

CHAPTER 4

CASE STUDIES OF CONCESSIONED RAIL SYSTEMS

4.1 Introduction

In this chapter the study investigates railway systems in other parts of the world that have been concessioned. The main aim of this chapter is to find out the rationale for concessioning a rail system. The study also investigates the strategies that were used for the relevant rail systems with a view to learning some lessons from such strategies.

The rail systems that have been selected for this study are in the United Kingdom, in Argentina and Japan. The fundamental reason for selecting the first two countries is that they provide two different models for rail industry structural arrangements, which resulted from the rail restructuring processes undertaken by the governments concerned. The Japanese rail case study differs from the UK and Argentina in that the government-owned rail enterprise was restructured with the ultimate goal of disposing of the shares held by the government in the rail enterprise to the private sector through the stock exchange and not a concessioning per se. The Japanese rail case study may provide insights into future policy debates in as far as alternative mechanisms for involving the private sector in the rail industry are concerned.

This chapter begins with the British Rail case study. A brief background to the British Rail franchising is given. This is followed by the strategy that underlies the British Rail franchising system. The implication of on-track competition and its potential impact on the role players specifically is studied. Secondly, the rail case study of Argentina is investigated. This includes a short background to rail concessioning, the strategy for rail concessioning in Argentina and the outcome of the implementation of rail concessioning. The last case study deals with the Japanese rail privatisation experience. This includes a study of the background to rail privatisation in Japan. This section proceeds with the strategy used for rail

privatisation and the outcome of the implementation of this strategy. At the end conclusions are provided.

4.2 Background to British Rail franchising

The privatisation of British state enterprises is the main principle that has directed political thinking and objectives since 1979 when the Conservative government first came to power. Railway privatisation, however, lagged behind that of the other state enterprises which formed the priority areas of the government privatisation programme. The railways were viewed from the beginning as a politically sensitive activity that needed to be handled with care and that might not win the support of the general public if caution was not exercised. Consequently, in the early years of Conservative rule, that is, the early 80s, railway policy focused on efficiency improvements measured in terms of the operating account (Kopicki & Thompson, 1995: 219).

The privatisation of state enterprises in Britain proceeded rapidly with the sale (presumably in the early 80s) of a number of state enterprises that were seen as the “commanding heights” of the economy, such as the monopoly enterprises of energy, telecommunication and water. The privatisation of these enterprises was politically adjudged a success. As a result, the pace of privatisation also brought the rail industry onto the government’s privatisation agenda (Welsby & Nichols, 1999: 57). The privatisation of the railways in Britain was first raised at a Conservative Party conference in 1987 (Kopicki & Thompson, 1995: 219). A commitment to rail privatisation, however, came only in 1992 with the Conservative Party manifesto. The manifesto clearly identified the break up of British Rail as the way in which it should be restructured (Welsby & Nichols, 1999: 59).

In Britain the policy of privatisation of state enterprises mainly resulted from the widely held belief that these enterprises were inefficient and that they generally suffered from underinvestment with the result that the privatisation policy offered an opportunity to raise capital from their sale as well as an opportunity to transfer their

future investment needs into the hands of the private sector. It was believed that such enterprises could, in the end, improve their performance through a mixture of regulatory pressure and competition (Welsby & Nichols, 1999: 57–58).

4.3 Strategy underlying the structural reform of British Rail

The distinction that can be made between the railway and other state enterprises is that railway products (services) are not homogenous. Rail transport has highly competitive substitutes, many of which have less or no economic regulation. These substitutes give rise to distortions because of their tax treatment. The argument here is that rail travel has few of the monopolistic characteristics that enable the service provider to extract monopoly profits from users because of intermodal competition from other modes like road-based modes. As a result, in order to survive, the rail service provider has to rely on substantial and continuing subsidies from government. The late arrival of rail transport on the privatisation agenda in Britain meant that the experience gained in regulating the other utilities that were privatised before rail was considered and taken into account in the rail restructuring process. In the case of rail transport, the regulator was put in place well before the transfer of operations to the private sector and the regulator also played an important role in the development of rail industry arrangements. By playing a part in developing the structural arrangements of the rail industry, the regulator also acquired the necessary knowledge of the rail industry (Bradshaw, 1997: 93).

Railway legislation of 1993 stipulated, among other things, that competition had to play a critical role in bringing about railway efficiency (Bradshaw, 1997: 95). The main aims of railway privatisation were to make better use of railways, to ensure that rail responded to customer needs, to improve the quality of rail services and to obtain value for money in the provision of rail services. To achieve these aims, railway privatisation had four main elements: the railway activities that were to be privatised; the railway activities that were to be franchised; the railway activities that were to be incentivised at first within the public sector and later to be privatised; and the railway activities that were to be retained within the framework of the

government. These elements largely formed the strategy for rail industry restructuring in the UK (Preston, 1996: 2).

4.3.1 The railway activities that were to be privatised

Before restructuring, Britain's railway system was operated as a single, vertically integrated business that included track maintenance, train operations both for the passenger and the freight services and many other supporting services. In 1993/94, some of the physical attributes of Britain's rail system included a rail network covering 23 450 track miles, locomotives comprising 1 625 diesel and 260 electric, 11 802 coaches, 13 871 freight cars and 2 553 stations (Kopicki & Thompson, 1995: 213–217). The figures provided here show the immensity of the system operated by British Rail.

According to Preston (1996: 2), bulk freight was restructured into three regional companies. The three companies, into which Train Load Freight had been divided before, included Wisconsin Central, which is currently trading as English Welsh and Scottish Railways. During the sale process, Wisconsin convinced the government that rail was in a weak position in the freight commodity market and in markets dominated by road transport. In the end this was accepted by the government. Effectively this meant that the Train Load Freight regional companies were sold to the private sector (Bradshaw, 1997: 100). Three rolling stock leasing companies (ROSCOs) were established. The ROSCOs were assigned all domestic passenger trains, which would be leased to the train operating companies. The ROSCOs were further made responsible for purchasing new trains when needed and also had to undertake heavy maintenance of the trains (Preston, 1996: 2). With this arrangement one would expect the ROSCOs to be responsible for efficiency gains by competing against one another and by being responsible for investments in the rolling stock (Foster, 1994: 9). According to Preston (1996: 2) the ROSCOs were ultimately offered for sale to the private sector. By allocating the passenger rolling stock to the ROSCOs the barrier to entry for potential entrants in the rail industry was removed. Furthermore, many other rail companies were established like the infrastructure

companies (ISCOs) (Preston, 1996: 2–3). These companies were also in the long run to be offered for sale and were also expected to compete with other private sector companies for the rail work. According to Foster (1994: 11), 14 ISCOs were established and efficiency gains were expected to result from the contracts that they had to compete for. Such contracts would include clear specifications of standards. The sale of these business units is estimated to have raised more than £4.5 billion for the British Treasury (Preston et al., 2000: 99).

