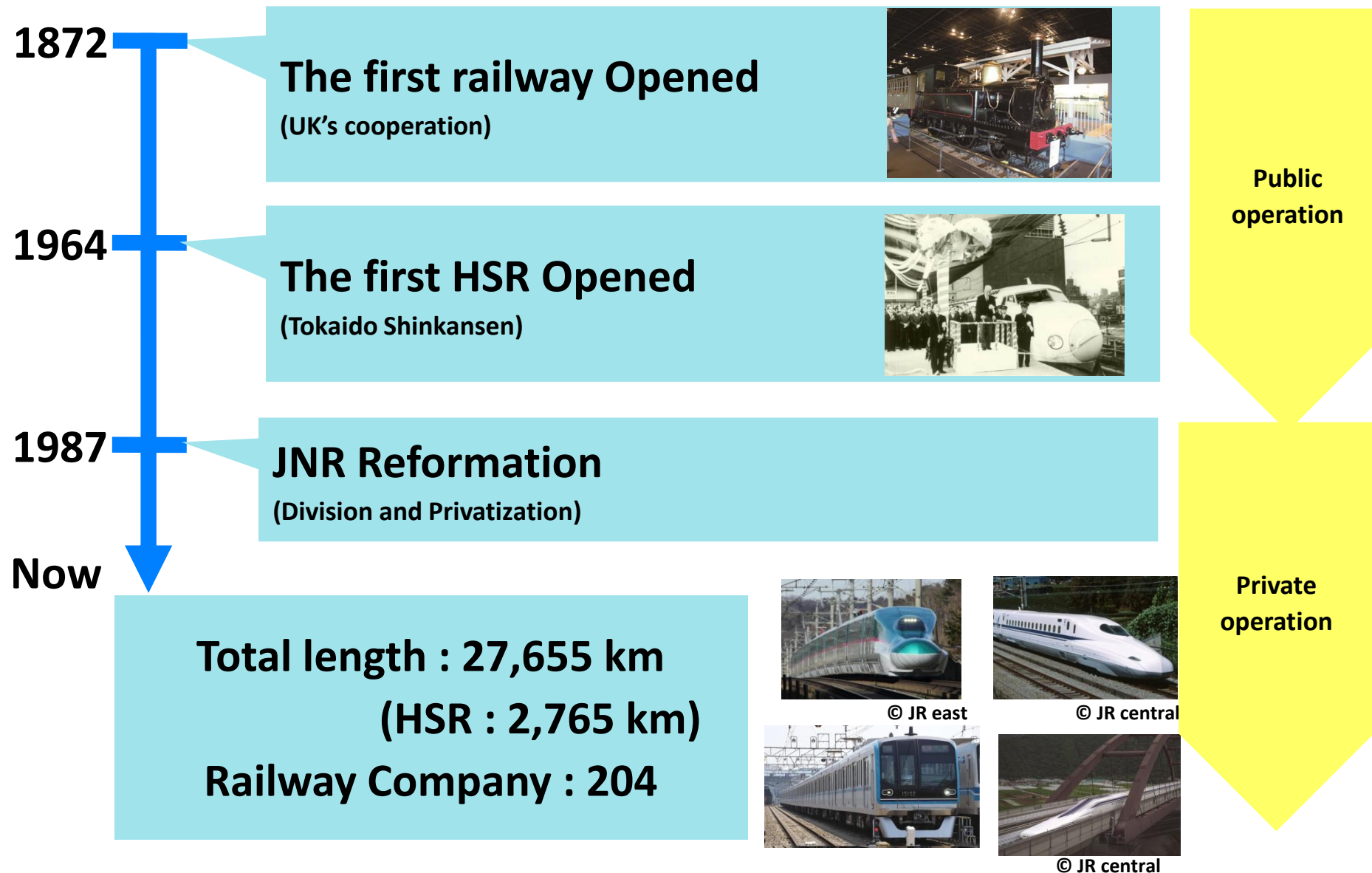


# JNR(Japan National Railways) Reform

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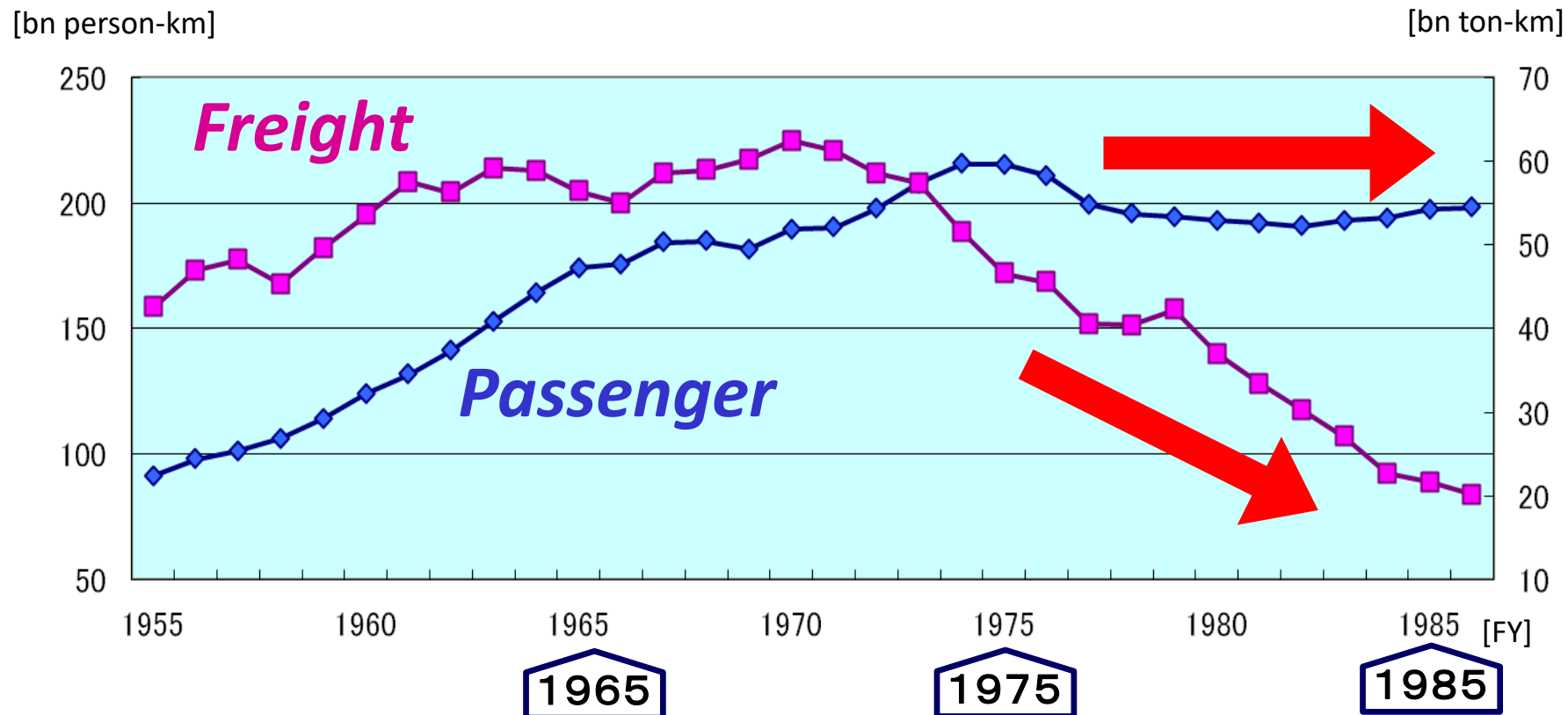
# Timeline of JNR Reform



# Transportation Condition of JNR

- Passenger transportation volume hit the peak because of road improvement and motorization.
- Freight transportation volume also decreased because of changing industrial structure and motorization.

