Selling The Family Tin?

Rail privatisation in New Zealand, in the light of wider railway and network industry experience

Ross Clark
Rail Performance Manager
Transport Scotland
September 2011

Presentation format

- The approach followed for the privatisation
- Its eventual outcome
- The significance of industry structure
- The lessons learnt

The background

- Essentially a freight system with a small passenger operation (unlike Great Britain)
- Extensive market competition, including coastal shipping
- Also included a large truck operation
- Had needed two big refinancings in the dozen years before 1993
  - Complete abandonment was even suggested

What happened – 1

- Privatised as one company, with *no* regulator and *no* freight subsidy
  - Urban passenger services were funded separately, via regional councils
- Significant investment from new owners
- This did grow the company's traffic, if not its profitability

What happened – 2

- Apparent by 2000 that things weren’t working – so the then-owners sold out
- The company went into effective receivership in mid-2003
- Government refinanced the operation, by buying back the track for a nominal sum, and taking on much of the debt.
- The operational side was again onsold, to Australia’s Toll Holdings

What happened – 3

- But, the Government then wanted to make an ‘accounting profit’ on its rescue
- Result? Continuing arguments over track access charges
- Government eventually repurchased the operation (May 2008) – and Toll were more than ready to sell

What happened – 4

- Operation and track have been recombined
- There has been considerable catch-up investment
- But the branch network is under *very* close scrutiny
- So we could still see significant network rationalisation in years to come

The common lessons with GB

- Ultimately, it was about saving money
  - In New Zealand, keen desire to avoid further refinancing demands
  - In Great Britain, thought that subsidy would not be needed in future?
- But little or no acknowledgement in NZ of rail’s strategic importance & benefits
- And no-one had thought through the consequences of failure

The mixed bag of privatisation

- Some examples where it has worked:
  - Auckland and Wellington Airports, BAA plc
  - British Telecom, New Zealand Telecom
  - British ports companies
  - A variety of transport services (eg. Intercity Coach, NZBus)

- So: why in these areas and not in rail?

Two issues to resolve:

- What is the industry's structure, competitive or fixed-cost monopolistic? (most network industries are the latter)
- To what degree is the industry subsidised?
  - And thus, the major issue is any relation-ship between fixed costs and subsidy needs

Market structure and subsidy

Most bus travel in Britain; in NZ, inter-island ferries; intercity coaches, rail (then)	Auckland, Wellington airports; electricity transmission; Airways Corp
New Zealand urban buses; rail operating companies	The GB rail network, New Zealand rail (now), airports in the smaller centres

From subsidy to profit

From competition to network monopoly

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Example: rail in Great Britain

Payment in £m for 2008-09 (passenger rail only)	Fares	Subsidy	Total cost		
Train company costs	6,004	590	6,594		
Network Rail – paid directly		4,266	4,266		
Total	6,004 55 percent	4,856	10,860		

Example: rail in Great Britain

Payment in £m for 2008-09 (passenger rail only)	Fares	Subsidy	Total cost	*Split out:*	
				Network Rail, less freight	Other
Train company costs	6,004	590	6,594	1,533	5,061
Network Rail – paid directly		4,266	4,266	4,266	
Total	6,004 55 percent	4,856	10,860	5,799 53 percent	5,061

The challenge of a subsidy-dependent monopoly (1)

- The underlying issue is the combination of high fixed costs *and* high subsidy
- Private ownership is simply too risky:
  - The high risks of monopoly organisation
  - The high risks of subsidy provision
  - The high risks of regulation
- The lesson: assets like these have to remain in public ownership

The challenge of a subsidy-dependent monopoly (2)

- Essentially, rail *must* be acknowledged as a ‘monopoly supplier’ of the external benefits we get from having freight (or people) on rail
- This was the situation in New Zealand, and why the Government of the time elected to secure those benefits through direct ownership

The separation of wheel and rail

Was this really the issue? Consider:

- Not separated in New Zealand, yet the privatisation still failed
- The separation in the USA seems to manage
- Europe seems to have made it work too
- Aviation is far more fragmented than rail, yet seems to manage as well

Closing thoughts (1)

- Money will always be the issue (there is never enough of it), because …
- Railways are still at the mercy of their own cost structure ….
- … because what people are prepared to *pay* for rail services, is much less than what it costs to *provide* those services

Closing thoughts (2)

The real issues are:

- How much railway do we want?
- How much are we prepared to pay for it?
  and …
- What is the *real* level of benefit that this money will purchase?

Because privatisation really isn’t the issue!

Thank You!