4.3.2 Railway activities to be franchised

The instrument that was to be used for the privatisation of the rail passenger business was the franchise. Twenty-five train operating companies (TOCs) were established as shadow companies and they formed the basis for franchising rail passenger units. The TOCs would firstly, operate and market passenger services; secondly, employ train drivers and those who would sell tickets and man stations; and thirdly, undertake routine maintenance on trains. The TOCs would own very few of the assets and rolling stock. They would lease the rolling stock from the ROSCOs and would purchase infrastructure access rights from Railtrack, which was made the rail track owner (Welsby & Nichols, 1999: 61).

The arguments that were raised for franchising passenger services rather than selling them involved, firstly, the view that passenger services were more likely to be local monopolies than the ROSCOs and that the services provided by the TOCs were concentrated in both space and time. During peak periods capacity (rail track capacity) may be too limited to permit entry for other operators. Secondly, passenger services consisted of both profitable and unprofitable services and it was not possible to unbundle such services. As a result, franchising was thought to be the safest option. At the end of the franchising round, the authorities would be able to determine which services were profitable and which were not through the resultant improved costing (Preston, 1996: 3). The adoption of franchising in Britain as an instrument for privatising the passenger rail services had three main attractions. Firstly, franchising opened the door to competition for the rail market.

The franchising of services through a competitive tendering process offered a market test for private operators that could be expected to incentivise such operators to achieve high quality of services and value for money for public subsidies. Secondly, franchising offered protection for passengers and the taxpayers' interests and resolved the problem of putting a subsidy regime in place after privatisation. Subsidy could be committed for the period of franchise without committing the government forever. In other words, where passenger services are sold to private operators, because of the social obligation, a government subsidy would be required forever by the private operators concerned and franchising of passenger services avoided this. Thirdly, franchising enabled the privatisation of passenger railway to proceed progressively. This would enable policy change to proceed carefully during the early phases of implementation (Kopicki & Thompson, 1995: 228).

Consultation with potential franchise operators showed that they preferred to bid for a franchise that would run for a long period. The government aim, however, included the reduction of the subsidy bill through competition between the bidders and the threat of a winning bidder subsequently losing at the rebidding stage if the franchised operator performed badly during the first round of the franchise. A trade-off needed to be made here between a long- and a short-period franchise in that the longer the franchise period, the greater is the opportunity for the franchise operator to create barriers to entry that could prevent competition when the franchise period expires. As a result, the government was keen to keep the franchise period short. The challenge here is that while the short franchise period maintains competitive pressure on the franchised operator to be efficient and also prevents franchisees from discouraging new entrants, it distorts business behaviour as business planning is limited by time. This may reduce the incentives for franchisees to develop the rail business especially during later years of the contract. The need to maintain competitive pressure through short rail franchise periods and the need to develop the business create a potential problem for which there is no clear-cut solution (Welsby & Nichols, 1999: 65).

In terms of the resulting rail organisational arrangements, the franchisees, that is, the

TOCs, own very few assets. At the time of the marketing of franchises, the proposal that was put to the bidders was to operate over part of the rail network in return for the government subsidy or the payment of the premium. The problem that emerged, however, was to ensure that franchisees (TOCs) were given incentives that would encourage them to manage their operations in an appropriate way. To prevent the franchisees from merely appropriating rents from the operations, a considerable time was expended on designing the service specifications and incorporating them into the agreement. The service specifications included, firstly, the minimum service requirements. However, the operators were also given the latitude to provide additional services over and above the minimum service requirements. Secondly, controls such as the punctuality of trains, the level of cancellation of trains, the level of crowding in trains and the requirements for customer surveys were included in the agreements. The minimum service requirements were enforced through a financial penalty system by means of which the operator is penalised when minimum service standards are not met or rewarded when service standards are exceeded. Furthermore, restrictions were put on increases in fares; these could be raised by no more than the Retail Price Index (RPI) for a three-year period and by RPI minus one percent thereafter (Welsby & Nichols, 1999: 65–66).

4.3.3 Railway activities that were incentivised first within the public sector and later privatised

The rail infrastructure, such as the rail tracks and the signalling systems, was made the responsibility of the government-owned company, Railtrack. Railtrack was recognised as a natural monopoly because of its scale and operational economies. By allowing rail infrastructure to split from train operations, the condition for the contestable market—mentioned earlier in section 2.7 of Chapter 2—was created by, for instance, eliminating the barriers associated with the sunk costs of rail infrastructure. Railtrack was to be given incentives by setting a rate of return on assets at 5.1 percent, which would eventually be increased, and by the introduction of a management bonus and regulatory control through the RPI-X price cap. Independent station companies were established, which were to develop commercial

trading opportunities and property (Preston, 1996: 3–4).

The question might be asked why Railtrack was not split into parts (Foster, 1994: 20). Foster points out that it is difficult to see how the horizontal break up of Railtrack would have increased efficiency since it would have created local monopolies to replace the national one. The economic argument for any break up that does not involve an increase in competition is that there are economies of scale to be gained. Furthermore, the oft-asked question is how a public enterprise can be privatised if it is to continue to be subsidised as was done with Railtrack. In answering this question Foster points out that there are many private firms that are either wholly or almost wholly dependent on government as a purchaser of such a firm's products, such as arms manufacturers, the aerospace industry and so forth. Railtrack is in a better position compared with such firms because subsidy is paid to the franchisees, which in turn have to pay access for rail paths to Railtrack. Furthermore, where Railtrack is expected to invest in subsidised services it would need to be agreed with the Treasury before privatisation to cover such public policy risks. As a result the concerns that arise in connection with the government being directly or indirectly the contributor to the purchase of rail services are incorrect (Forster, 1994: 22–23).

Railtrack shares were sold in 1996 by means of a public share offer (Welsby & Nichols, 1999: 68). At present, however, all is not well with Railtrack and the government is in the process of declaring the company bankrupt (*The Economist*, 2001: 39). This shows that the privatisation of infrastructure such as rail track, as was done in Britain, might not be the appropriate policy to emulate.

4.3.4 Rail activities to be retained within the framework of government

Two major institutions were created and retained within the government framework and these are the Office of Passenger Rail Franchising (OPRAF), which is led by the Franchising Director, and the second is the Office of the Rail Regulator (ORR). The OPRAF was made responsible for firstly, the running of franchises; secondly,

putting out information and arranging contracts with other parties like the ROSCOs for the rolling stock and access to rail tracks by rail franchisees; and thirdly, overseeing the contract negotiation process, selecting the winning bidders and monitoring the rail operators. As the OPRAF is responsible for the payment of rail subsidies to rail operators, its principal interest is, among others, to obtain value for money for the taxpayers (Preston, 1996: 4).

