



Government rail asset sales, and return to the public sector, in New Zealand and Tasmania

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ABSTRACT

The paper outlines the sale, with a track lease, in 1993 of the state owned New Zealand Railways Corporation to a consortium, TranzRail Holdings formed by the United States and New Zealand interests. It also notes increases in productivity and traffic levels to 1999 with subsequent problems leading to the New Zealand Government agreeing in 2003 to repurchase and rehabilitate the track. The paper then outlines transfer of effective ownership of the trains and related services in 2003 to an Australian company, and in 2008 back to the New Zealand Government at appreciable net cost.

After a brief outline of railways in Australia, the paper notes how government rail in Tasmania, then owned and operated by the Australian National Railways Commission, was sold in 1997 with a track lease to a company related to TranzRail Holdings. The paper then notes emerging problems after initial success, and how after a change in ownership in 2004, the Tasmanian track lease was taken back by the public sector in 2007, followed by the trains in 2009.

Other rail asset sales in Australia are also noted along with the high total costs of road vehicle operations in Australia and New Zealand.

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1. Introduction

In 1993, the New Zealand Government sold its rail system with a long term track lease. This was followed in 1997 by the first of many Australian rail asset sales by government.

This article will primarily deal with two rail privatisations in New Zealand and Tasmania that eventually resulted in the respective governments taking back not only the track, but also the trains.

At the outset, it is of note that the two rail systems of New Zealand and Tasmania have relatively small freight tasks. In 1992–93, the New Zealand rail freight task (prior to sale) was 2.5 billion net tonne kilometres (btkm), and reached 4.2 btkm in 2010–11, also since 1992 the Tasmanian rail freight task has rarely exceeded 0.5 btkm. By way of contrast, the Australian rail freight task in 2009–10 (after some 5 years of rapid growth in iron ore and coal exports) was about 259 btkm (Bureau of Infrastructure, Transport and Regional Economics, 2012).

An account of rail privatisation in Australia and New Zealand may be found in a paper for the World Bank by Williams, Greig, and Wallis

(2005). However, not all people would share in these authors qualified assessment (page 57) that “Overall the rail privatisation experience in Australia and New Zealand has been positive...”

Full details of all Australian rail asset sales, plus franchises and track leases, are outside the scope of this paper. Section 2 outlines the New Zealand rail system since the 1980s with the sale by government in 1993 and the taking back of the track in 2004 and the trains in 2008. Section 3 sketches Australian railways and Section 4 outlines the Tasmanian rail system since the 1970s including government taking back the track in 2007 and the trains in 2009. Section 5 briefly comments on some aspects of other Australian rail asset sales, and topics affecting rail freight competitiveness in Australia. This includes the difficult question of road pricing for heavy trucks. The conclusions are given in Section 6 whilst Section 7 addresses implications for managerial practice and public policy.

2. New Zealand

Railways in New Zealand go back to 1863 with the former provincial governments. During the 1870s, gauge unification settled on narrow gauge track, and rail expansion with transfer to the central government took place. As noted by Heatley and Schwass (2011), “For much of the 20th century, rail was regarded not only as core government business but also as an iconic part of New Zealand’s journey to prosperity”, also, citing Atkinson (2007, p60), the Minister of Railways, Gordon Coates in 1923 noted that: “The railways in New Zealand have never been regarded, or run, as a profit-making concern.”

Abbreviations: ANRC, Australian National Railway Commission; ARTC, Australian Rail Track Corporation; ATN, Australian Transport Network Ltd; btkm, billion net tonne kilometres; BTE, Bureau of Transport Economics; CoAG, Council of Australian Governments; NRC, National Rail Corporation; NTC, National Transport Commission; PNT, Pacific National Tasmania; STCC, Surface Transport Costs and Charges; TRH, TranzRail Holdings.

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The 1970s and 1980s saw both loss of freight and passenger traffic with contraction of the rail system to its present length of about 4000 route km. In 1978, the 8.9 km Kaimai rail tunnel was opened, thus cutting the rail distance between Auckland and Tauranga by 52 km and supporting the later growth of Tauranga as a second port for Auckland. During the 1980s, the central section of the North Island Main Trunk line linking Auckland and Wellington was electrified (at 25,000 volts AC) and upgraded with civil engineering works including deviations.

In 1982, the New Zealand rail system was restructured as a corporation and faced two major challenges. The first challenge was a view held within sections of Treasury that the railways could be progressively closed down over a period of 15 years. This was on the assumption that the nation's entire land transport task – passengers and freight – could more efficiently be handled by road transport.

The second challenge was in 1983 when the government sought to lift rail protection, which reserved to rail the carriage of most goods moving a distance of more than 150 km. The response of the rail unions to both challenges was to embark on a massive Save Rail campaign. This was strongly taken up by the Labour Party in opposition. When the Labour Party won the 1983 election, it was subsequently made clear that rail could stay only if New Zealand railways were to increase their efficiency and productivity. This was achieved with significant downsizing along with track and other investments to increase productivity. In addition, rail protection for freight was lifted and a mass distance system of road user charges for heavy trucks introduced in the late 1970s was retained, with these charges being increased in 1984.

