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FEATURE: Railway Reform and International Exchange

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World's top rail managers and
engineers at October 1999 World
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Editorial

International exchange

Japan's railway reform in 1987 sent a shock wave through the rest of the railway world by splitting its state-owned network into several pieces and privatizing them. However, despite its radical appearance, the Japanese reform did not scrap the traditional railway structure in which both rail infrastructure and operations are managed by the same company. It also preserved the system of cross-subsidies by which profits from shinkansen and urban services cover the losses of rural services, although the heavy losses of the smaller-island JRs are separated from the main-island JRs by the so-called Management Stabilization Fund. It seems that this Japanese model has worked well so far, but even the three profitable JRs on the main island have not yet completed full public flotation. Moreover, Japan's stagnant economy could threaten the basis of cross-subsidies in the future.

By contrast, European railway reforms based on Directive 91/440 EEC pursue more competition in the industry by separating rail operations from infrastructure, and by allowing open access to infrastructure to encourage new market entrants. However, there has been no significant new entrant in train services after almost 10 years and it seems that the vertical separation is only relieving train operators of the heavy burden of infrastructure costs through state subsidies to the infrastructure provider (or in the UK case, assuring high profits to Railtrack through state subsidies to train operators). As a result, the heavily subsidized infrastructure providers in continental Europe may tend to lack efficiency, and Railtrack in the UK may tend to avoid costly investments for shareholders' sake.

Both the European and Japanese reforms have good and bad points, and both are now facing serious challenges. The question is whether they can learn lessons from each other by exchanging their experiences.

T. SUGA

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