

**Session 4a**

**RAIL OWNERSHIP**

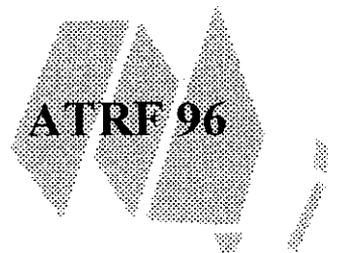
**THURSDAY 29 AUGUST 11.00-12.30PM**

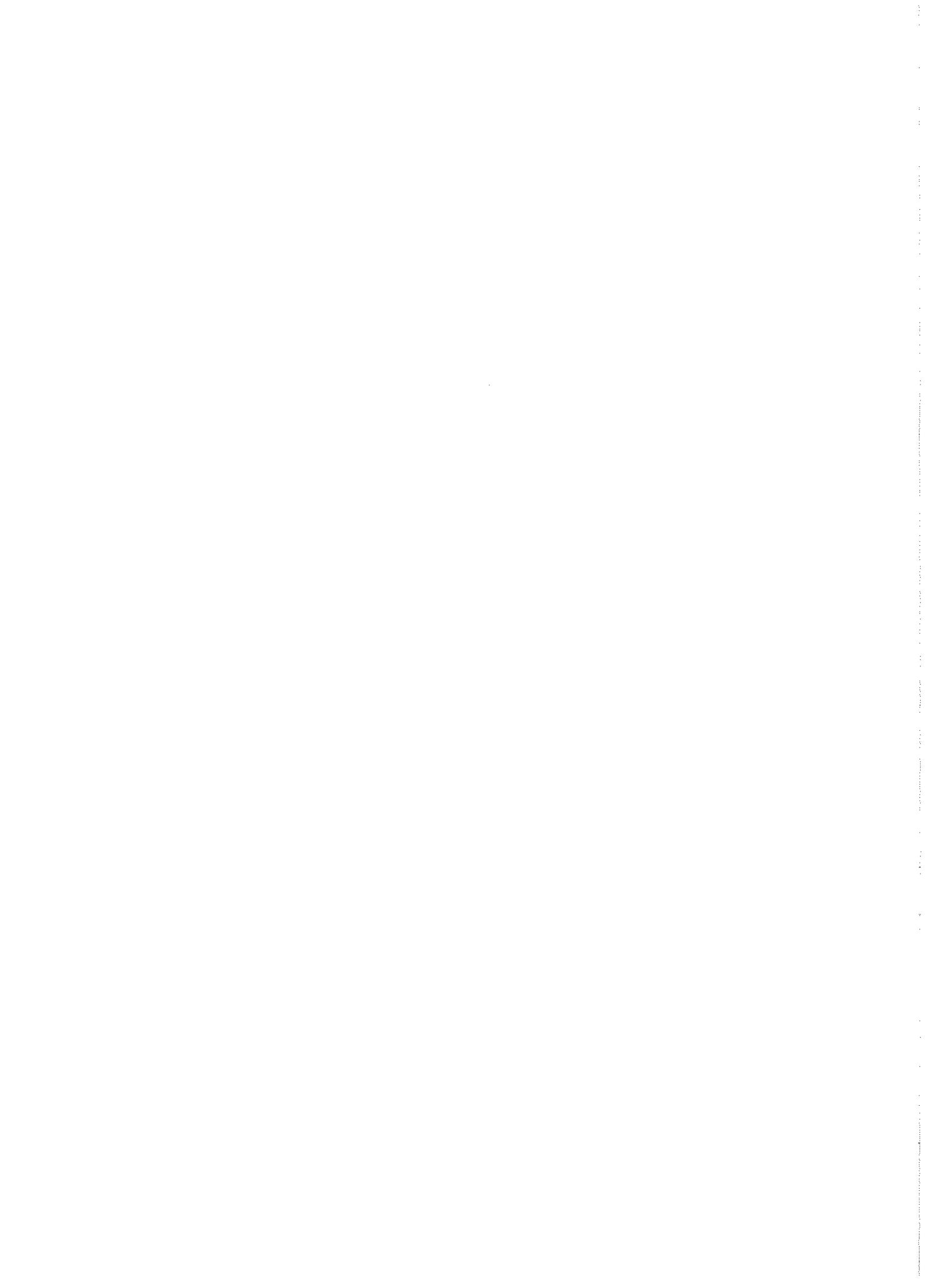
**RAIL REFORM  
Murray King**

**THE FINANCIAL IMPACT ON GOVERNMENT OF A  
TRANSFER OF FREIGHT FROM RAIL TO ROAD  
Phil Skene**

**CORPORATISATION OF FREIGHT RAIL  
Gary Pedersen**

**Session Chair: Christine Perrins**





**RAIL REFORM**

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**ABSTRACT**

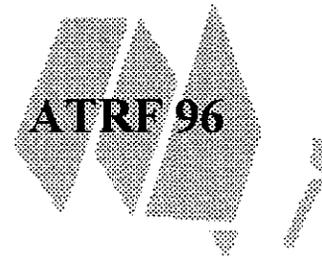
Tranz Rail is the end product of over a decade of reform of New Zealand's railway system. This paper outlines that reform, identifies the key elements of change, and assess the success of the reforms so far.

The current organisation has differences from and similarities to earlier organisational forms. These are discussed, and the lessons learnt examined. The paper also analyses that status of reform in other modes compared with reform in rail; and discusses the differing approaches of New Zealand and other countries to structural reform in the rail industry.

The paper concludes by discussing the application of the New Zealand model elsewhere, developing the concept of 'international' rail companies.

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## **Introduction**

I recently saw a promotional film of New Zealand Railways of some 20 years ago. The business was barely recognizable. The jobs, the tasks, functions were different; the hardware and technology (for all the asserted longevity of railway assets) was different, and looked it.

For this was the pre-reform railway, the Government Department railway, the railway protected from competition. It was the railway with 22,000 staff; the railway that was as much a political lever as a transport mode; the railway where jobs were for life.

All that has changed. In my paper I am going to review the changes made, draw some lessons, and look to the future as the first publicly listed railway for many years in this part of the world - indeed, one of the few anywhere outside of the USA.

The railway of 1976 some of you from across the Tasman may still recognize. For us, looking back, it is hard to realise how different it was then - and indeed, how different it was even in 1982, at the beginning of the reform process. I trust this paper will enlighten all of us.

