Improving Efficiency Through Privatisation of Railways

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Management Administration Department
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Split and Privatization of JNR
(Japanese National Railways)
Causes of JNR’s Failure 1

○ Unconsolidated long-term debts
  (in trillion yen)

- long-term debts
- income
- cost

balance of long-term debts

income, cost

Unconsolidated long-term debts

○ "Unconsolidated long-term debts"

(Year)
<table>
<thead>
<tr>
<th>Problems related to the public corporation system</th>
<th>Problems related to the unified organization covering the entire nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Interference from the government and administrative bodies</td>
<td>(1) Beyond the scope of managerial control</td>
</tr>
<tr>
<td>(2) Loss of self-reliance in management</td>
<td>(2) Uniform operations</td>
</tr>
<tr>
<td>(3) Abnormal labor-management relations</td>
<td>(3) Unreasonable relationship of interdependence</td>
</tr>
<tr>
<td>(4) Restrictions on the scope of operations</td>
<td>(4) Lack of competitive spirit</td>
</tr>
</tbody>
</table>

Incapable of accurately responding to changes in circumstances surrounding the corporation

Managerial failure
JNR Reform Scheme 1

JNR

- Transformation in April 1987

JNR Settlement Corporation

- Merged in May 1989

Japan Railway Construction Public Corporation – JNR Settlement Division

Passenger Railway Companies

- JR Hokkaido
- JR West
- JR East
- JR Shikoku
- JR Central
- JR Kyushu

Japan Freight Railway Company

Railway Telecommunication Company

- Japan Telecom (Merged in May 1989)

Railway Information System Company

Shinkansen Holding Corporation

Railway Development Fund

Corporation for Advanced Transport & Technology

Railway Technical Research Institute

JR Hokkaido

JR East

JR Central

JR West

JR Shikoku

JR Kyushu
JNR Reform Scheme 2

- **Reemployment of JNR’s employees**

<table>
<thead>
<tr>
<th>JNR employees</th>
<th>277 (1986.4)</th>
</tr>
</thead>
</table>

  - **Employees retired in FY1986**
    | Voluntary retirement | 39.1 |
    | General retirement   | 6.3  |
    | Transferred to government and other public organizations | 7.3 |
  - **Total** | 52.7 |

- **Disposal of long-term liabilities**

  - JNR’s long-term liability | 25.0 |
  - Deficit from pension funds, etc. | 5.0 |
  - Liability of Japan Railway Construction Public Corporation | 4.5 |
  - Burden of funds for the three smaller island railway companies | 1.3 |
  - Others | 1.4 |
  - Total | 37.1 |

- **Responsibility of new companies**

  - JR East | 6.6 |
  - Others | 7.9 |
  - JNR Settlement Corporation | 22.7 |
  - Selling of land | 7.7 |
  - Selling of stock shares | 1.2 |
  - Remaining burden for the Japanese government | 13.8 |
  - Total | 37.1 |
## Regulatory Changes