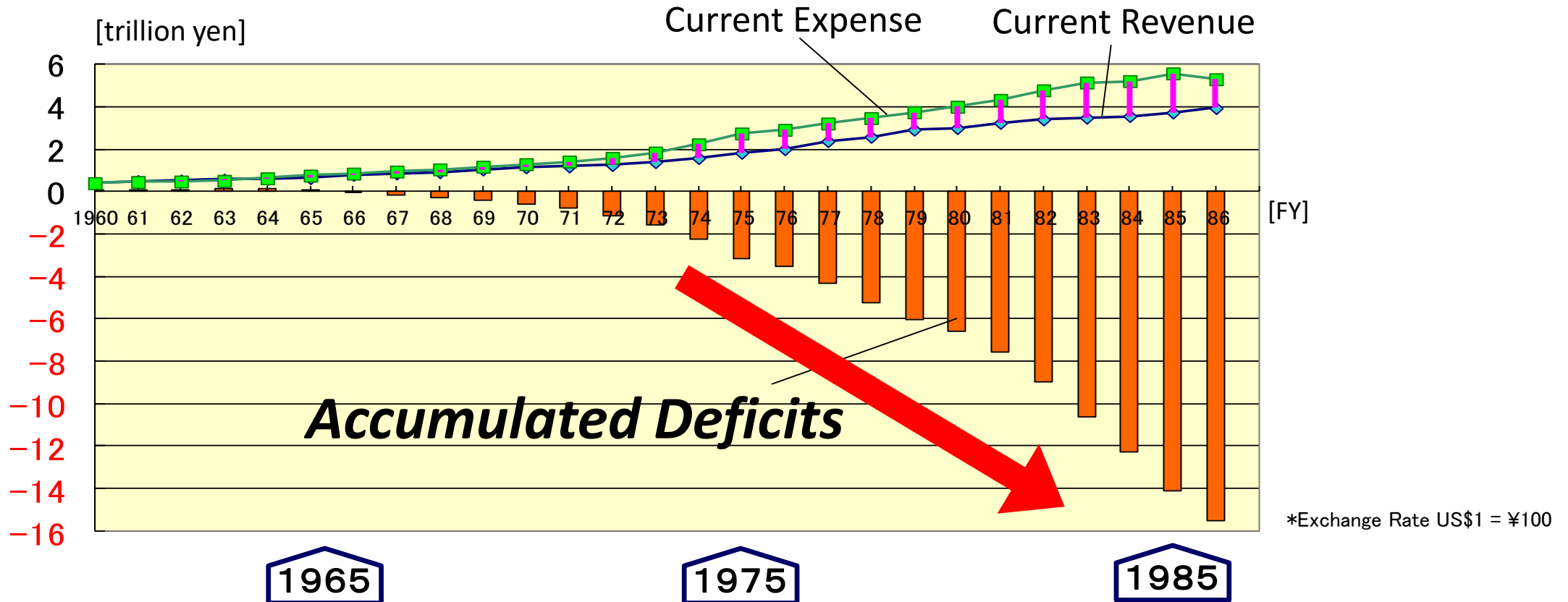
## Transportation Volume of JNR



# Financial Condition of JNR

- JNR recorded a loss in 1964, when it was its first year of continuous financial deficit.
- Especially it recorded over 1 trillion yen every year in the 1980s and was heavily subsidized (¥600 bn = US\$6 bn\*, in 1985), which did **not even cover the interest**.

## Worsening Business Performance



■ Various external and internal factors caused these problems. JNR Reform was the solution to them.