## **Rail Reform**

Rail reform is hardly a new concept. Many a learned treatise has been written on the subject of "The Railway Problem" or similar titles. Initially, state ownership was seen in earlier days as a solution to problems of under capitalisation and lack of profitability. Railways were perceived as having a developmental role, a role that brought benefits well beyond those that were counted in mere profit and loss statements. This attitude persisted in this country throughout the interwar years, as is evident from Michael Basset's biography of Coates (Basset, (1995)). Indeed, the argument was repeated when the railway administration sought to do at least something about the "problem" by closing branch lines in the 1960s and 70s.

State ownership, however, became an end in itself and even the only successful privately owned railway, the Wellington and Manawatu Railway Company, was bought out by the Government in 1908. That wheel has now turned virtually full circle!

Within the state system, organisation has been a favourite subject for "reform". Various sorts of boards and commissioners were tried over the years, on at least four occasions from as early as the late 1800s, but all bar the last, the NZ Railways Corporation of 1982, reverted to direct departmental control. Railways were felt to be too potent a force in the economy to be left to independent administrators, and even concepts of profit foundered on the needs of one or other interest groups for special favours. An example: no one here is likely to recall it, but during the 1950s lime for farm use was even shipped by rail free. And there is now doubt that applied in the quantities it was that it was even beneficial to the farmers! With the demands of pressure groups like "settlers", it is perhaps understandable that politicians found control of railways irresistible.

It's possible that the NZ Railways Corporation might have gone the same way if not for the determination of officials and Ministers like Richard Prebble to divorce the organisation from such pressures, and then remove from the economy the costs they imposed. Let's now look at the reform process as it has taken place in the last 10 years.

## 1984 On

NZRC inherited a railway that was protected and inefficient.