New Zealand's mass distance charges for heavy trucks have continued to date, albeit frozen for some years, when the New Zealand Government was trying to contain inflation. For example, in 2012, the road user charges were about NZ\$0.95 per kilometre for a six axle articulated truck, with a gross vehicle mass of 45 tonnes. For some details of freight in New Zealand, see for example, [Cavana, Harrison, Heffernan, and Kisling \(1998\)](#).

It is also of note that during the 1990s, New Zealand was examining the potential commercialisation of its roads. This involved a major Land Transport Pricing Study with extensive consultation and no fewer than four reports leading to a Road Reform Report ([New Zealand Ministry of Transport, 1997](#)) that raised the option of congestion pricing with road charges to reflect the environmental impact of road use. Even though this report was endorsed by the New Zealand Prime Minister, at the end of the day, road pricing reform was stalled, and New Zealand's significant car dependence remains. The impacts are particularly noticeable in Auckland, and are also felt in other major centres.

A Surface Transport Costs and Charges (STCC) study was later commissioned by the [New Zealand Ministry of Transport \(2005\)](#). The study provided data on the costs and charges during 2001–02 for the movement of freight and passengers for road and rail with a view to answering the question “What are the costs of land transport and who is paying them?”

For 2001–02, road vehicle operating costs were estimated at about \$17 billion. The STCC study included estimates for various external costs. These included additional costs of road accidents not met by insurance (\$670 M) and \$111 M for environmental costs (including greenhouse gases costed at \$25 per tonne of CO₂e). The road user and related charges of \$2.63 billion included Fuel Excise Duty of \$1079 M and charges from heavy vehicles at \$584 M (for a freight task of roughly 15 btkm). The external costs for a rail freight task of about 4 btkm were estimated at a relatively modest \$8.5 M.

In regard to the viability of the rail sector (Sub section 5.5) the STCC summary noted:

“At the time of the analysis in 2001–2002, the STCC shows that the rail network as a whole was not financially viable, with a total annual shortfall of \$95 million per annum ... Revenues do not cover the cost of upgrading, improving or expanding the rail infrastructure. In order to compete with road freight, there has been downward

pressure on prices for rail. The average rate charged by TranzRail fell from 12.5 c/ntkm in 1993 to 10 c/ntkm in 2000 – a nominal fall of 20%.”

After noting less than full total cost recovery from both road and rail freight, the report (Sub section 5.5) found

“... that if the prices paid by commercial vehicles to use the roading network were raised to cover more of the costs they generate, this could support a shift of suitable traffic to rail which in turn, would be likely to increase the overall financial viability of rail. The alternative to such a policy, given the Government's stated intention to retain the rail network, is long term and continuing subsidies to the rail network.”

2.1. Sale and initial success

On 17 December 1992, within the scope of existing legislation, the New Zealand Government announced its intention to undertake a formal privatisation process of New Zealand Rail Ltd. A competitive bidding process then followed, involving six bids. A merchant bank, Fay Richwhite and Company Ltd, which had previously been an advisor to New Zealand Rail Ltd, formed a consortium, including with Wisconsin Central Transportation Company and Berkshire Partners LLC (a United States private equity company), to be a bidder in the sale process. The consortium, later called TranzRail Holdings (TRH), was the successful bidder with an agreement for sale and purchase being made on 20 July 1993.

On 30 September 1993, New Zealand Rail Ltd was sold for NZ \$400 million to TRH with a lease from the Crown (government) to occupy certain land for railway purposes. TRH became a listed company in June 1996 in New Zealand and the United States to raise \$175 M to retire post sale acquired bank debt. In New Zealand, ordinary shares were offered at NZ\$6.19 each and including dividends saw a 26% return on investment in the first year. Later the shares reached \$9 each.

The initial increase in share value in part reflected the 1996–97 freight task increasing to 3.2 btkm (from 2.5 btkm in 1992–93) and modest increases in rail and ferry passengers. During 1996–97, TranzRail also acquired 17 used locomotives from Queensland Rail and 61 used passenger carriages from Britain. In addition, new wagons were acquired, including 21 insulated milk wagons (to supply a large North Island factory), coal wagons, and intermodal wagons. Thus, TRH chairman Edward A Burkhardt (CEO of Wisconsin Central who favoured a longer term approach to rail operations) was able to point to “improved results ... in a low growth economic environment” whilst Managing Director Francis Small could claim an ability to “sustain and increase growth” (TRH, 1997, p7 and 17 respectively).

Further traffic growth took place. In Australia, the [Productivity Commission \(1999\)](#) was able to observe increases in labour productivity, asset utilisation, and traffic levels since rail privatisation in New Zealand.

2.2. Emerging problems

In 1999, a new chairman (Robert H Wheeler also of Wisconsin Central) and Managing Director (Michael Beard) were appointed to TRH.

The next few years were to see increasing difficulties for TRH with a slight fall in the freight task (from a record 4.1 btkm in 1999–2000) and a larger fall in freight revenues with increasing competition from road freight operators. In addition, there was competition to TRH's interisland freight and passenger services. In 2001, the payment of dividends was suspended (8.5 cents per share had been paid each six months up to April 2001) and a fall in share price was under way.

In February 2002, Wisconsin Central (which by then had been acquired by Canadian National) and Fay Richwhite sold their controlling

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