with A.P.P.M. Ltd.

Mr K. Binns, the Under-Treasurer telephoned at 9.55 a.m. on Thursday 13 May 1971 to advise the following—

Transport Commission and Treasury Officers recommend to the Acting Premier that he informs Mr R. Stock, A.P.P.M. as follows:—

1. The Government stands by the Transport Commission's letters dated 12 January 1971 and 18 February 1971 and 24 February 1971, forwarding the Heads of Agreement.
2. The Government goes no further whatsoever at this stage with respect to any other issues—in particular any issues involving quantity; volume; freight rates whether by road or rail; escalation or de-escalation; etc.
3. The Government is prepared to meet Company representatives in Hobart on say Tuesday, 18 May 1971.

Mr Binns suggested that you may wish to 'phone him prior to making contact with A.P.P.M.'

It is signed by Mr Johnson and is dated 13 May 1971.

74. A.P.P.M. was to be the largest patron for the Bell Bay rail link and thus was important to the State. For the same reason, it was essential that the freight rates decided upon be as high as possible. It was equally important to Mr Meadow's Company that the rates be the most favourable that could be obtained. It is quite impossible to say how much more the Company could have paid. From every point of view, of course, the action of the General Manager of Railways, in writing the letters referred to above, was ill-advised, no matter what the circumstances in which they were written. On the other hand, the Committee are not prepared to say, and do not believe that everything he said in evidence on these circumstances was a fabrication.

75. It follows that the advice of the Under-Treasurer to the Acting Premier, and the manner in which it was tendered and received, by telephone message at 9.55 a.m. on the same day the advice had been sought, appear to have been very hasty. Extensive correspondence had passed between A.P.P.M. and the Commissioner for Transport since February, and the negotiation of the basic rate should have been decided only after thorough consideration of the whole correspondence. The Government would have been perfectly entitled, having regard to the employment to be provided by both the Company and the railways, to have made a decision on political grounds that the freight rates to be paid by A.P.P.M. would be favourable. There was no question of a binding commitment in the legal sense and the Commissioner for Transport, if not the General Manager of Railways, had quite quickly made it clear to the Company that it was too early for the rates to be settled.

76. The Committee received details of the long negotiations which culminated in a draft agreement with A.P.P.M. being signed in December 1971. The agreed freight rates, set out in the agreement, were—

- (a) from Fingal—2.5 cents per net ton mile;
- (b) from Mole Creek—first 60 000 tons per year—1.75 cents per net ton mile;
- (c) from Mole Creek—remainder—2.0 cents per net ton mile;
- (d) from Wiltshire Junction—1.5 cents per net ton mile; and
- (e) from South Burnie—1.75 cents per net ton mile.

It was agreed the distances, for calculation of freight charges, from the loading points to Long Reach, would be as follows—

- (a) from Fingal—93 miles;
- (b) from Mole Creek—85 miles;
- (c) from Wiltshire Junction—186 miles; and
- (d) from South Burnie—135 miles.

The Agreement also provided that—

- (a) the Company would contribute \$250 000 towards the cost of the construction of the spur line and A.P.P.M. sidings. (This amount has been paid by the Company);
- (b) the Transport Commission would provide the necessary locomotives and the first ninety log wagons, for the transport of logs to Long Reach; and
- (c) the Company would provide twenty log wagons for this traffic. These log wagons to be constructed by the Transport Commission at a fixed price of \$15 000 each. This amount was amended, by subsequent agreement, to \$15 200 each, to include \$200 per wagon for the provision and fitting of chains to secure the logs on the wagons. The Company has paid \$15 200 each for the twenty log wagons.

77. The Committee asked the Commissioner for Transport what significance the capital costs of the railway had in determining the freight rates. He said that 'the freight rate of 2·5 cents per net ton mile, used in the Feasibility Study of August 1970, was based on an expectation of what the traffic would bear, and was not based on estimated capital costs. The freight rates finally agreed by the Government were settled as outlined in this submission, and were not related to the estimated capital cost of the project'.

78. The negotiations with Northern Woodchips Pty Ltd were straightforward and it is sufficient here to set out the rates and conditions that were agreed upon in January 1973—

- Up to 30 miles—4 cents per net ton miles;
- Over 30 miles to 60 miles—3·5 cents per net ton mile;
- Over 60 miles to 90 miles—3 cents per net ton mile;
- Over 90 miles to 120 miles—2·5 cents per net ton mile; and
- Over 120 miles—to be negotiated if such distance becomes applicable.

The Government to supply the first ninety log wagons, and the Company any additional requirements. The Company to provide \$250 000 as its contribution to the construction of the spur line and sidings for Northern Woodchips Pty Ltd.