Long distance transport (over 150 km) had to go by rail, unless permission was given by a special tribunal. The Railways Department had numerous staff whose duties were to resist the granting of such permission. Such protection artificially increased the organisation's workload and of course the size of its staff. As at 31 March 1982 there were 21,608 staff, representing every imaginable skill and trade, for the organisation was highly (and determinedly) vertically integrated and self sufficient. For example, we had a printing works, photographic section, made our own equipment like track gauges, and had a full range of tradesmen to maintain some 3,800 houses (down from a peak of 6,000). Indeed, a recruitment brochure of the times made a feature of the breadth of employment. The staff is now only some 4,600 for what, apart from running buses, is essentially the same core business task. There were 26,900 wagons in 1982, 77% of them of the out of date 4 wheel type. Now there are 7,100, only 30% 4 wheelers. Adjusting for non-freight staff, freight staff each produced an average 173,000 net tonne kilometres a year. That had grown to 799,000 by 1995 - a nearly fivefold gain.

The Corporation's founding legislation differed little in principle from its predecessor's. Its top administration called for change, but lower levels generally resisted it, particularly in the early years. There were exceptions, but the tone is perhaps captured by the following anecdote. Our pioneering Traffic Monitoring System, which enabled important efficiencies in asset utilisation, was nevertheless limited to what its title stated - monitoring. Whereas larger systems, especially in the US, were building computerised management systems, ours merely counted what was there. This was deliberate, for the operators of the railway balked at computers telling them what to do - the computer system had to reflect the manual systems in place for it to be acceptable.

Corporatisation in itself was not a major change. The Corporation was founded in 1982 in a era not given to wholesale reform. While its Act gave it commercial goals as guiding principles, Government still had a profound influence, and indeed some decisions like major changes to the business (such as cessation of services) were reserved to the Government. Yet the creation of a Board not composed of politicians or people from within railways, but of commercial people, people with private sector backgrounds, certainly was a significant start.

What was much more critical, what did produce a major impetus for change was the opening up of competition by road in 1983 through the abolition of the 150km rule. This presented a major challenge, a challenge for the very survival of the organisation.

Maximum cartage rates were also abolished, and tariff rates on imported trucks and tyres were progressively lowered. A long distance fee, introduced on road transport as a transition, was abolished by 1986. Road cartage rates dropped accordingly. By then competition between road operators was growing, at the same time as competition between road and rail intensified. The prices the Corporation could attract fell accordingly while required service levels simultaneously rose.

The establishment of the Corporation and abolition of its protection were pioneer reform moves, initiated by a National Government. During the life of the Corporation, however, reform of Government organisations became the norm. Several Treasury staff, along with politicians like Derek Quigley and later Sir Roger Douglas, had been seeking new models for organising government activity to improve efficiency. Out of this came the State Owned Enterprises Act 1986, and the drive for privatisation. Pure "SOE's" (as the acronym went) were limited liability companies with the Government playing the role of shareholder. But some of the principles and practices of the SOE Act, like the monitoring provisions, were applied to NZRC, in a further step along the reform path.

The next step was the creation of New Zealand Rail Ltd. Rather than simply register a company and bring it under the provisions of the State Owned Enterprises Act, a more thorough going reform was embarked on. There was much debate, internally within Government and between Treasury and ourselves, as to whether a railway really could be viable. (An odd debate, you might think, with the hindsight our recent successful float brings). NZRC asked US consultants Booz Allen and Hamilton to identify if within the then fat railway there was a thin one struggling to get out. Would, in other words, a smaller system be more viable, even to the extreme of only an Auckland-Wellington line (the main corridor)? Their conclusion was no. Apart from continuing the practice of reviewing branch lines at the margin, they concluded the whole network should be retained.

Government also analysed if it made more sense financially to abandon the railway than continue it. It did not. It was thus concluded that there was a viable railway core, but that certain businesses and baggage of the past hindered it. Amongst the latter was a very large debt, built up to run the railway when it carried excess staff for political reasons, and to make investments that were not necessarily commercially worthwhile. Government's decision was to defease this debt. In return, surplus, non-core, assets were identified and disposed of. The principal examples were the bus and coach business, the parcel business, and a large holding of land that was surplus to requirements (identified by a special study). As you can imagine, there was vigorous debate as to whether other assets were "non-core" and could be separately disposed of. NZRC argued strongly (and successfully) that assets such as ferries and workshops were integral parts of its rail business, which would lose value without them.