## **External Factor**

**Rapid development of other modes of transport** → Car, Airplane, etc.

## **Internal Factors**

### **Problems inherent in the public corporation system**

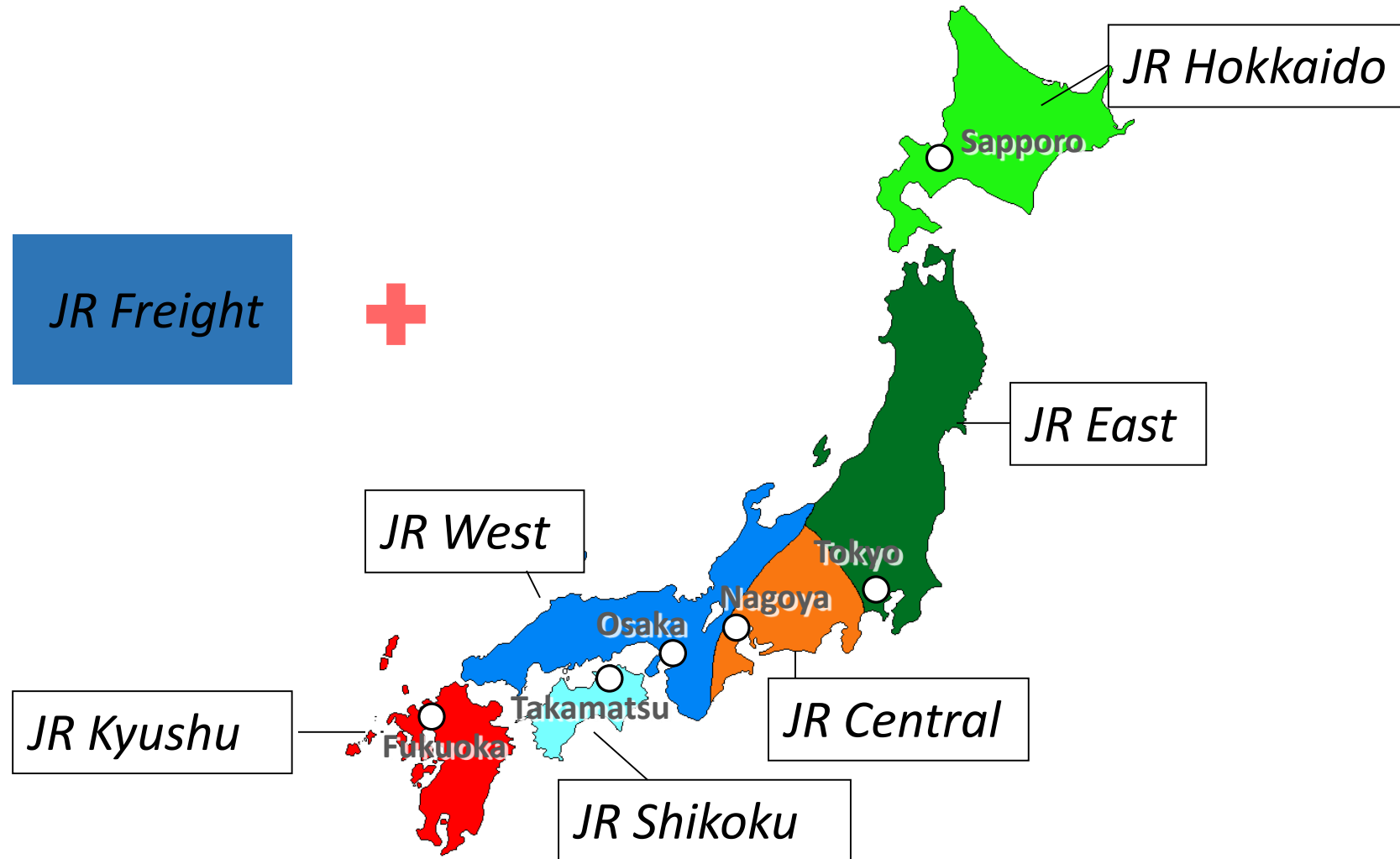
- a) the interference from outside, the lack of autonomous management
- b) the unnatural labor-management relations
- c) the limited scope of business

### **Problems inherent in huge, monolithic, nationwide organizations**

- d) the stereotyped practice of management
- e) the irrational dependency on profitable branches of JNR and on profitable urban lines
- f) the lack of competition consciousness

