Activity of the state in the privatisation of AS Edelaraudtee and ordering the public passenger transport service

Summary

In course of the present audit mission "The Actions of the State Performed During the Privatization of Edelaraudtee AS and Contracting for Public Utility Passenger Transport Services" the State Audit Office investigated the need for the transport services contracted from Edelaraudtee AS (henceforth Edelaraudtee), compared the efficiency indicators of Edelaraudtee and carriage by bus, assessed the management of subsidies paid to Edelaraudtee and whether the privatization did provide for the best available bid where it comes to the price and quality transport services.

Main Conclusions

- The estimates of the State Audit Office show that in the servicing area of Edelaraudtee live approximately 400 people who have no convenient alternative for the trains of Edelaraudtee, meaning there are no roads suitable for bus transport or bus stops. The most problematic area is south-eastern part of Estonia.
- It is the opinion of the State Audit Office that for the subsidies paid to Edelaraudtee it would be possible to replace each train for 9 buses traveling free of charge, if we are not to consider the expenditures necessary for the construction of roads. Considering the ridership of the trains of Edelaraudtee, as a rule it would be enough to operate one to three buses with 40 seats. The State Audit Office has no information concerning the amounts to be needed for the construction of new roads and the maintenance of thereof. The Ministry of Transport and Communications hasn't also got such information. Nevertheless we should keep in mind that the population can use better roads on continuous basis instead of a couple of times per days as it is common in case of railways.
- Over the period between 2000-2002 the subsidies per train kilometer and passenger have respectively increased by 81% and 115%. In 2001-2002 the respective figures were 5.5% and 11%. At the same time the amount per train kilometer paid for the infrastructures of Edelaraudtee in 2002 increased by 9% compared to 2001. The main reason for that is the decreased number of travels. It is not know what is going to be the support per train kilometer over the next periods but as we consider the maximum subsidy amounts endorsed with the decision of the Parliament it is quite probable that the number of travels shall also decline in the future.
- When we assume that the ticket revenues of Edelaraudtee remain to be 15 kroons per train kilometer (being the level established for 2000, 2001 and 2002) over the whole contracted period it becomes apparent that the Ministry of Transport and Communications shall cover 89% of the expected maximum transport costs (that is, of the subsidies and ticket revenues)of Edelaraudtee in 2002-2009 while also paying Edelaraudtee subsidies in amount which exceeds the established limit by 556 million kroons. In 2001 and as the shown by the estimates, also in 2002 the ticket revenues shall only cover 9% of the declared transport costs of Edelaraudtee.
- Although the Public Transport Act allows up to 70% of the transport costs to be covered on account of subsidies neither the legislation nor the contract do not establish exhaustive provisions stating which costs can be accepted as transport costs by the public contracting authority – the Ministry of Transport and Communications. The absence of such provisions makes the operations undertaken by the institutions controlling the transport costs – the Ministry of Transport and Communications and Railway Administration – largely useless as there are no substantial grounds for the inspection to be based upon, defining the abnormal costs and negotiating in matters related to the subsidies.
- The volume of the contracted transport services was not clear until the end of the privatization. The tenderers were not asked to submit any binding bids concerning the price of the transport services, the quality of thereof, etc. therefore the competition between the tenderers did not include these issues. Besides, after the other tenderer forewent the tender, the one and only remaining tenderer was provided with illegitimate additional benefits amounting to more than 100 million kroons.

The State Audit Office's Recommendations to the Minister of Transport and Communications

- It should be determined what is the level of transport services – the frequency of travel, speed, distance between stations, etc. – that the state will provide the population with when subsidizing different types of transport (train, bus). This should be followed with the assessment of the compliance with the respective norms in the servicing area of Edelaraudtee and assuring that in the future the contracting for public transport services would be carried out inconformity with the respective norms.
- It should be considered whether it could be possible to replace the trains with buses and other means of transport, supported by necessary calculations. This should be done as fast as possible in case of transport carried out on the infrastructures of Eesti Raudtee (Estonian Railways), as the Parliament's decision concerning the payment of subsidies shall stay in force until 2003.
- The structure of transport cost should be defined unambiguously or recommend the legislative body to give up the limitation providing for the 70% coverage of the transport costs and proceed in line with the assumption being the basis of the decision to subsidize Edelaraudtee, stating that the carrier's ticket revenues should cover at least 30% of its transport costs.

In substance, the Minister of Transport and Communications consented with the recommendations but nevertheless submitted some arguments. It is the opinion of the Minister and major share of the problems shall be settled with the new draft Public Transport Act.

The State Audit Office does not agree with the arguments of the Ministry stating that the amendments to the Public Transport Act can be treated as pre-requisites for concluding new agreements concerning the transport costs to be concluded by the carrier and the Minister of Transport and Communications. The State Audit Office has formed an opinion that the Minister of Transport and Communications should immediately proceed with the specification of eligible costs and conclusion of new agreements with the carrier. The last process would enable the test the legal definition of transport costs in practice before it is inserted into the law. Otherwise it may happen that the legal definition of the new Public Transport Act is not sufficient to solve problems that may emerge in real life.

The State Audit Office does not consider the Minister's arguments on the lack of efficiency indicators relevant. The indicators applied by the State Audit Office show that compared to buses trains are economically inefficient. The Minister has not spelled out any additional costs related to the construction of supplementary road network and therefore it would be difficult to assess the impact of thereof.

The State Audit Office also considers the passenger safety and environment friendliness of the means of transport to be issues of utmost importance. At the same time it is not possible to make use of these aspects to reason for the subsidization of railway transport being proportionally larger than the amounts of support allocated for other means of transport, as the relative share of railway transport in passenger transport turnover only amounts to 2-3%. Therefore it is not plausible that the safety or environment friendliness of this mode of transport would have substantial impact on the status of environment or the passenger safety as a whole. If we were to spend the same amount of assets to solve the environment protection problems of other most common modes of transport it would be possible to achieve better results as we look at the picture as a whole.

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