Restructuring legislation provided for core assets to be vested in a limited liability company. The balance sheet had been restructured. The Minister of Railways of the day, Richard Prebble, gave the go ahead after it was demonstrated to him that a viable business plan existed for the new business; and on 28 October 1990 New Zealand Rail Ltd began

business. Ironically, that very day the Labour Government was defeated in a general election.

Later, there were further reforms, principally in relation to the introduction of a safety audit regime, and consolidating general rules about third party interaction with rail (eg. level crossings, safety offences). More general reforms also impacted the rail business, including the Resource Management Act 1991 and the Health and Safety in Employment Act 1992. Concurrently, deregulation was impacting on all areas of the economy, freeing it up considerably.

With the creation of New Zealand Rail Limited, management had a structure on which to build a customer focused, profit making, and ultimately private enterprise business. But the company was still Government owned. Its targets and goals were agreed and published in a "Statement of Corporate Intent". During this process Government could influence the direction away from pure business goals. Indeed, there were specific "good corporate citizen" goals that could have been misused by Government eg. to prevent closures of facilities like workshops. While we were owned by the Government, I do not recall this happening. However, hindsight shows us clearly that shareholding governments give more weight to non-economic factors than business goals. They are, for example, risk averse to a fault; compounded by their (and departmental advisers') general lack of in-depth knowledge of the business they control. Indeed the latter is one of the expressed reasons Governments get out of owning businesses. They are less likely to support economic efficiency than independent shareholders who have financial interest in the company. It is not unknown for elected representatives to promote short term political objectives at the expense of long term strategic goals.

Furthermore, publicly owned enterprises are more at risk from a change of Government, or even a politically expedient change of heart or focus from an existing government, and therefore a reversion to interventionism. Thus the step that cemented in all the reforms was privatisation of NZ Rail. Government had sold off most of its other transport assets (including an airline and a shipping line), so there was no compelling reason to retain a railway. It analysed the strategic and social/political reasons for retention and concluded that the only long term issue relating to sale of a railway might be alienation of the land. To avoid this, it retained ownership of the land, and leased it to NZ Rail for 80 years (which still enabled the Government to capture the value of the land through the final sale price for the business).

The sale process was a typical NZ government asset sale, using independent advisors to prepare documentation and solicit bids. The sale to a consortium headed by American regional railroad Wisconsin Central, and US and NZ investment entities, was announced on 20 July 3 years ago. The sale to such a consortium was in itself part of the reform process, for, apart from being a truly private enterprise, and being subject to the disciplines and opportunities of the market, the inclusion of an experienced rail operator has brought many benefits, including the transfer of staff and expertise, and their experience in emphasising customer service, productivity, and employee motivation (see *Tranz Rail (1996)* pp 48-49).

Since privatisation operating profits have risen substantially from \$54M in 1993 to \$105M in 1995 (adjusting for redundancy payments in the 1992-3 year). The operating ratio has improved from 88.9% to 81.1% and productivity has improved 50% since privatisation. The rebranding last year, when we introduced a family of brands around "Tranz Rail", and the Initial Public Offering and quotation on share markets in NZ and the USA, are the latest steps in the reform.

## **Key Elements of the Reform**

Let me now turn to draw some general themes and lessons from the "reform". Some of these I have dealt with more extensively elsewhere (Kopicki and Thompson (1995), page 101).

### ***Goals Recede***

For many railways, and ours was no exception, the reform task is very extensive. It is difficult at the beginning to see the end; indeed, it may be that if one could accurately foresee the end and the process to get there, it would deter you from starting! Certainly in our case consultants thought it would be difficult to achieve a reduction in staff to 15,000. Now we have just over 4,600. Thus while it is essential to have clear goals, it is helpful to take the process a step at a time. When you think you have got there, you will find the goal posts have receded.

A related point (and a little contradictory) is that the place of change should be as speedy as possible. Change is disruptive and disorientating, and deflects attention from the business. Attention should be refocussed on normal business goals as quickly as possible.