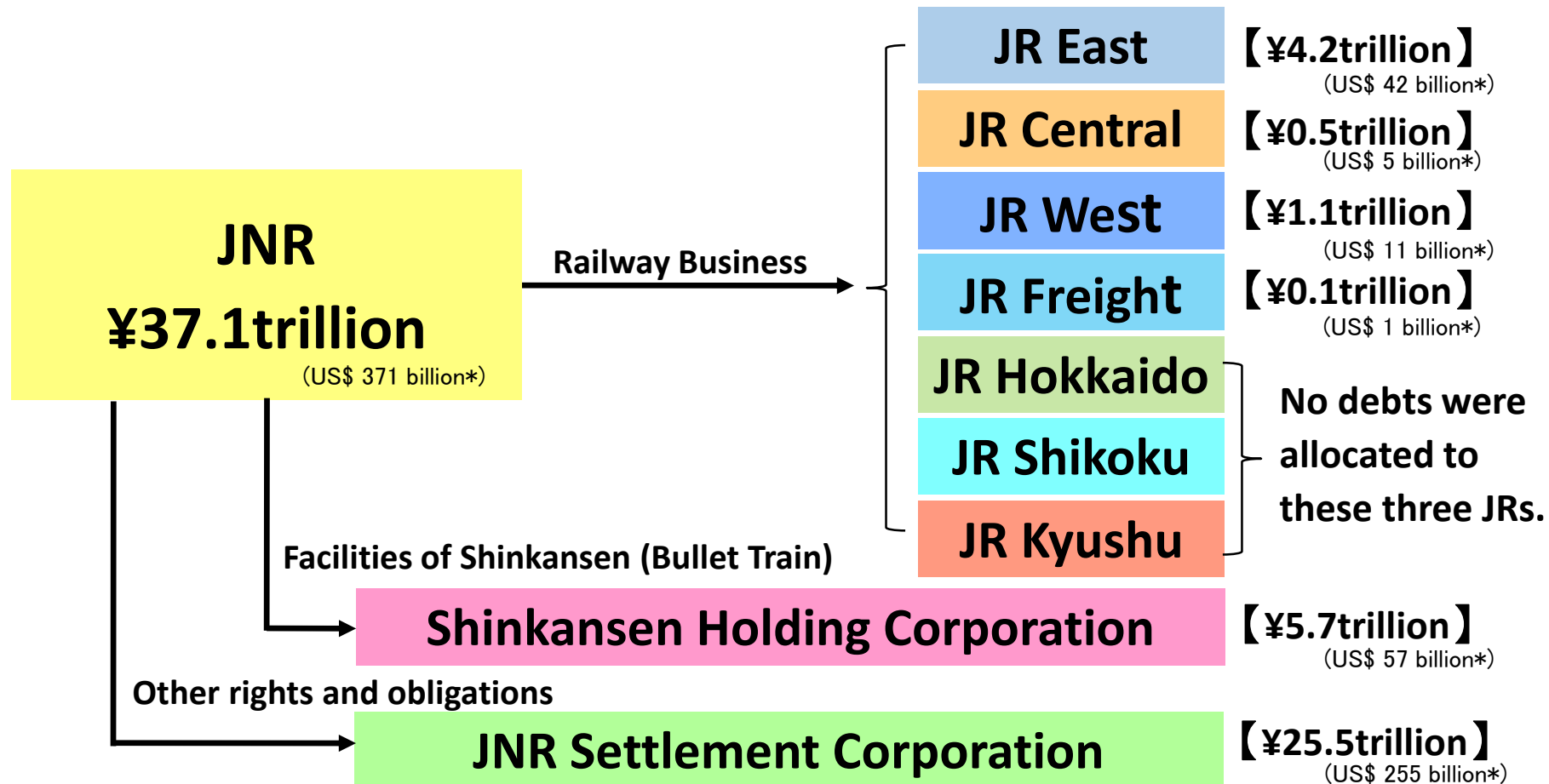
# Division of Railway Business

- Passenger railway was divided into 6 companies by region.
- Freight railway was decided to be exclusively operated by JR Freight.



# Allocation of Long-term Debts

- **¥11.6 trillion (=US\$116 billion\*)** was allocated to JR East, JR Central, JR West, JR Freight and Shinkansen Holding Corp. whose amount was as much as not harming good management.
- **Remaining ¥25.5 trillion (=US\$255 billion\*)** was allocated to JNR Settlement Corp. with the revenues of selling of lands unnecessary to railway business and JR stocks.



- JNR's business was **limited to railway** in principle.
- JRs' **business was not limited** for the purpose of maintaining their independence of business

## *Legal Status of JNR and JRs*

	<b><i>JNR</i></b>	<b><i>JRs in 1987</i></b>
Legal Personality	<b><u>Public Entity</u></b> (mostly same as governmental entities)	<b><u>Special Companies</u></b> ※ (Civil Code and Commercial Code are also applicable.)
Scope of Business	<b><u>Limited to railway operation</u></b> and related activities	<b><u>Any businesses are allowed</u></b> with the <u>governmental approval</u> ※
Governmental Regulations	<ul style="list-style-type: none"> <li>▪ Budgets are approved by the National Diet</li> <li>▪ All directors are appointed by the Government</li> <li>▪ Annual accounts are submitted to the Diet</li> </ul>	<u>Governmental approvals</u> ※are required: <ul style="list-style-type: none"> <li>▪ to issue new shares and long-term financing;</li> <li>▪ to appoint their managing directors; and</li> <li>▪ for their Annual Business Plans</li> </ul>

※ 3 major JRs (JR East, JR Central and JR West) have been exempted from the application.



