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## **New Zealand ends private railway adventure ~ Patrick Brown**

**N**ew Zealand has ended a fifteen-year experiment with railway privatization by buying out the railway and ferry operations of Toll Holdings Ltd for NZ\$665 million (CDN\$500 million). The purchase includes rail operations on both the North and South Islands, together with ferries across Cook Strait that carry railcars, vehicles, and passengers.

The original 1993 privatization involved the US railway company Wisconsin Central and a number of New Zealand investors. At that time they paid NZ\$400 million for both the operation and the track (some 4,000km of 42" gauge lines), renaming the railway Tranz Rail. The land occupied by the track remained the property of the government, under a long term lease to Tranz Rail.

### **Seeking More Profits from Less Investment**

After several years of profitable operation, the major investors in Tranz Rail ousted the original operating management, seeking higher short-term profits. This contrasted with complaints from New Zealanders that the new owners had stripped the company of capital (not to mention scrapping 100 diesel locomotives) and had not invested in needed new equipment (at a cost estimated at NZ\$700 million). The more profitable lines had been sold off, while marginal lines had been shut down. Cutbacks on track maintenance had led to the imposition of a 40kph average speed on the system. Part of Tranz Rail was then sold (along with Wisconsin Central) to CN Rail, which has since sold most of its shares to investors in New Zealand and Australia.

In the meantime, competition from truck traffic in New Zealand increased markedly. The railway attempted to abandon passenger services, and sold their remnants to private

operator West Coast Railway. It also reorganized its freight services to a 'hub & spoke' system. Commuter services in the Auckland area were sold by Tranz Rail to local government in 2001.

### **Partial NZ\$200m Buyback**

In 2003, Tranz Rail ran into financial difficulties and the New Zealand government bought back the railbed and trackage for some NZ\$200 million, and approved the sale of Tranz Rail's operation to Australian firm Toll Holdings.

The government then spent some \$200 million to repair the track, and gave Toll Holdings the exclusive right to use it at no charge for the next five years. However, at the end of this period Toll Holdings could not come to an agreement with the government about how much they should pay for use of the tracks, and also what they should invest in new rolling stock, and in May 2008 negotiated the sale of the operation back to the New Zealand government.

### **Trend to Deprivatization?**

This is the second major deprivatization by the New Zealand government. In 2001, it bought back 76% of Air New Zealand to prevent it from going bankrupt. Recently, it opposed a proposal by the Canada Pension Plan Investment Board to purchase a substantial interest in Auckland's airport. These moves may indicate a significant reversal of New Zealand's pioneering of public sector privatization in the 1990s.

The private sector entities that have successively owned and operated railways in New Zealand seem to have generally made money—if not from operations, then from selling their interests back to the government at a profit. And the government has been left with the problem of reinvesting in the rail infrastructure in order to restore and improve service. ☞

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Island Tides, Box 55, Pender Island, BC, Canada. Phone: 250-629-3660. Fax: 250-629-3838.  
Email: [islandtides@islandtides.com](mailto:islandtides@islandtides.com). Website: <http://www.islandtides.com>