The Office of the Rail Regulator aims to, firstly protect rail users, secondly, promote rail use and the development of the railway, thirdly, foster efficiency and competition and fourthly, facilitate through ticketing and other rail network benefits. There was, however, a major debate concerning the consistency of the OPRAF's aims and those of the ORR. For example, if the major aim of the OPRAF is to secure value for money for the taxpayers and ORR's main aim is to promote competition there was likely to be conflict between the two. The ORR's task is to consider applications for rail licences; approve rail access agreements and prices; and protect users' interest (Preston, 1996: 4). From this it can be deduced that the ORR is concerned mainly with the economic regulation of rail.

The OPRAF was replaced by the Strategic Rail Authority (SRA), which will have more control over train operators and will also be responsible for coming up with a long-term development plan for Britain's railways. Competition, however, remains a key government rail strategy in the form of the redefined franchising programme (Shaw, 2001: 199).

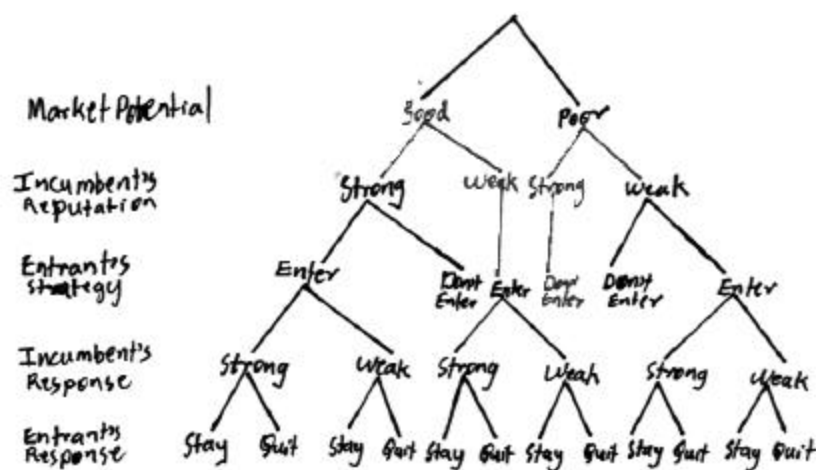
4.4 Potential impacts of on-track competition.

Shaw (2001: 195-197) mention that the rail franchising process was completed in 1997 and generally the process was successful. All 25 franchises were disposed of within a period of 14 months and effective competition for rail franchises was generated between the bidders; substantial benefits for the consumers in the form of subsidy reduction and new investment were realised. Although user benefits and efficiency gains are evident, there are still concerns over key areas such as operator

performance, investment and safety. Jones (2000: 372) mention that rail in Britain experienced many years of demand stagnation and slow growth in traffic but since 1994, when rail was restructured and franchised, there has been a sustained increase rail passenger volume and revenue. The increase in passenger rail demand can, however, be attributed to firstly, an increase in real costs of using a car and, secondly, the deterioration in the quality of road service. There is also some evidence that links the improved performance of rail operators to the introduction of on-rail competition. Comparing the change in service frequencies and fares for a sample of competitive flows since the time of privatisation, Jones has found that the presence of on-rail competition led to lower than average increase in nominal fares and higher average increase in train service frequencies. The said briefly summarises the outcome of rail passenger rail franchising in the UK.

Preston, Whelan and Wardman (1999: 78) use a game theoretic framework to analyse the potential for on-track competition. Figure 4.1 below depicts this framework and the overall approach is based on the decision tree structure which will be explained in more detail in the next sections.

Figure 4.1: A schematic representation of competitive response and dynamics



Source: Preston, Whelan & Wardman (1999: 78)

4.4.1 Market potential

When assessing market potential, five factors that determine the industry structure need to be considered. These are the threat of substitutes; the threat of new entrants; the bargaining power of providers; the bargaining power of the buyers; and the intensity of the rivalry between the competitors. Should any of these factors be present in sufficient measure, monopoly profits will not be sustained because of the effects of actual or potential competition. In terms of Figure 4.1, the presence of the factors just mentioned when assessing the opportunity to enter the market would mean that the chances of surviving in such a market are poor, while they would be good in their absence. In the case of rail, the threat of substitutes like cars, buses and the bargaining power of the suppliers such as Railtrack and the ROSCOs in the UK, is high. The bargaining power of users is, however, low. This means that the potential for on-track competition is mixed and that there are markets that may attract entry in the UK. Since the Regulator limited on-track competition to areas where franchises overlapped and where franchises served the same destinations by different routes in the UK up to 1999, competition is possible in some rail services. The second stage for the moderation of rail competition was from 1999 to 2000 and it was likely to have important effects. According to Figure 4.1, competition is likely to generate strategic behaviour between the competitors and the resultant dynamics are likely to affect the outcomes (Preston, et al., 1999: 78–79).

4.4.2 Incumbent strategies

It is necessary to note that the British Railways Act of 1993 offered the possibility for open access competition. Open access was, however, moderated by the ORR to allow initial rail franchising. The moderation of competition was envisaged to have three stages. Firstly, the TOCs (franchised operators) were to nominate traffic flows that contribute more than 0.2 percent of revenue to be exempted from competition. In the second stage, it was envisaged that nomination of traffic would be done with open access competition allowed to a maximum of 20 percent of nominated flows. In the last stage, the implementation of open access competition was expected to

involve further relaxation of the restrictions on open access competition. This stage was expected to commence in April 2002 (Preston, et al., 1999: 77). The concept of “incumbent” is therefore understood to refer to the franchised passenger operator or existing private operators in the case of rail freight.

In terms of the framework mentioned in Figure 4.1, assuming that the new entrant decides to enter the market, the strength of the incumbent will play an important role. The strength of the incumbent will be related to its cost efficiencies and other general strategies such as focus and service differentiation. Additional incumbent strategies include its reputation as well as blockage to entry. Where the incumbent adopts blockage strategy, it can for instance move from an hourly train service schedule to a half-hourly service frequency to reduce timetable gaps that an entrant may start to exploit. Such entry blockades in Britain were experienced in the bus industry at the time of deregulation. Where the incumbent adopts a predatory strategy, it may incur unnecessary expenses on predatory battles to develop its fighting response reputation (1999: 80). Unnecessary expense here means that the incumbent may introduce fares that are below the actual costs for the provision of services and the fares of the entrant. By so doing, as fares would be below the fares of the entrant, the customers would be attracted to the services of the incumbent.

4.4.3 Entrant strategies

Assuming that the entrant has decided to enter the market, he has a number of strategies to choose from, such as, cream-skimming, also known as cherry-picking; head-on competition without price competition; head-on competition with price competition; product differentiation; and niche market entry (Preston et al., 1999: 80).

In a situation where the entrant chooses a cream-skimming strategy, he focuses on profitable routes only. In analysing simulated results for this strategy, Preston et al. mention that the market shows an overall welfare loss in most scenarios. The welfare loss is the result of heavy losses by the incumbent and it indicates that the

market is inelastic to service frequency and fares (1999: 86–87).