<table>
<thead>
<tr>
<th></th>
<th>JNR</th>
<th>JR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governing law</strong></td>
<td>Japanese National Railways Law</td>
<td>JR Law</td>
</tr>
<tr>
<td><strong>Status of corporation</strong></td>
<td>Public corporation (semi-governmental organization)</td>
<td>Corporation with special status (Subject to the Civil Code and Commercial Law)</td>
</tr>
<tr>
<td><strong>Scope of operations</strong></td>
<td>Enumerated restrictions</td>
<td>Free in principle; moving into a new field of activity is subject to approval by the Minister of Land, Infrastructure and Transportation</td>
</tr>
<tr>
<td><strong>Authority to make investment decisions</strong></td>
<td>Deciding the scope of investment is subject to approval by the Minister of Transport</td>
<td>To be independently decided</td>
</tr>
<tr>
<td><strong>Authority to decide budget</strong></td>
<td>Subject to approval by the National Diet</td>
<td>Operational plans are subject to approval by the Minister of Land, Infrastructure and Transport. (Balance sheets are only to be attached.)</td>
</tr>
<tr>
<td><strong>Borrowing and bond issues</strong></td>
<td>Decision on the amount ceiling is subject to approval by the National Diet; other matters are subject to approval by the Minister of Transport</td>
<td>Subject to approval by the Minister of Land, Infrastructure and Transport</td>
</tr>
<tr>
<td><strong>Authority to appoint executives</strong></td>
<td>President is appointed by the Cabinet; Auditing Board members are appointed by the Minister of Transport; other appointments are subject to approval by the Minister of Transport</td>
<td>Decided at the shareholders’ meeting. (Appointment of representative directors and auditors is subject to approval by the Minister of Land, Infrastructure and Transport.)</td>
</tr>
<tr>
<td><strong>Authority to determine wages</strong></td>
<td>In principle, wages are determined by law. Fixed total wage amount.</td>
<td>Through negotiations between workers and management</td>
</tr>
<tr>
<td><strong>Methods for concluding contracts</strong></td>
<td>Through open competitive bidding in principle</td>
<td>Independently decided</td>
</tr>
<tr>
<td><strong>Authority to determine railway fares</strong></td>
<td>Subject to approval by the National Diet</td>
<td>Independently determined</td>
</tr>
</tbody>
</table>

**Note:** As part of the reorganization of ministries and agencies, which took effect on January 6, 2001, the Transport Ministry merged with other agencies to become the Ministry of Land, Infrastructure and Transport.
The following are major items which are made subject to approval of the Minister of Land, Infrastructure and Transport under the provisions of the JR Law:

- Appointment of representative directors and auditors
- Procurement of fund
- Appropriation of profit
- Sale of important assets

In December 2001, the JR Law was amended so that the law would no longer apply to JR East, JR Central and JR West.

In October 1993, the company was listed on the stock exchange, and 2.5 million shares were sold.

In August 1999, a second set of 1 million shares were sold.

In June 2002, the remaining 500,000 shares were sold.

The company is now able to act with greater degrees of mobility and flexibility than before.

Total revenue from share sale: 1,993.9 billion yen
Contribution to the National Finance

JR East

💫 For 17 years since its founding, JR East has not raised fares (except when a new tax was introduced.
💫 Of the long-term liability of more than six trillion yen which JR East had inherited, 2.6 trillion yen was repaid during these 17 years.

JR companies as a whole

💫 JNR used to receive government subsidies averaging 600 billion yen a year between fiscal years 1977 and 1986.
💫 After the reform, the seven JR companies have paid taxes at the annual average rate of 270 billion yen between fiscal years 1987 and 2003.

Compared with the days of JNR, the JR companies have reduced the government’s fiscal burden by about 870 billion yen per year.
Management Strategies of JR East
Past Business Performance

- 17 years have elapsed since the foundation of JR
- Stable income and steady reduction of long-term debt

Changes in operating and extraordinary revenues
(Non-consolidated)

Operating Revenues (Right axis)

Changes in outstanding long-term debt
(non-consolidated)

- "1.8972 trillion in FY2003
- "183.2 trillion in FY2003

Past Business Performance

- Income
- Long-term debt
Per capita passenger-kilometers has increased by approx. 69.6% since the company was founded.

The number of people engaged in the railway business has decreased by approx. 324% from 71,800 to 49,400. This has been done not by lay-offs but rather by productivity improvement through technological renovation.
Improved Safety

Railway operating accidents 376 (FY’87) ⇒

96 (FY’03)

of which those at level crossings 247 (FY’87) ⇒

Changes in accidents

Down by Approx. 81 %

Railway operating accidents

Of them, those at railway crossings

Down by Approx. 77 %

(No. of accidents)

87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 (FY)
By increasing the number of train operations using longer trains, the transportation capacity by trains in the Tokyo Metropolitan area was increased by about 30%.

※ Corresponding to the capacity of Metro in Paris.