### ***Government Commitment***

Obviously, if Government owns the business and wants to reform it and sell it, it needs to be committed. But it goes deeper than mere support. There are substantial costs. Costs of past policies may need to be compensated for. Redundancy costs are likely to be large. And consultants and analysts don't come cheaply. Legislation may need to be passed to modernise the conditions under which the railway operates. The formal rules and relationships may be decades old, and inappropriate for a business-like railway - even more so for a privately owned one. A warning here: some of the rights and conditions may appear to be related to state ownership whereas their fundamental explanation lies in the nature of railways, eg. as a network business. An example is compulsory land purchase rights, recognised through network utility operator status in the Resource Management Act 1991.

And the Government needs to play a major role in securing public acceptance of change. It must take the heat and not waver from its commitment.

### *Change of Culture*

Railways are traditionally committed to running trains well. This can develop into a production orientation, focused on technical excellence, with financial performance and customer focus being relegated. And the of necessity rule driven, disciplined mode of actually operating trains can lead to a bureaucratic, administration-heavy, approach to business.

To succeed both in the reform and after, the culture needs to be changed to a profit oriented, customer driven business, less focused on technical and operating excellence for its own sake. We summarised the culture change as from rules to results; reactive mode to proactive mode; production to customer mentality, and from conscript to owner mentality. In many respects, it is also a change from "it'll do" to quality.

But don't go too far. Many of the cultural elements of the "old" railway are worth preserving, including the loyalty and commitment of staff, and the safety culture. Producing what the customer does not want will be unprofitable; but so may be producing everything the customer wants. A balance is necessary.

### *Separate Social from Commercial Goals*

Railways in Government ownership were bedevilled by confusion of roles over the years. They were used as development tools, as employment agencies, and as providers of various social services, particularly in the passenger area. For reform to succeed, there needs to be a concentration on commercial goals, even while the government remains the owner. So alternative means have to be found to deliver social goals. Freeing up competition on other modes ensures alternatives. Social services, such as suburban passenger trains, can be run under contract on a commercial basis with defined payments from Government. In our case, as I've noted, the land was retained in Government ownership for essentially strategic reasons.

### *Level the Playing Field*

When the policy is to protect rail, no one is concerned about a level playing field. But simply removing the protection may alter the balance the other way. The issues may not be obvious : in New Zealand various taxes were removed on road transport inputs, ostensibly in the name of competitive neutrality, with reliance on road user charges to recover costs. Recent work by the NZ Ministry of Transport (Ministry of Transport (1995 and 1996)) has indicates that Road User Charges may not be high enough to ensure, on a like-for-like basis, that the full costs of roading are recovered. Work by the NZ Institute of Economic Research (Clough and Gale (1995)) suggests that Road User Charges should at least double. Rail, of course, pays all its costs as a vertically integrated mode. A rational road pricing policy is essential for a successful rail reform.

Similarly rules relating to safety and environment need to be on a comparable basis between competing modes, (see King (1995)).

### *Focus on Core Business*

Many parts of traditional railway businesses have been added for political convenience. In our case, the bus business had its genesis in the compulsory purchases of competing services in the 1930s. With the reduced importance of passenger transport to the business, this was clearly non-core. Since privatisation, business focus has sharpened further, with the identification of the shareholding in Clear Communications as non-core, and its sale. At the same time, we have added to our core business through the full acquisition of a refrigerated freight business, expansion of pick up, delivery and distribution services, and the introduction of the fast ferry. The differing cultures in such enterprises have helped change the core culture, too.

It is important not to go overboard in assessing the core. Railways are not usually portfolio businesses, though they may look as if they are. The many interrelationships and dependencies between functions must be recognised - eg. the workshops and ferries are not simply nice to have, but integral parts of the business.

### *Importance of Carrying Staff with you*

The staff bear the brunt of much of the change. Equally, the future success depends on productivity improvements and on the staff remaining which help generate them. In our case, politicians stressed that rail's only future lay in a significantly slimmed down organisation - if there weren't fewer jobs, there'd be none. A good severance scheme is thus critical to success.

### *Privatise*

The obvious lesson is to complete the process. To stop at a State Owned Enterprise model is to only do part of the job, and to risk reversion.