Where the entrant adopts head-on competition without price competition strategy, the entrant merely matches the services that are supplied by the incumbent. An analysis simulated by Preston et al. (1999: 87) for this strategy shows that the entrant will have to rely on fare reductions to attract users from the existing services provided by the incumbent in order to make a profit. In responding to this strategy, the incumbent is likely to reduce fares as well. This will result in the incumbent ultimately losing profits. Although this form of competition results in welfare loss as a result of the incumbent's loss of profits, the increase in service frequencies and the reduction in fares will be beneficial to the users. Head-on competition with price competition will, however, be unsustainable and may result in price wars between the incumbent and the entrant.

In a situation where the entrant chooses head-on competition with a price competition strategy, the fare reductions by the entrant may be profitable if they are not matched by fare reductions from the incumbent (Preston et al., 1999: 80). The entrant can only make a profit when it reduces the fares by a significant proportion compared to the incumbent and where tickets are inter-available between the two. To respond to head-on competition with a price competition strategy, the incumbent only needs to match the prices of the entrant or withdraw tickets that are inter-available. The adoption of head-on competition with price competition strategy by the entrant is unsustainable and is likely to drive such an entrant out of the market. Price wars result in a loss of welfare although the users benefit from such wars (Preston et al., 1999: 87).

Preston et al. (1999: 80) mention that in as far as product differentiation is concerned, they were hampered by the unavailability of data to analyse this strategy. In Britain this form of competition has already occurred on some rail routes in the form of discounts on group travel, loyalty bonuses and improved marketing through the Internet etc (1999: 88).

In some cases the entrant might focus on a niche market. This type of entry involves satisfying marginal needs that are not met by the incumbent. Such needs may result from, firstly, the fact that they do not form the core business of the incumbent, secondly, the management difficulties experienced by the incumbent to service them and thirdly, the fact that to satisfy such needs may be unprofitable for the incumbent. The adoption of niche market entry strategy by the entrant may not attract a retaliatory response from the incumbent. In the case of rail, niche market entry may involve the provision of direct services between areas that have previously not had such services (Preston et.al., 1999: 87).

4.4.4 Incumbent's response

The incumbent is likely to respond to all the strategies that are adopted by the entrant when entering the market, except in a situation where the entrant adopts a niche market entry strategy. In response to other strategies adopted by the entrant, the incumbent is likely to "fight" back entry fiercely and this is likely to be in the area of price competition. In long-term competitive battles, however, there is likely to be service competition as well. Service competition here involves the differentiation of such services. The emphasis on price competition in the short run may mean that competition in the passenger rail industry is more similar to that seen in air transport and express bus services than that experienced in the local commuter bus industry. Predatory behaviour in the form of excessive fare cuts and service expansion is also likely (Preston et al., 1999: 81).

4.4.5 Entrant's response

According to Preston et al (1999: 82), a key factor in determining competitive battles is the financial strength of the competing operators. If the operator has a deep purse, it is likely to win. The size of each competitor's purse is also likely to determine the length of the competitive battle. In a situation where the incumbent agrees to the entry it is likely that the entrant will stay in the market except in a situation where the entrant adopted the wrong strategy for entering the market in the

first place.

4.5 Argentine rail reform

4.5.1 Background

In 1990, the national railway of Argentina, Ferrocarriles Argentinos (FA) operated 30 000 kilometres of rail track and was the largest railroad in Latin America and the sixth largest in the world after railroads in countries like China, France, India, the former USSR and the United States of America. FA employed 92 000 workers and was the largest employer in Argentina. FA workers were highly unionised (Ramamurti, 1997: 1976).

FA was vertically integrated and it undertook functions such as construction, maintenance, operation, marketing and real estate. In addition, it offered services for freight, intercity passengers and suburban passenger transport services in Buenos Aires city. FA's wage bill alone exceeded its total revenue. As an example, FA total expenses were US\$1 145 million in 1986 and this was four times its total revenue of US\$289 million. FA's losses were subsidised by the government and such subsidies averaged US\$829 million per year in the period 1980–1988 (Ramamurti 1997: 1977).

FA's losses represented a major drain on the resources of the National Treasury and were the main motivation for reform. The problems experienced by FA could be attributed to a lack of commercial focus; a lack of own resources, a loss of market share and large deficits (Estache, 1996: 12).

The lack of commercial focus of FA was typical of any large national railway enterprise. FA had no clear commercial strategy and managers were mainly concerned with production targets to the exclusion of satisfying the user's needs. As the workers were highly unionised, they were able to influence the decisions of the managers. The lack of commercial orientation resulted in FA being unable to generate sufficient funds to maintain and improve its rail network. This lack of own

funds further contributed to the deterioration of rail tracks and equipment and by 1990 54 percent of the FA rail network was either in bad or fair condition and only 49 percent of total rolling stock was available for service (Estache, 1996: 12-13).

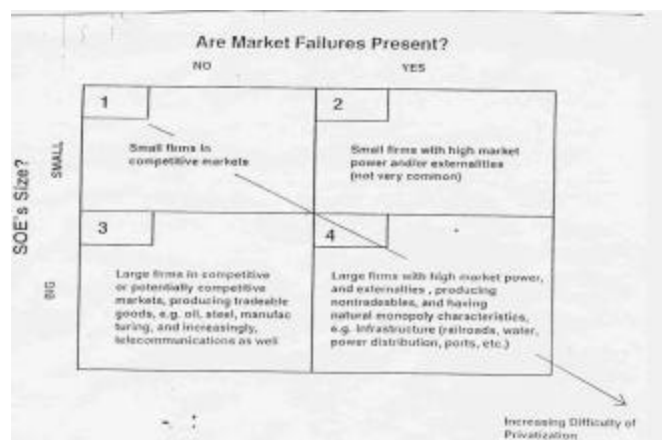
A loss of market share was experienced in both the freight and the passenger market by FA. Between 1965 and 1990, passenger and ton kilometres declined by 39 percent. Freight services were more severely affected with a decline of 50 percent in traffic and the passenger market fell to 8 percent between 1970 and 1989 (Estache, 1996: 13).

As already mentioned, the deficit that was accrued by FA was very high. In Argentina privatisation became an important element of the strategy to ending hyperinflation and reversing long-term economic decline. Rail privatisation became a priority because of the demand it placed on the government out of control budget. As a result of the problems experienced by FA, the government of Argentina came up with a strategy to reform FA. This strategy involved first, separating FA into main three businesses, that is, freight, intercity rail passenger services (long distance rail services) and suburban passenger services (commuter rail services); second, breaking up each business into six or seven parts geographically and concessioning each part separately; third, adopting different approaches to concession each type of service, fourth, concessioning, rather than selling FA assets to the private concessionaires for periods of 10 to 30 years, fifth, closing down parts of FA's system and transferring other parts to the provincial governments and placing the rest in a new state enterprise pending eventual privatisation, sixth, including the Buenos Aires subway system (underground passenger rail) in the assets to be concessioned and seventh, taking the first step towards creating the new regulatory institutions for the railroads. At the end of this process, FA itself was reduced to a shell of a corporation with less than one percent of its original workforce and was made a custodian of the assets concessioned to the private sector (Ramamurti, 1997: 1978).