Change in vehicle - kilometers

(Local trains in the Tokyo Metropolitan Area)

1988/4/1  298.1

2001/12/1  390.6

Average of 17 major stations during morning peak time

※ 341,000 kilometers per day for the average of 8 private railways in Tokyo area in 2000.
Increasing Speed

- Network of five Shinkansen rapid transport lines completed
  - In addition to Tohoku and Joetsu Shinkansen lines, Yamagata (1992), Akita and Nagano (1997) Shinkansen lines opened
  - Extension of Yamagata Shinkansen to Sinjo (1999) and Tohoku Shinkansen to Hachinohe

- Introduction of new rolling stocks

<table>
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<tr>
<th>Route</th>
<th>Distance</th>
<th>1987</th>
<th>2004</th>
<th>Speed Increase</th>
</tr>
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<tbody>
<tr>
<td>Tokyo-Aomori</td>
<td>727.9 km</td>
<td>3:05</td>
<td>2:17</td>
<td>-1:48</td>
</tr>
<tr>
<td>Tokyo-Hachinohe</td>
<td>631.9 km</td>
<td>3:23</td>
<td>2:30</td>
<td>-0:53</td>
</tr>
<tr>
<td>Tokyo-Akita</td>
<td>662.6 km</td>
<td>3:09</td>
<td>2:21</td>
<td>-0:48</td>
</tr>
<tr>
<td>Tokyo-Morioka</td>
<td>535.3 km</td>
<td>2:21</td>
<td>2:17</td>
<td>-0:04</td>
</tr>
<tr>
<td>Tokyo-Sendai</td>
<td>351.8 km</td>
<td>3:49</td>
<td>3:30</td>
<td>-0:19</td>
</tr>
<tr>
<td>Tokyo-Yamagata</td>
<td>359.9 km</td>
<td>3:49</td>
<td>3:23</td>
<td>-0:26</td>
</tr>
<tr>
<td>Tokyo-Niigata</td>
<td>333.9 km</td>
<td>3:49</td>
<td>2:37</td>
<td>-1:12</td>
</tr>
<tr>
<td>Tokyo-Nagano</td>
<td>222.4 km</td>
<td>3:49</td>
<td>2:21</td>
<td>-1:28</td>
</tr>
</tbody>
</table>

※Comparisons of fastest trains

Dramatic reduction of travel hours between Tokyo and major local cities
Convenient and User-friendly Stations

For our customers...

- Service Manager
- Station concierges
- Information centre
- Train info display
- Universal signs
- Ticket office
- Ticket gate
- Remote man-to-man ticketing system
- Barrier-free facilities

Reviewing current layout and design
Strengthen the Transportation Network in Metropolitan area

Introduction of First class cars: offering setting service

Introduction of new commuter trains

Construction plan for new network

Direct through operations with other railway company

Introduction of new commuter trains

Pre-production of next-generation commuter trains

Introduction of new express trains

Ofuna

Haneda-Airport

Shin-kiba

Shinjuku

Ueno

Ikebukuro

Tokyo

Hamamatsucho

Shin-gawa

Shinjuku

Kinshicho

Nishi-Funabashi

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Introduction of new commuter trains

Pre-production of next-generation commuter trains

Introduction of new express trains
"Suica“, the IC card (Super Urban Intelligent Card)

"Suica“ IC card was introduced in Tokyo and its vicinity in Nov. 2001.

- Inside ticketing gates
- Ticket-less
- Cash-less
- Information services

**In station**
- Electronic money

**Station stores**
- Hotel coupons and Theatre tickets
- Joint-use tickets
- Concession stores, etc.
- Convenience stores, etc.

**JR East Menu**
- Buy commuter pass
- Buy reserved seat ticket

**IC chip installed in mobile phones**

**Reservation by Internet and electronic payment**

**Integration with View Card**

**Joint-use tickets**

**Hotels, theaters, etc.**

**Other transportation systems**
- Cash-less
- View Card

**"Suica" IC card was introduced in Tokyo and its vicinity in Nov. 2001.”
“Mobile Suica” will be usable as electronic money as well as transportation ticket.

“Mobile Suica” will be launched within FY2005 under the cooperation with NTT DoCoMo and Sony.