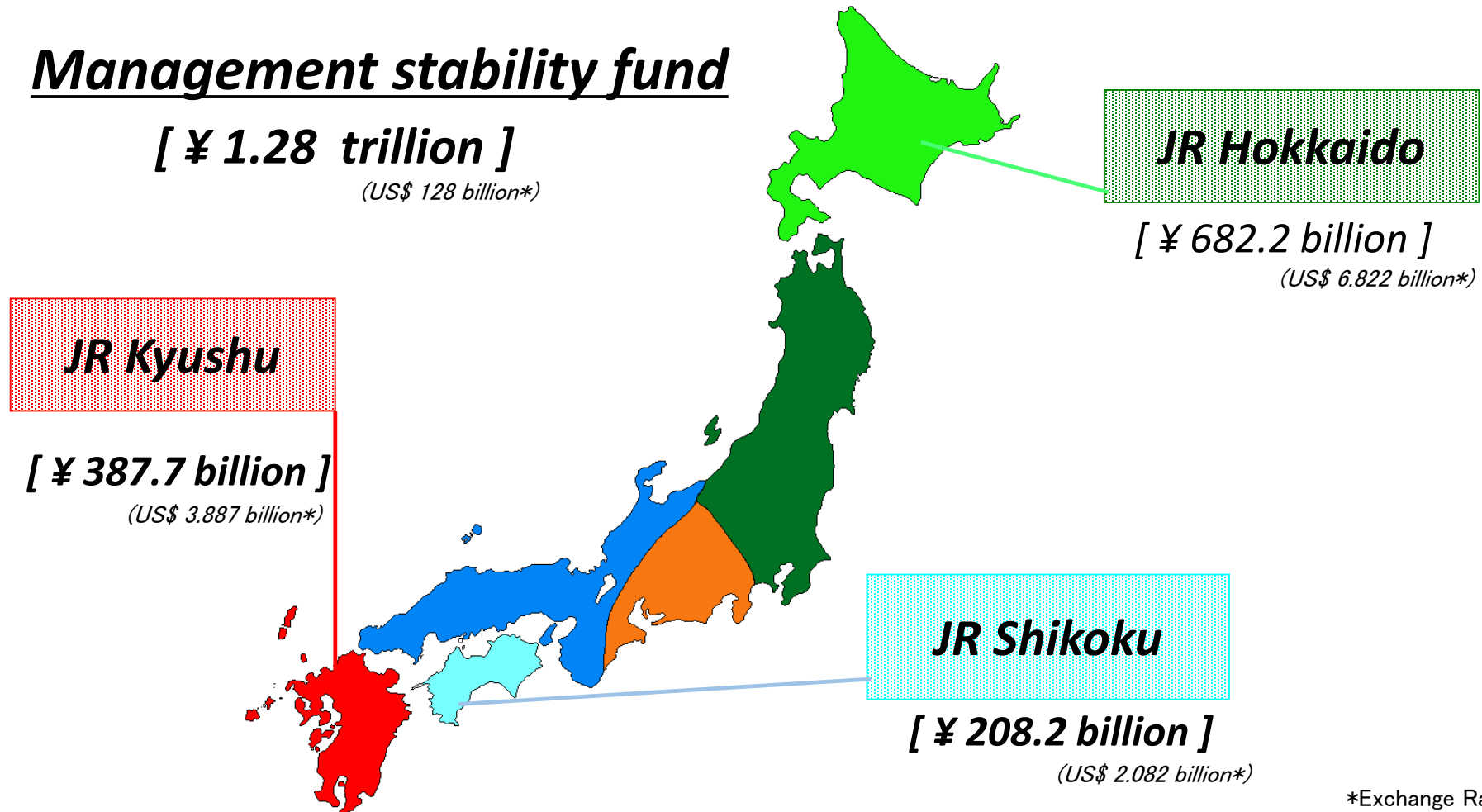
# Management stability fund

- It was decided that JR Hokkaido, JR Shikoku and JR Kyushu did not take over the long-term debts.
- In order to cover operating losses, it was decided to establish “**Management stability fund**”, which has been providing proper management revenues to these JRs every year.