4.5.2 Argentine rail strategy

In analysing the rail strategy for Argentina, Ramamurti (1997: 1976) uses Figure 4.2 as shown below, which is associated with the difficulty of privatising state enterprises. The size and the market failure dimensions, as shown in Figure 4.2, of state enterprises that were privatised prior to 1988 differ from the state enterprises privatised after that year. According to Ramamurti, most developing countries firstly privatise enterprises that can be located in the first quadrant of Figure 4.2. These enterprises are characterised by very little or no market failure as well as by their small size.

Figure 4.2: Dimensions of privatisation difficulty



Source: Ramamurti (1997: 1976)

In the next phase of privatisation, developing countries privatised the enterprises that are located in quadrants 3 and 4 of Figure 4.2. Enterprises with few market failure problems like oil, steel, telecommunications etc, which operate in competitive or potentially competitive markets, are privatised. These enterprises are located in quadrant 3 of Figure 4.2. When these enterprises have been privatised, large state enterprises with major market failure like the infrastructure sector, which is located in quadrant 4 of Figure 4.2, are privatised. According to Ramamurti, the

underlying argument of Figure 4.2, is the “ease of privatisation, the likely benefits from that policy, decreases as the firm size and market failures increase” (1997: 1975). This is indicated by the arrow that slopes down from left to right in Figure 4.2 showing the increasing difficulty of privatisation.

Within each quadrant of Figure 4.2, further distinction can be made between enterprises that can be called “plums” and those that can be termed “lemons”. State enterprises that can be called plums are attractive to private investor and lemons are state enterprises that have a stagnant demand or such enterprises experience a declining market demand and have poor prospects for profit. The railroads generally fall into quadrant 4 of Figure 4.2 because they are in most cases the largest enterprises in the country concerned and rail track is a monopoly. Furthermore, rail transport is non-tradeable and it produces important externalities like, firstly, the opening up of distance regions to commerce and development; secondly, helping to integrate different parts of the country; thirdly, facilitating the movement of troops and armaments in times of war; and fourthly, in the case of commuter rail transport it reduces traffic congestion in urban areas. In the case of Argentina, FA’s positive externalities included the role that rail plays in integrating remote parts of the large country with the capital city of Buenos Aires. Furthermore, the rail commuter services provided by FA in the greater Buenos Aires region helps to limit congestion, air pollution and noise. Railroads are closer to being lemons in that their markets are declining, which was the case in Argentina as was mentioned earlier. In analysing the Argentine rail strategy, the focus will be on how the government overcame the three obstacles to railroad privatisation namely the size-related issues, market failure and its limited appeal to private sector investors (Ramamurti, 1997: 1976–1978).

4.5.2.1 Size-related issues

These issues are, firstly, confronting the labour unions and, secondly, the lowering of capital barriers to entry in the rail industry.

(i) Confronting the unions

The greatest obstacle to FA privatisation was the objection of the strong unions that represented the FA workers. Prior to restructuring, these unions had derailed even modest plans to reform FA. The resulting macro-economic crisis experienced in Argentina in the late 80s coupled with hyperinflation made railroads appear first on the government agenda for privatising state enterprises. Thus rail privatisation in Argentina negates the explanation contained in Figure 4.2 that developing countries started the privatisation process by first privatising enterprises that are located in the first quadrant and later enterprises that are located in quadrants three and four. Subsidies and grants paid to FA made up 9 percent of the government budget and 1 percent of the Argentine's gross domestic product (GDP). The issues concerning the size (very large) of the FA became the reason for privatising it first rather than the reason for not to being privatised. The unions objected vehemently to the plan to restructure FA, but there was a political will as the government held firm to its decision and, in the end, an agreement was reached with the unions. This agreement included, among other things, that the redundant workers could be retrenched in exchange for one month's salary for each year of service completed (Ramamurti, 1997: 1978).

To take forward the agreement reached with the labour unions, the initial reductions were effected through a voluntary retirement programme. Legislation for reform in Argentina was also passed and it was mandated that the railways could only be privatised through a concession and could not be sold outright (Kopicki & Thompson, 1995: 146).

(ii) Lowering capital barriers

The government's rail reform strategy also involved the break up of FA into monopoly franchises that combined track and service operations (Carbajo & Estache, 1996: unspecified). According to Ramamurti (1997: 1979), this was done to put FA within the financial reach of private investors, especially Argentine

investors. At the same time, the government allowed investors to pick up the FA franchises that fitted best with their competencies, interests and business strategies.

The freight services were mainly partitioned into subnetworks but not exclusively according to geographical criteria. The freight network was specifically divided into six parts and each part was then concessioned to the private sector (Estache, Carbajo & de Rus, 1999: 8). According to Carbajo and Estache (1996: unspecified), the freight sections were vertically integrated and each was concessioned for a period of 30 years with the option to extend the concession term for another 10 years. Freight concessionaires were made responsible for all operations, maintenance and the investment programme that the concessionaires proposed in their bidding documents. The infrastructure remained the property of government. As a result, private operators were required to pay the government a fee for using the infrastructure and rent for using the rolling stock. Freight concessionaires could offer intercity passenger services, but were required to allow other rail passenger operators access to their tracks in exchange for the access fees paid by such rail passenger operators. Since the freight tariffs were deregulated, freight concessionaires were required to file the maximum tariffs they would charge with the regulator.

The commuter rail services and the Buenos Aires underground passenger rail services followed the unbundling model that was set by rail freight. Seven suburban railway concessions were identified according to the network that existed. The length of the commuter rail concessions was set at 10 years and 20 for the Buenos Aires underground services (Estache et al., 1999: 7).

The model for the concessioning of commuter rail networks, although similar to freight, differed in two important areas. Firstly, the freight concessionaires were expected to make a profit and the commuter concessionaires needed public subsidies to continue the operations, rehabilitate and invest in the commuter systems. As a result, for each commuter rail line, the government identified the type and the amount of investment needed and the private concessionaires were expected to

undertake such investment. The regulator would set the maximum fare for the use of the passenger services with automatic fare increases as the quality of service rose. Secondly, concessions for the commuter and underground rail were awarded on the basis of a single criterion, this was the lowest subsidy required to operate the concession and to undertake the investment specified in the government programme. The freight concessions had a complicated set of weights attached to the criteria that were used to select the winning bidder. These included the experience of operators, an investment plan, employment pledges, local investor participation, fees and rents, as well as access tolls. The method that was used to evaluate the bids for a commuter concession was simpler and more transparent (Carbajo & Estache, 1996: unspecified).