79. Both the Commissioner for Transport and the Under-Treasurer agreed that the rates were more favourable to A.P.P.M. than they were to Northern Woodchips. In the face of this, the Committee would observe that it is not immediately obvious that rates for the two Companies were so very much different. As the Committee understand it the most significant trips, in terms of quantities to be carried for the two Companies were as follows—

A.P.P.M.—

- From Fingal (93 miles)—2·5 cents per net ton mile.
- From Wiltshire (186 miles)—1·5 cents per net ton mile.

Northern Woodchips—

- From Parattah (104 miles)—2·5 cents per net ton mile.
- From St Marys (108 miles)—2·5 cents per net ton mile.

Accepting the principle that rates diminish as distances rise, the 2·5 cents for Northern Woodchips Parattah and St Marys trips seems only to be about a quarter of a cent higher than it should be by comparison with A.P.P.M.'s rate of 2·5 cents for the shorter Fingal trip. A projection, invalid perhaps, of Northern Woodchip's table of rates would produce 1·5 cents for 150 to 180 miles and 1·0 cents for 180 to 200 miles, while the charge for A.P.P.M.'s Wiltshire trip (186 miles) was 1·5 cents. The important point is that the agreements provided for escalation in future years in a formula related to running costs (wages, fuel and so on), but did not take account of escalation in capital costs.

80. Transport Commission witnesses told the Committee that they thought that Northern Woodchip's rates would cover running costs and go part of the way to covering interest. Generally, they thought that A.P.P.M. rates would have to be approximately 50% higher to cover all expenses, including interest, in 1973-74. The Under-Treasurer said that in the same period an all round increase of roughly 25% would be required for all freight rates in order to achieve a 'break even position'.

The Commissioner for Transport in evidence to the Grants Commission in February last said that the increased loss arising from the commencement of operations on the Bell Bay Railway would be \$465 000 in 1972-73 and \$436 000 in 1973-74. This represented 112% of estimated revenue in 1972-73 and 24% of that for 1973-74. If 1973-74 estimates can be achieved and if they reflect the order of subsequent operations, it suggests that freight rates should be increased by an all-round 25%. However—

- (i) the estimated revenue for 1973-74 includes \$424 000 from general cargo to and from Bell Bay, and presumably, this is being carried at full rates; and
- (ii) Northern Woodchips Pty Ltd is already paying a higher effective rate than A.P.P.M. Limited.

Mr Binns concluded that the hypothetical increase necessary in the A.P.P.M. rates for a break-even position would be much greater than 25%.

81. Although the witnesses were asked for this assessment, the Committee do not contend that the rates for the two woodchip companies should necessarily have been so high as to meet all the costs including interest on capital for the Bell Bay Railway and associated works. Because of the possibility of generated economic and other benefits, the State and other users, both present and future, could be expected to make some contribution.

Long Term Economics

82. The former Premier, Mr Bethune, replying to a question about assistance through the Grants Commission for losses on the project, concluded his evidence by saying:

It is by no means certain that in the long term the State is going to lose. This depends on what happens in the future. One would anticipate that with the increased demand for containers, the railway will be used more and more rather than the road on long hauls. The construction of the Bell Bay Link will be the logical economical way of carrying freight in this State and we are going to have a direct service which will—

- (a) go right around the North West Coast; and
- (b) avoid bringing ships all the way to Hobart.

I think this is going to be the long range answer. There is going to be an overall loss in so far as there is a loss on the railways generally, and this has for very many years been reimbursed by the Grants Commission to this State. When the Government was considering the desirability of limiting the suburban rail services around Hobart, which loses half a million dollars annually, and a recommendation had been made that they should cut out, we were advised there was no point in doing this, and putting some local residents to considerable disadvantage and doing the State no good at all, by having our special grant reduced to the extent to which we had reduced the railway losses. It would be far better to continue with the suburban railways. You not only have the question of Bell Bay on its own, when you are considering whether it should have been constructed or not, but that the railway system as a whole would have had to be scrapped and all the social implications this would involve, putting a lot of people who earn a living off the railways out of work, then you come back to the money side of it. Even with the escalation, the State is far better off financially than it would have been if the railways had been scrapped and we had gone to road transport.

83. In his 1973 Report, the Auditor-General provided later estimates for the Bell Bay project:

In March 1973 the consultants prepared a revised estimate of the cost of the Railway and Associated Works; this totalled \$22 318 000.

This estimate compares with an estimate of \$18 668 000 for similar items as at July 1972. For comparison purposes \$84 000 and \$34 000 for the provision of sidings and the ballast wagons have been excluded as they are included in an allocation of loan funds for railway purposes generally. The up-grading works between Launceston and Fingal and the new freight yard at Dowling Street have also been excluded because at this stage this work is not being undertaken.

