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Economics Policy Strategy

Railway Privatization in Australia and New Zealand – 9 Case Studies

World Bank Transport Forum

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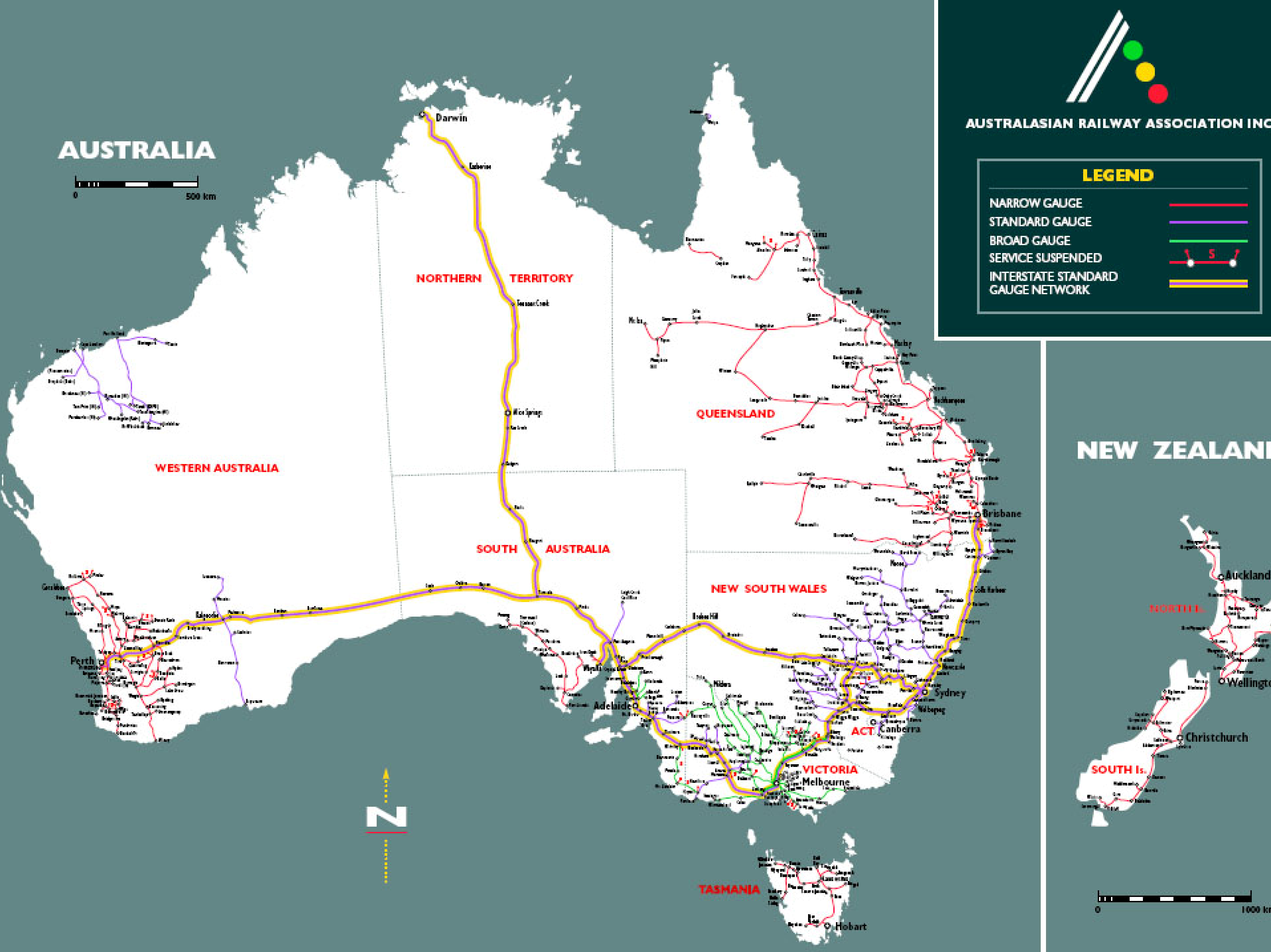
31 March 2006



AUSTRALIA
0
500 km
AUSTRALASIAN RAILWAY ASSOCIATION INC
LEGEND
NARROW GAUGE
STANDARD GAUGE
BROAD GAUGE
SERVICE SUSPENDED
S
INTERSTATE STANDARD GAUGE NETWORK
Darwin
NORTHERN TERRITORY
QUEENSLAND
WESTERN AUSTRALIA
SOUTH AUSTRALIA
NEW SOUTH WALES
Brisbane
Broken Hill
Kalgoorlie
Perth
Adelaide
Sydney
ACT
Canberra
VICTORIA
Melbourne
TASMANIA
Hobart
N
NEW ZEALAN
Auckland
NORTH Is.
Wellingto
Christchurch
SOUTH Is.
0
1000 km

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Background

- Widespread rail privatization in Australia and NZ in 1985-2002 because of:
  - Wider policy of getting government out of owning and running businesses – also in airlines, banks, insurance, ports etc
  - History of inefficiency, poor financial returns, taxpayer bailouts, inadequate investment, unwise investment, political interference
  - Public private partnerships – governments less willing to fund new rail investment

Freight railways

- All now privatized except Queensland
- Usually government leases out the track
- New Zealand
  - Sold (in 1993). Cost cutting, targeted investment, marketing – good profits at first
  - Later, assets running down, financial distress, sold at discount, government resumed track
- Tasmania (1997): similar outcome to NZ

Freight railways (c’td)

- V/Line Freight(1999). Operating costs/ntk cut 18% in 2 years. Freight mix diversified a bit. Sold in 2004 for +50%
- Westrail(2004). Operating costs cut, profits improved but still inadequate. Sold for profit in 2006.
- Freightcorp and National Rail (2002): costs cut, targeted investment, prices rationalized, freight switched from road, profits well up. Infrastructure constraints.

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Melbourne passenger rail

- Concessioned 1999. Modified UK model: subsidies bid, performance regime, vertically integrated, rolling stock leased
- Main operator had overbid and failed
- Government negotiated higher subsidy, reduced risk transfer, shorter concession
- Qualified success: improved reliability, new rolling stock. But now “suffering” from increased patronage.

Public private partnerships (1)

Alice Springs Darwin railway

- 1420 km, $400m government and $600m private, BOOT – 50 years operation of track and trains
- On time, on budget, operates well
- However freight volume well below forecast. “Land bridge to Asia” hasn’t worked. Financial write-offs.

Public private partnerships (2)

Sydney airport link

- Private sector: 4 underground stations, $200m, 30 years BOOT, revenue sharing
- Government: $500m to build line in tunnel - caught by premature announcement. Operates trains as part of urban system.
- Patronage 66% below forecast. Soon in administration. Now improving.

Public private partnerships (3)

Brisbane airport link

- $200m 35 year BOOT. Revenue sharing
- Government railway QR operates trains
- Operates well
- Patronage 88% below forecast – as in Sydney, competing roads are good and many passengers do not go to CBD
- Financial writedowns. Now improving

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Conclusions

- Larger freight railway privatizations successful – better technical and allocative efficiency, some innovation. Smaller cases remained uneconomic
- Melbourne passenger concessioning: some gains, but revenue and risk aspects needed renegotiation
- PPPs were all technical successes and financial failures. Problem: optimism bias, not PPP model.