## Management stability fund

[ ¥ 1.28 trillion ]

(US\$ 128 billion\*)



**JR Hokkaido**

[ ¥ 682.2 billion ]

(US\$ 6.822 billion\*)

**JR Kyushu**

[ ¥ 387.7 billion ]

(US\$ 3.887 billion\*)

**JR Shikoku**

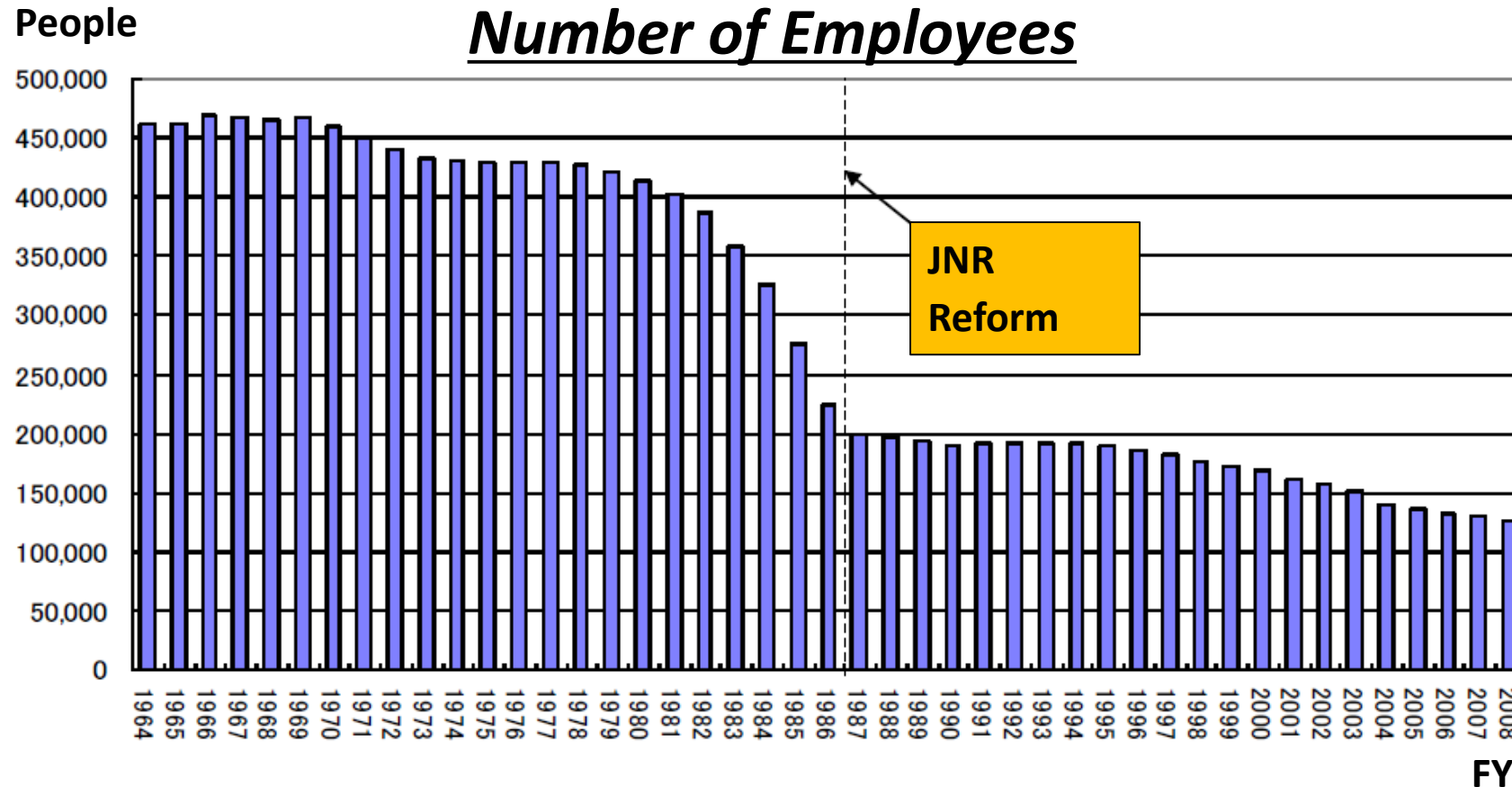
[ ¥ 208.2 billion ]