The Argentine rail strategy overcame capital barriers by breaking up the FA, concessioning assets and, in the case of commuter services, by financing operating deficits and capital improvements with subsidies (Ramamurti, 1997: 1979).

4.5.2.2 Market failure and regulation issues

The market failure and regulation issues that Argentina rail strategy addressed are firstly, the decentralisation of subsidy decisions, secondly, creating competition for subsidised rail services and, thirdly, creating rail regulatory institutions.

(i) Decentralisation of subsidy decisions

The viability study that was undertaken prior to rail concessioning concluded that the intercity (long distance) passenger service was commercially profitable in one corridor only. As a result of low traffic levels on the intercity rail services (long distance), the government decided not to subsidise them any longer. The government offered the provinces through which the intercity passenger services were operated the option of continuing to provide such services at their own expense (Carbajo & Estache, 1996: unspecified).

The Federal Government of Argentina recognised the positive externalities generated by the intercity rail services, such as providing rail services to remote areas of the country and helping to integrate such areas with the major urban area of Buenos Aires, and offered provinces branch lines and equipment at no cost to operate them. Faced with this choice, only four provinces chose to subsidise intercity rail passenger services and more than 70 percent of intercity trains were cancelled. The principle that is revealed here is that subsidy decisions can best be made by the parties that capture the positive externalities generated by subsidies rather than the federal authority. When the intercity services were put to this test, most intercity passenger services that were provided by the FA and subsidised by the federal government could not qualify for subsidies (Ramamurti, 1997: 1979).

(ii) Creating competition for subsidised rail services

The federal authority of Argentina decided to continue to subsidise commuter rail services and the Buenos Aires underground services rather than raising their fares to cover the variable costs. The raising of fares would have discouraged rail use and would have worsened traffic congestion and pollution in Buenos Aires. After considering various alternatives, the government decided that the commuter rail services and the underground rail system needed to be privatised by creating competition for subsidies through a concessioning mechanism. By concessioning the rail services, the government was no longer providing such services but continued to regulate them (Ramamurti, 1997: 1980–1981).

(iii) Residual regulation and regulatory institutions

After concessioning the rail services, the government was left with the important task of protecting small users from exploitation by private concessionaires. Consequently, freight concessionaires were required to file the maximum freight rates with the government. In addition, freight concessionaires were not allowed to discriminate against the users and were not allowed to close the services on any route without government permission (Ramamurti, 1997: 1981).

In the case of commuter services and the Buenos Aires underground the government would monitor the quality of services, routes and fares and also supervise the implementation of capital investment identified by the authorities. To discharge these functions the government planned to create economic regulatory institutions; one to regulate the national railroads, another to regulate public transport in the Buenos Aires region and a third to focus on rail safety issues (Ramamurti, 1997: 1981).

4.5.2.3 Making rail attractive to investors

The government turned FA into a much better proposition for private investors by, firstly, being firm with the FA workers' unions in continuing with its strategy, secondly, taking responsibility for downsizing the FA workforce, thirdly, splitting FA into smaller parts to reduce the costs of entry into the rail industry for investors and, fourthly, by concessioning rather than selling FA assets. In looking back at the investors who won the concessions in the case of freight, many were former customers of FA. In the case of commuter rail and the Buenos Aires underground, many investors were either past or prospective suppliers of equipment and services to FA. Concessioning gave these investors an opportunity to integrate their business with rail. Most investors were construction consortia and this shows that many viewed concessioning as a means of obtaining contracts for rehabilitating and modernising the railroads (Ramamurti, 1997: 1982).

4.5.3 Outcomes

The outcome of Argentine rail reform can be evaluated in terms of the impact of reform on workers and labour productivity, impacts on the budget and the taxpayers, impacts on the consumers and impacts on the investors (Ramamurti, 1997: 1984).

According to the framework provided, the FA workers were the main losers. The reduction in the FA workforce was greater because of the concessioning of rail service provision to private operators. If one asks whether or not such labour

reduction could have been achieved by a government enterprise like FA, one realises that such labour reductions, even if they had been achievable by FA, would not have been sustained. In other words, political pressure on management would have eventually resulted in the absorption of more labour. Furthermore, the changes in labour contracts and work rules would not have occurred without rail concessioning (Ramamurti, 1997: 1984).

The outcome in as far as the budget and the taxpayers are concerned is that no subsidies were paid to the freight concessionaires. The total operating subsidy that was paid to the commuter rail and the Buenos Aires subway systems reduced to US\$140 million. The net annual operating subsidy paid to rail services by all levels of government in 1994-95 was estimated at US\$650-700 million less than in the 80s. Reductions in the labour costs accounted for the major part of savings. Savings were obtained from fewer fare evasions, higher volumes carried in freight as well as passenger services, non-labour operating costs saved by closing down some parts of the FA network and other savings resulting from the efficiencies of the private operators. The results of capital investments are not yet ready to be assessed (Ramamurti, 1997: 1986).

The users of rail benefited from expanded rail services, lower prices and better quality of service. Commuters benefited from fewer train cancellations and greater punctuality. Most of the users interviewed in 1995 indicated that the rail service was good or better than before especially in the case of commuters. The losers among the users were fare evaders who contributed additional revenue per year to the commuter business (Ramamurti, 1997: 1988).

In as far as investors are concerned, in 1995 two of the freight concessionaires reported exceeding profit projections, two were below projections but were breaking even and the fifth reported to be running at a loss. In the case of commuter concessions, they reported to be doing better. Passenger volumes were reported to have increased by between 25 and 35 percent (Ramamurti, 1997: 1988).

4.6 Privatisation of Japanese National Railways

4.6.1 Background

Both developed and developing countries struggle with the restructuring of state enterprises with a view to reducing government subsidies and to improving the overall efficiency of state enterprises. In Japan three major state enterprises, including the Japanese National Railways (JNR), were restructured in the mid 80s. JNR provides an interesting case because firstly, while the other state enterprises were operating profitably, JNR was bankrupt and had huge debts, secondly, an acrimonious relationship between the management of JNR and the labour unions had developed over time and this relationship was the root of JNR's problems and, thirdly, if JNR productivity and profitability were to improve it would require drastic reductions in the labour force (Watanabe, 1994: 89).

The JNR was a public corporation run by a board of directors. JNR's budget had to be submitted to parliament for approval through the Minister of Transport. This shows that the JNR as a public entity was subject to the external political influence that characterises government entities (Fukui, 1992: 6-7).

The distinguishing feature of the Japanese urban rail system at that time was that private companies operated and owned some of the rail system. In the urban rail market, the JNR therefore competed with private operators. The JNR, however, incurred financial deficits and required subsidies to enable it to operate while the privately owned rail operators were profitable and did not require any government subsidy. This contributed to the privatisation of the JNR in 1987 (Mizutani, 1994: 1).