Privatisation enables the company to concentrate on commercial goals, to maximise value without direct political concerns. It releases constraints, such as government's risk aversion. It gives freedom to diversity, and to make such decisions quickly. The business can invest or divest as it wishes. An example is the decision to develop a fast ferry service, a decision that was unlikely to have been made so quickly if the processes inherent in government ownership had had to be gone through (see Small (1995)). Acquisitions or divestment in other companies had in our case be notified to the shareholding Minister, if they were over \$100,000 value and constituted 20% of the other company. I imagine it would have been even more difficult under MMP. By the same token, privatisation removes risk from Government.

Appropriate incentivisation can take place. Private companies can make such decisions (and see their benefits) more readily than Governments. Profit sharing and share ownership schemes give staff a stake in the business and align their interests with those of the owners. Similarly a wider group of shareholders can take part in the business through the purchase of shares through public offerings, such as our recent IPO.

And of course, privatisation gives greater access to capital through private sector equity markets. Having Government as a funding source tends to constrain growth somewhat.

### **Similarities with Past Organisational Forms**

I've stressed a number of differences from past models, and identified benefits of changes. But it's worth reflecting on the similarities too.

As we organise the business, there are still clearly discernible functional activities that would have been recognised 50 years ago. The train operation and engineering functions, for example, carry out essentially the same role as before. But overlying them is a "business group" structure that focuses them on business goals. In particular, the freight marketing, terminal operation, and passenger activities are quite different, and reflect the customer focus appropriate to a commercial, competitive organisation.

While we are a business, with commercial goals, the railway is technically oriented, and dependent on its fundamental technology. The trick has been to harness this and give it business direction. In addition, we have added multi-modal elements to round out the offering. The resultant mix gives us a key competitive advantage.

The freight business, unlike some overseas models, still handles a wide range of freight, including less than wagon load consignments. This is partly a result of the scale of the NZ business environment with its thinly spread population and economic activity, and limited bulk haul opportunities, but is also a recognition that, properly handled, a wide diversity of traffics could be profitable. And while the traffics and fundamental technology remain, it would be a mistake to think this reflects little change. Freight handling has radically changed, the service has expanded to include door to door and distribution services, innovative wagons have been built, track has been upgraded, transit times are greatly improved, and service levels improved.

Finally, I reiterate that many positive features of the old culture remain. Staff identify with the business, are loyal to it, and we still have multi-generation employment. Staff still make a lifetime career with the company, though this has been leavened by new blood. And staff are still willing to put a lot of effort and sacrifice into ensuring the operation runs, eg. in times of disruption from weather or other causes.

### **Reform in Other Modes**

Rail reform in New Zealand is total. In 14 years we have been changed from a Government Department to a publicly listed company. A similar pace of reform has taken government out of airline and maritime businesses.

But fundamental reforms are still required in the road sector if the full benefits of reform are to be gained. Apart from the introduction of the weight, distance and axle configuration based Road User Charges nearly 20 years ago, and the freedom to operate

in competition with rail, road transport has not been the subject of major reform. As a result its treatment is different to rail's, to the detriment of the latter.

### *Safety*

A prime example is safety. Safety audit systems are in place for the air and maritime sectors, as well as rail. Its self disciplinary base is an important cost for them. Road transport on the other hand is actively policed, and its compliance depends on the level of resource put into that that policing. What is not observed is got away with. Under the safety audit system the operator is obliged to create a safety system and adhere to it, with the imposition of audits to ensure compliance. Such a system gives no room for avoidance. For example, we are obliged to report "incidents", which are occurrences where no injury occurred, but might have; "near misses". Road transport does not. The provision of roading itself is not subject to any third party safety supervision at all. No one is sanctioned for providing a "dangerous" road. Without the level of supervision we undergo, their costs are lowered. And this is in the context of a much greater risk of death or injury on road than rail.

### *Environmental*

There is growing concern about the high environmental impacts of transport. A recent study of the greenhouse gas emissions, air pollution, noise and water quality impacts of road transport put the annual cost at \$1.4 billion. (Ministry of Transport (1996)).

There is no internalisation of these environmental costs to road transport as yet. Given that such costs are usually acknowledged to be far greater than rail's, this is another area of additional cost to rail and of incomplete reform.