Individual items are as follows:—

	July 1972	March 1973
	\$	\$
Line construction—		
Cold Water Creek to Bell Bay	9 171 000	11 910 000
Upgrading Launceston to Cold Water Creek	2 707 000	3 297 000
Special contingency—		
Upgrading Launceston to Cold Water Creek ....	....	250 000
North Esk River Bridge	330 000	331 000
New running lines—		
East Tamar yard	410 000	443 000
Diesel Locomotives	3 174 000	3 207 000
Wagons	2 776 000	2 780 000
Mechanical Aligner	100 000	100 000
	<hr/>	<hr/>
	\$18 668 000	\$22 318 000

The second item—upgrading Launceston to Cold Water Creek has risen from \$1 491 000 in August 1970 to \$3 297 000 in March 1973. The original description has been retained by the Auditor-General for the purpose of comparison, but it should be explained that this work, linking the Bell Bay line to Launceston, is quite different from what was originally intended. The existing 1 in 40 grade track on the North Eastern Railway to Cold Water Creek was to be upgraded by replacing sleepers, providing sufficient ballast and replacing the existing rails with heavier type rails (82 lb). However the Consultant Engineers found it was not possible to locate the new concrete bridge over the North Esk River in a position which would enable the existing route to be used and a new alignment was decided upon, and though the cost is much higher, curvature and grade (1 in 70) are the same as for the Bell Bay Railway and will avoid the need to break trains at Launceston, resulting in improved operating costs.

84. The Under-Treasurer was asked for the Treasury's current assessment of the direct and indirect impact of the Bell Bay Project on the State's economy, but he said that it was still not possible to make such an assessment until the likely final cost is established. The Committee agree with this comment and will make an assessment when this cost is known.

CONCLUSIONS

85. The Committee's task has been complicated by the vagueness of much of the evidence on this project as well as the many disagreements on questions of fact and differences of opinion between key witnesses.

This is reflected throughout the entire course of the events described in this report. Consequently some quite important questions cannot be resolved.

Nevertheless it is clear that—

- (i) the estimates produced by railways officers for construction of the Bell Bay Railway and Associated Works included in the Feasibility Study of August 1970 were unreliable having been arrived at without regard for the terrain of the region. Little use was made of the knowledge of the terrain of Public Works Department officers and local residents;
- (ii) the weakness of estimates had been pointed out by a senior officer of the Transport Commission nearly a year before preparation of this study which formed the basis of the submission to the Commonwealth for financial assistance
- (iii) the unreliability of the estimates was understood by both the Government and the Transport Commission;
- (iv) it was Government policy that Commonwealth assistance be sought to enable the Bell Bay rail link to be built and to be ready to carry woodchip logs for A.P.P.M.'s Long Reach plant and this schedule did not make full planning possible;
- (v) nevertheless the estimates in the Feasibility Study could and should have been heavily qualified;
- (vi) although the Prime Minister had warned at the outset that only limited assistance might be forthcoming, later indications, particularly from Commonwealth officers, were more hopeful;
- (vii) on the basis of these indications and a verbal assurance from the Prime Minister, the State was committed to the project in February 1971;
- (viii) the actual Commonwealth offers which followed in April and June 1971 were far less than expected and completely inadequate in terms of the firm estimates for the project which emerged some months later; and
- (ix) the freight rates for bulk cartage of logs for woodchipping were negotiated with A.P.P.M. in a manner which was wholly unsatisfactory. Rates fixed for this company at least were unnecessarily low.

86. The Committee conclude as follows:—

1. When the Government made the decision to construct the Bell Bay rail link it was unaware that the costs had not been established: the decision was taken on the basis that since it would avoid closing the Tasmanian rail system, and some Commonwealth assistance would be received, it was preferable to the alternative of upgrading the roads in the area.

2. In view of these considerations the same decision might have been made had the true costs and the actual assistance to be given been known from the start.

3. The Feasibility Study of August 1970 was expressed in a way which allowed the estimates to be regarded as reliable.

4. To a greater or lesser extent, the principals in the project were at cross-purposes throughout, so that it was handled loosely at times.

5. The most serious consequence of this was the outcome of negotiations for freight rates for woodchip log haulage.

6. In future projects of this magnitude, organisation and roles should be more clearly defined and policy understood as fully as necessary at various levels.

87. The enquiries leading to this report have been long and complex and have placed a heavy burden on the Secretary of the Committee, Mr P. T. McKay. The Committee wish to record our appreciation of the way in which he has discharged his duties in this matter.

Ministerial Party Room,
Parliament House,
13 November, 1973.

R. MATHER, Chairman.