The railways in Japan maintained a dominant position after the Second World War in land transport. As a result of the construction of new roads, airports and harbours, as well as the improvement in the performance of cars, the competitiveness of the railways declined in Japan (Fukui, 1992: 5). According to Watanabe (1994: 90), JNR's market share of passenger traffic declined from 58.9 percent in 1950 to 24.7

percent in 1980 and freight traffic reduced from 25.9 percent to 8.4 percent during the same period. Despite this fall in the market, JNR passenger trains covered a total of 1.45 million kilometres per day and freight trains covered a further 260 000 km. The distance covered by JNR passenger trains and freight per day was enough to circle the equator 44 times (Fukui, 1992: 12).

In 1985, JNR's total operating expenditure was US\$43 billion. Deficits amounted to US\$14 billion, which is equivalent to a loss of US\$39 million per day. JNR employed 420 000 people, which was even more than Japan's defence force (Fukui, 1992: 13).

The rationale for JNR restructuring was, firstly, JNR was very large, which hindered effective control and efficient operations and it lacked market oriented management; secondly, the centralised management of JNR was not sufficiently responsive to local needs; thirdly, it was felt that competition should be encouraged among operating units of JNR; and fourthly, other factors that prevented JNR management from responding adequately to changes in the transport market such as outside interference in management decisions particularly from the government, obscured managerial responsibilities for strategic decisions and the legal limitations on the scope of activities that could be undertaken by JNR (Kopicki & Thompson, 1995: 88).

4.6.2 Japanese National Railways privatisation strategy

The JNR structure was divided into what is currently known as the Japanese Rails (JRs), which consist of JR East, JR Central and JR West. Three other less viable JR companies were also created and these are based on the island of Hokkaido, Shikoku and Kyushu. These JR companies are named after the islands on which they are based (Doherty, 1999: 101).

The JNR restructuring involved redefining the scope of the surviving business; redefining assets and operations; redefining the organisational structure;

restructuring the workforce; restructuring JNR liabilities and the commercial reorientation of JR companies (Kopicki & Thompson, 1995: 88).

4.6.2.1 Redefining the scope of surviving business

A high level decision was made by the government to divide the JNR monolithic structure into six separate passenger and freight companies, that is, the JR companies already mentioned. Prior to this division, a traffic study was undertaken which revealed that 95 percent of all passenger trips on JNR originated and terminated within the areas in which the JR companies currently operated. Freight operations were organised into a separate company that operates nationwide. The freight company was, however, not assigned any tracks but would get access rights to rail tracks from other rail companies (Kopicki & Thompson, 1995: 88). Fukui (1992: 39) mentions that in 1992 the government was in the process of selling the shares held by the Japanese National Rail Settlement Corporation (JNRSC) on its behalf to private investors, thus converting JR into wholly privately owned companies. Doherty (1999:101), however, mentions that the shares of the three companies, JR East, Central and West, are already quoted on the stock exchange although one third of the shares are still held by JNRSC.

4.6.2.2 Redefining assets and operations

The assets required to operate the seven JR companies were identified and allocated to the companies. The one exception was the assets required to operate the bullet train (Shinkansen Services). The reason for this was that the profitability of providing the various bullet train services differed significantly. As a result, a mechanism was needed to distribute the income of the bullet trains between the JR companies on the basis of joint ownership. The Shinkansen Holding Corporation was established for this purpose and the JRs leased assets from this Corporation (Kopicki & Thompson, 1995: 88). It was realised, however, that Shinkansen Holding Corporation's ownership of the bullet trains could impede the privatisation of the JRs and, as a result, the bullet train assets were transferred to the JR

companies and the Holding Corporation was dissolved in 1997 (Watanabe, 1994: 96). Projections showed that the island JR companies would not generate sufficient revenue to cover their operating and capital costs. To ensure their autonomous operations and financial independence, a stabilisation fund was created and this is financed by the JNRSC (Kopicki & Thompson, 1995: 88).

4.6.2.3 Redefining the organisational structure

The liabilities of JNR that could not be carried by the new JR companies were assigned to the JNRSC, which was a government agency. The JNRSC was expected to pay JNR's outstanding liabilities. The JR companies were all made autonomous entities, each with its own board of directors and management. The local orientation of the JRs "[came] not from the change in organisation structure, but rather from the break-up of headquarters, the manageable smaller size, and an appreciation of the fact that change is necessary for survival" (Kopicki & Thompson, 1995: 89).

4.6.2.4 Restructuring the workforce

JNR employed excess personnel of around 93 000 (Fukui, 1992: 43). The JNR restructuring made provision for the surplus employees and this involved firstly, a fund being established for voluntary early retirement of employees and an incentive of 10 months salary for employees over the age of 55, secondly, provisions were made for the transfer of some employees from passenger JRs to other parts of the restructured JNR and, thirdly, the remaining employees were assigned to the JNRSC, and the government, by passing a special law, assisted in finding employment for them. To assist in the re-employment process, the government also involved the agency concerned with this function. The economic expansion at that time helped re-employment to proceed smoothly and, in the end, the JNRSC only absorbed a small number of the employees (Kopicki & Thompson, 1995: 89-90).

4.6.2.5 Restructuring JNR liabilities

In 1987, JNR long-term liabilities were estimated at US\$337 billion and comprised JNR debts of US\$227 billion, capital charges of US\$41 billion, other liabilities totalling US\$17 billion and future expenses that emerged from unfunded pension liabilities of US\$52 billion. The JR companies assumed US\$42 billion of liability, which was distributed among four companies, that is, JR East, Central, West and freight. As already mentioned, projections showed that the other island companies would make a loss and as a result they took on no long-term debt. The JNRSC assumed a large portion of the JNR liabilities (Kopicki & Thompson, 1995: 90).

4.6.2.6 Commercial reorientation of JR companies

The most important feature of the JNR restructuring is that it involved the commercial reorientation of the companies that were established. After the restructuring, the JR companies clarified their profit objectives, which were outlined by their respective boards. The boards of directors also established incentive systems for management to strengthen the profit objective. For example, JR East developed a training programme in which every employee was required to participate. This training programme sensitised the JR East employees to being more customer oriented (Kopicki & Thompson, 1995: 90).

4.6.3 Outcome of the JNR privatisation strategy

4.6.3.1 JR companies

After restructuring, the operational performance of the JR companies improved more than was expected (Watanabe, 1994: 102). According to Kopicki and Thompson (1995: 94), the operating profits for these companies have improved from the negative US\$8.3 billion in 1985 to a positive profit of US\$6.9 billion in 1992. The enhancement of these companies' profits is remarkable in that they have not increased their fares since restructuring except during the introduction of consumption tax (Value Added Tax). In addition, the JR companies paid corporate

tax and other duties to the government (Watanabe, 1994: 102).