### *Competition*

Structural reform in NZ transport started with the abolition of the 150km limit, directly impacting rail. But competition in other modes has also been freed up. An obvious example is in air transport. More subtly, reform of waterfront labour practices has significantly improved port productivity, and made ports an important competitive force vis a vis land transport. We face important competition from changes in port calls: port reform has made it worthwhile to make multiple calls by overseas ships on the NZ coast, substituting for rail or truck haul to a more limited number of ports. Coastal shipping itself has benefited from port reform, enabling such ships to offer competitive service, especially interisland. The concept has been extended to allowing international shipping to carry local cargo (ie. abolishing cabotage), a practice we believe enables unfair competition with land modes in that it effectively permits domestic use of cheap labour, which we are denied.

### *Organisational*

Road transport firms are conventionally organised businesses, usually limited liability companies, as now is rail. But the roading infrastructure is still organised as a

government operation, a statutory authority, or a local body. In terms of roading, such bodies have no balance sheet, not even a concept of "investment" in a financial sense, make no financial return on the billions poured in, and pay no tax. This is a major imbalance in cost neutrality. If, for example, a return was charged on the investment in roading, the costs of roading would increase by 260%. At present, that amounts to a massive subsidy. The Ministry of Transport has started to reform this area. It has identified for the first time the time costs of roading; and the Transfund legislation has separated the funders from the providers. Much more needs to be done. NZ is not alone, though. Roads are market-based in few places - Ed Burkhardt has referred to them as "the last great Stalinist enterprise"! (*Modern Railways* (1996)).

## Reform in Other Countries

The heavy cost of subsidising Rail in other countries has led them down different reform paths to us. One key difference has been the separation of track from operations overseas. Track authorities have been set up in Sweden and UK, and other mechanisms towards separation are in use in Europe and Australia.

In each case separation has been used as a means for the country concerned to achieve its underlying objectives: it is a means to an end. In almost every case the prime objective is to provide track access in much the same way as road access is provided to all comers. This may be seen as a good thing in a huge market like the UK, but it brings massive co-ordination and regulatory effort. A secondary purpose served by separation in Sweden is that it provides the means of subsidising rail services, so that they can successfully compete with roads. This assumes that a bundled rail service would not be competitive in Sweden. A third purpose in Sweden was to encourage investment in rail transport, which was perceived as having less advantageous conditions than road. Thus Sweden decided to effectively invest in road and rail construction on the same social cost-benefit basis. The track authority, Banverket, you will not be surprised, receives massive subsidies. In the UK, the equivalent Railtrack is not subsidised, but naturally maintains a monopoly over tracks, so that users receive subsidies where required.

It remains to be seen how long lived separation is. I would not be surprised to see the track authority (Banverket or Railtrack) in the future trying to build economies of scale by offering rail services. Already in Sweden there are, in an effort to encourage small operators, suggestions of providing access to marshalling services for third parties on a competitively neutral basis, by Banverket (Swedish Parliament (1995)). Is the next step to provide a locomotive and run "mixed" trains of private wagons for those who do not have the business for a full train? Or organise wagons for those who do not own them? At that point, you have re-invented the integrated railway.

A similar example may be found in Britain. Already market forces have reaggregated much of the freight railway in Britain, with the purchase of 4 firms by Wisconsin Central's consortium. Bus regulation and disaggregation in Britain led to reintegration under private ownership - it may also occur on the passenger railway.

The result of separation might be perverse in the end, as maintained by SJ, the State Owned operator in Sweden, by weakening the rail operators, a view shared by a group of independent researchers from Chalmers University, who showed that the railway's costs increased with separation. They called for reintegration of SJ and Banverket (Bruzelius et al. (1994)). On top of this, there are distinct artificialities about separation. In Sweden for example, there was a division between who swept the snow off the platform and who off the roof.