4.6.3.2 Effect on labour

During restructuring, the number of JNR employees was reduced and after restructuring the number of workers in the seven JR companies declined marginally. The JRs are, however, still in the process of shedding non-essential labour in order to reduce operating costs. In as far as management-labour relations are concerned, separate labour unions started to organise in the different JR companies and signed a joint agreement to establish stable labour-management relationships. At the new JR companies, labour-management relations are relatively peaceful and few workers are resisting rationalisation programmes that are introduced by management (Watanabe, 1994: 105–106).

4.6.3.3 Effect on users

According to Kopicki and Thompson (1995: 95-96), the results of a customer survey that was undertaken shows that quality of the JR companies' has increased steadily since restructuring. The JRs have improved their service through various developments including service frequencies and train reliability. The JR East, Central and West have increased their train kilometres per route by 19 percent from 1987 to 1991. This increase is a result and cause of increase in passenger volume. Furthermore, service quality has improved as a result of the upgrading of station facilities and the introduction of new passenger trains.

4.6.3.4 Effect on government

The major beneficiary of the JNR restructuring is the government itself. This is as a result of the net fiscal effect. Prior to restructuring, the government subsidised JNR to the amount of US\$5.5 billion. After restructuring, these subsidies have declined to a level of US\$1 billion in 1991 and, as mentioned before, the JR companies are now taxpayers. The net effect of the taxes and the remaining subsidies represents a

significant flow of funds into the state coffers (Kopicki & Thompson, 1995: 96).

4.7 Conclusion

The rail case study in Britain shows that the privatisation of state enterprises was part of the government's macro-economic policy. It was believed that state enterprises were inefficient, suffered from a lack of recapitalisation and depended on the government to bail them out. The government approved the privatisation policy with a view to improving efficiency to the benefit of consumers in terms of the quality of service and price. Privatisation offered an opportunity to introduce competition and achieve the required level of efficiency in state enterprises. The privatisation of rail transport was, however, effected after the privatisation of other state enterprises. The lessons learned in the privatisation of enterprises that were privatised before rail were therefore considered and applied in the rail privatisation process. One of the critical aims of rail privatisation in the UK was to tackle rail inefficiencies by bringing competition within the industry.

To introduce competition into rail in the UK, the monolithic structure of the then rail enterprise was broken down into various units. This was achieved by separating freight from passenger services and separating rail operation from the ownership of infrastructure such as the rail track. The strategy implemented in privatising rail in Britain included a number of different tools that were used to break up the structure and to introduce competition within the industry. These included the sale of some units to the private sector such as the ROSCOs, ISCOs etc. Passenger services were franchised. Other agencies were created such as the Office of Passenger Rail Franchising, which has now been replaced by the Rail Strategic Authority, the Office of the Rail Regulator and the agency concerned with rail safety. The shares of infrastructure owner, Railtrack, were floated on the stock exchange to attract the capital needed for infrastructure investment. However, Railtrack is having financial problems and is reported to be bankrupt. This shows that it may not be advisable to opt for a policy that puts infrastructure into private hands as this may impede investment in and the further development of infrastructure.

In Britain, the franchising process and bidding competition that was experienced in rail privatisation was successful. The removal of barriers associated with sunk costs of rail such as infrastructure greatly contributed to the generation of interest in rail. The breaking up of the monolithic structure of the rail enterprise into manageable units, such as the TOCs, also assisted in introducing competition for rail franchises. Because of the moderation of competition by the regulatory authority, it is not easy to study the actual impact of on-rail competition. Figure 4.1 provides the framework within which the potential effects of on-rail competition can be studied and analysed. The South African White Paper on National Transport Policy does not, however, allow on-route competition, especially in situations where subsidies are involved. The framework provided by Figure 4.1 therefore, sheds more light on the reasons why on-route competition for subsidised services cannot be allowed in terms of the current transport policy in South Africa.

The rationale for restructuring and concessioning Ferrocarriles Argentinos is that it had suffered major losses and such deficits were of prime concern to the government. These losses could be attributed to a lack of commercial focus, which is one of the major challenges of government-owned rail enterprises. The loss of market share to other competing modes compounded FA's financial problems. As the FA workers were highly unionised, they resisted any attempts by management to implement even modest reform measures. As a result, they increased the challenges faced by FA. However, government determination and its willingness to restructure the railways took the lead in the restructuring and concessioning of FA.

As with Britain, Argentina's rail privatisation strategy involved breaking up the organisational structure of the rail enterprise to improve the challenges arising from the size issue. Breaking up the FA structure consisted mainly of the vertical separation of passenger rail services from freight. The separation of train operation from ownership of rail tracks as experienced in Britain was, however, not implemented in Argentina. This leads to the question of what organisational model is in practical terms suitable for the rail industry. Undoubtedly, the separation of

functions like freight from passenger services allows operators to focus on the market they have chosen. Furthermore, in Argentina various agencies were established to regulate and monitor the activities of private concessionaires. The establishment of a regulatory agency, specifically ORR, which is concerned with economic regulation, was also accomplished in Britain. This shows that in the rail concessioning environment, a rail economic regulator is essential.

The major result of the implementation of the Argentine rail privatisation strategy is that a large proportion of the labour force was reduced and improvement in labour productivity was achieved. The taxpayers and the government were saved a large amount in subsidies compared with the amount paid to subsidise FA previously. The users benefited from the lower prices and the improvement in the quality of rail services. As far as investors are concerned, rail concessioning has had mixed results especially in the freight business. Some freight concessionaires are making profits while others are running at a loss. In the case of commuter transport, concessionaires are doing better. Evaluated against the criteria of government subsidies, the benefits of users, labour and investors, concessioning in Argentina has had positive results overall.

The rationale for privatising the Japanese National Railways is that JNR suffered major financial losses while other privately owned railways in Japan were operating profitably. JNR management could not respond effectively to changes in the transport market owing to constant political interference and, as a result, JNR experienced significant market share and financial losses.

To turn JNR losses around, the enterprise was divided into a number of passenger companies and one nationwide freight company with the ultimate goal of selling government shares in the JR companies concerned. Each company was assigned assets and rolling stock to operate in a particular area. The implementation of JR strategy resulted in the JR companies being more market focused and the profits of some JR companies have improved. The effects of the implementation of this strategy are that labour was greatly reduced with a significant gain in labour

productivity. In as far as the users are concerned, surveys undertaken have shown that they have gained as a result of improvement in the quality of service. The government and the taxpayers have also benefited significantly as the new rail companies are now paying tax and government subsidies have declined significantly.

Overall, this chapter shows that these governments have more or less similar rationales for restructuring their rail enterprises. To realise the chosen privatisation method requires political determination. This chapter also shows that the main criteria for evaluating the impacts of the rail strategy applied, be it concessioning or any other mechanism, is to assess such impacts against consumer or user benefits, investors, workers and taxpayers or government subsidies.