Separation did not take place in New Zealand, because the underlying conditions which led to separation in other countries did not exist here. As a result, a fundamentally different policy approach was taken. Our reforms in this area were motivated by:

- The wish to maximise the clear transmission of commercial signals throughout the system. It was argued strongly that separation divorced the technically oriented part of the railway from the pressures of the market, which had been successfully countered by the integration within business groups. If reform were to be successful in business terms, market forces had to penetrate into technical areas also. The use of cost-benefit judgments on investment in Sweden has seen investment where the operator did not see the need, and less investment in other areas that the operator thought desirable. In the UK, separation has delayed the introduction of new equipment while operators wait for "safety case" approval - while millions of pounds worth of equipment sits idle;
- The desire to make rail commercially viable without subsidy (which appears not to be a policy goal in Sweden). This makes the Swedish model unsuited to New Zealand and, as with the previous policy goal, led to the conclusion that New Zealand should have a single, integrated, commercially effective operator of both rail track and rail transport services; and
- The recognition that rail faces competition in New Zealand in all its operations. In the United Kingdom the assumption was that some of the transport services offered by rail operators could not be subject to competition, other than from other rail operators. Hence, the rail tracks were to be made available to multiple operators. (Even that is now in doubt, with what are effectively "area franchises" being granted.) In New Zealand, competition for rail comes from many sources, including ships, road and air transport operators. If a customer is not happy with the service or price offered by Tranz Rail, its ready alternative is to use road or (for long distance) coastal shipping. In fact, Tranz Rail shares many customer's business with competitors who provide alternative modes of transport.

In New Zealand, the approach taken was that there was no underlying benefit from separation, and the costs of regulation, inefficient investment and interference in an already competitive transport market made this quite undesirable.

As a result, Tranz Rail owns the tracks, embankments, cuttings and bridges, as well as trains. Our view is that, if we provide a competitive service, we will survive in competition against other modes of transport. If we do not, we will lose business and our

entire viability would be in doubt. This reflects the business trend to let specialists to do what they are good at and compete intensely between themselves.

This is not to say that claims for access to our rails may not arise. We are subject to the Commerce Act like any other business and, accordingly, if we ever get into a position of being dominant in a market, we would be prevented from using that dominance to lessen competition. We would vigorously resist any claim to access, but the claim would inevitably involve complex legal factual and economic issues.

To impose such rights of access, even through the medium of the Commerce Act, would be essentially confiscatory of rights validly sold by the Government and purchased by Tranz Rail. We, however, have no doctrinaire position against third parties negotiating access with us on commercial terms. We already do it with heritage operators. In the case of light rail here in Auckland, such a course is possible.

The prime difference between rail reform here and elsewhere is the fact that NZ has privatised its national railway. Apart from the US, Canada, Japan, Argentina and to a large extent Britain, other countries are well behind in this. It is planned in Germany, but basically only talked of elsewhere.

### **Application of NZ Model Elsewhere**

So, then, is the NZ model exportable? I gave a talk to a conference in Adelaide last year, and, from the tenor of the questions, many feared it was! And I think it is too.

Wisconsin Central, which owns 23% of Tranz Rail, has demonstrated that good management techniques and strategies for railways are indeed applicable internationally, as they are with any business. Wisconsin Central has rail investments (and operating input) in Canada and the United Kingdom as well as US and NZ. It is irrelevant that the "product" of the business is itself not exportable.

Despite the view, born of public ownership, that a country's railway is "special" or unique, the principles are similar. Operating practices in one country can be used in another. It happens both ways between Wisconsin and ourselves. Indeed, it is a benefit of international ownership that best practices from around the world are brought to bear on all a company's operations. The business concepts are equally exportable.

Our specific experience in turning round a narrow gauge, general purpose medium size railway has been in demand too, and we have advised other railways - the state operator in Vietnam, for example.

The obvious case for application of our model lies across the Tasman, where State authorities are still wrestling with reforms. Ironically enough, it may be that the open access policies being followed there give us a ready made route into that market. Or perhaps State Governments will sell their systems?

## Conclusion

Rail reform over the last 10-15 years has been a pronounced success in NZ. From a state where the government actively considered abandoning the system, the railway has been modernized and reformed to a position now of having its shares publicly traded. From a loss making entity to a profitable one; from a drain on the taxpayers to a taxpayer itself, and from a burden on the economy to an creator of economic opportunities through its efficiency, the transformation of rail has been far ranging and complete.

The manner of reform has been different to that in other countries; but it is nevertheless a model that could be followed with benefit by those as yet not so far down the reform path.

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