(US\$ 2.082 billion\*)

\*Exchange Rate US\$1 = ¥100

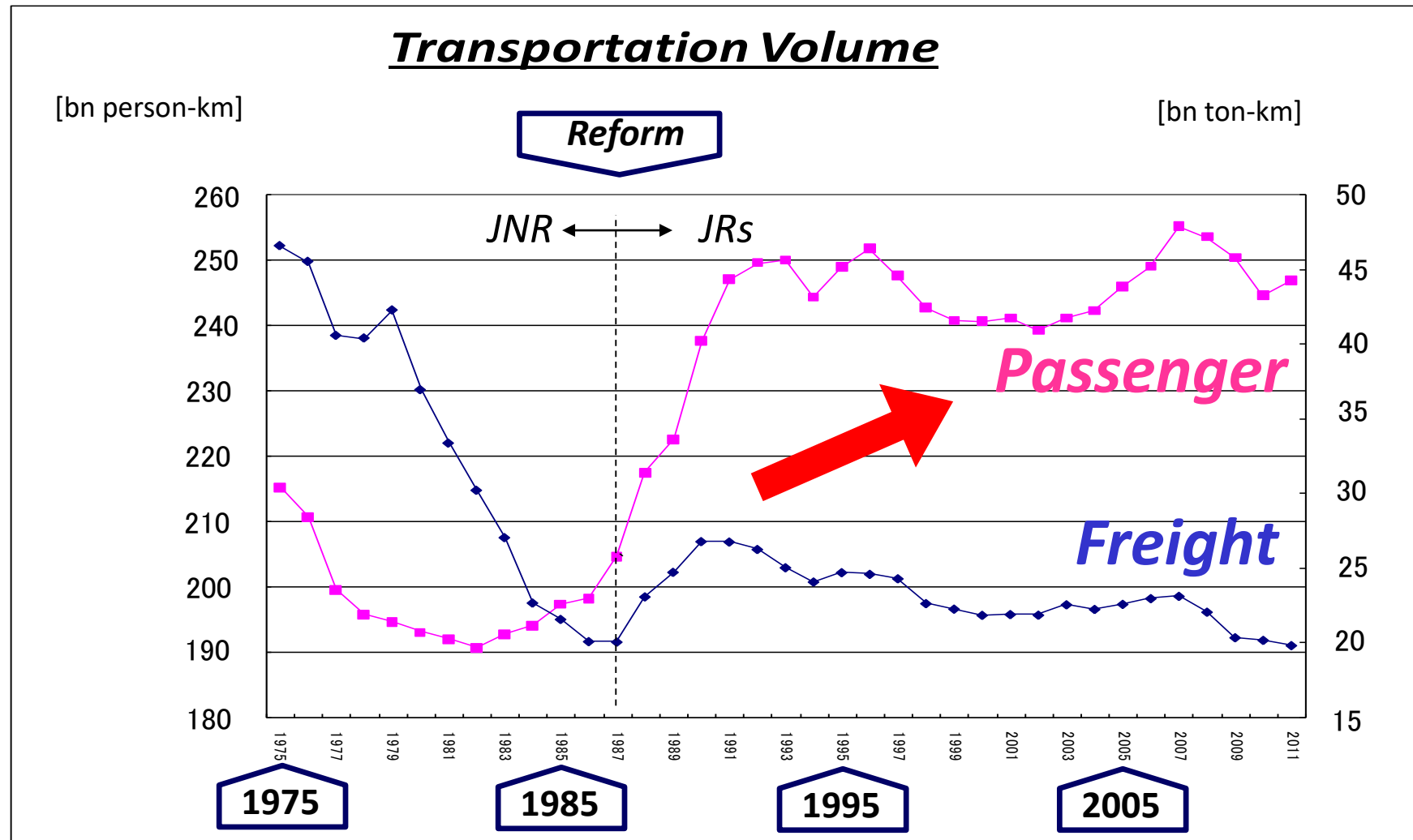
# Reduction of Personnel

- JNR had more than **460,000 of employees in 1965**. With a series of restructuring, it became 277,000 in 1986 the year before the privatization.
- Among these employees, **201,000 were employed by JRs**; 76,000 were employed by governmental entities and private companies with the assistance of outplacement.



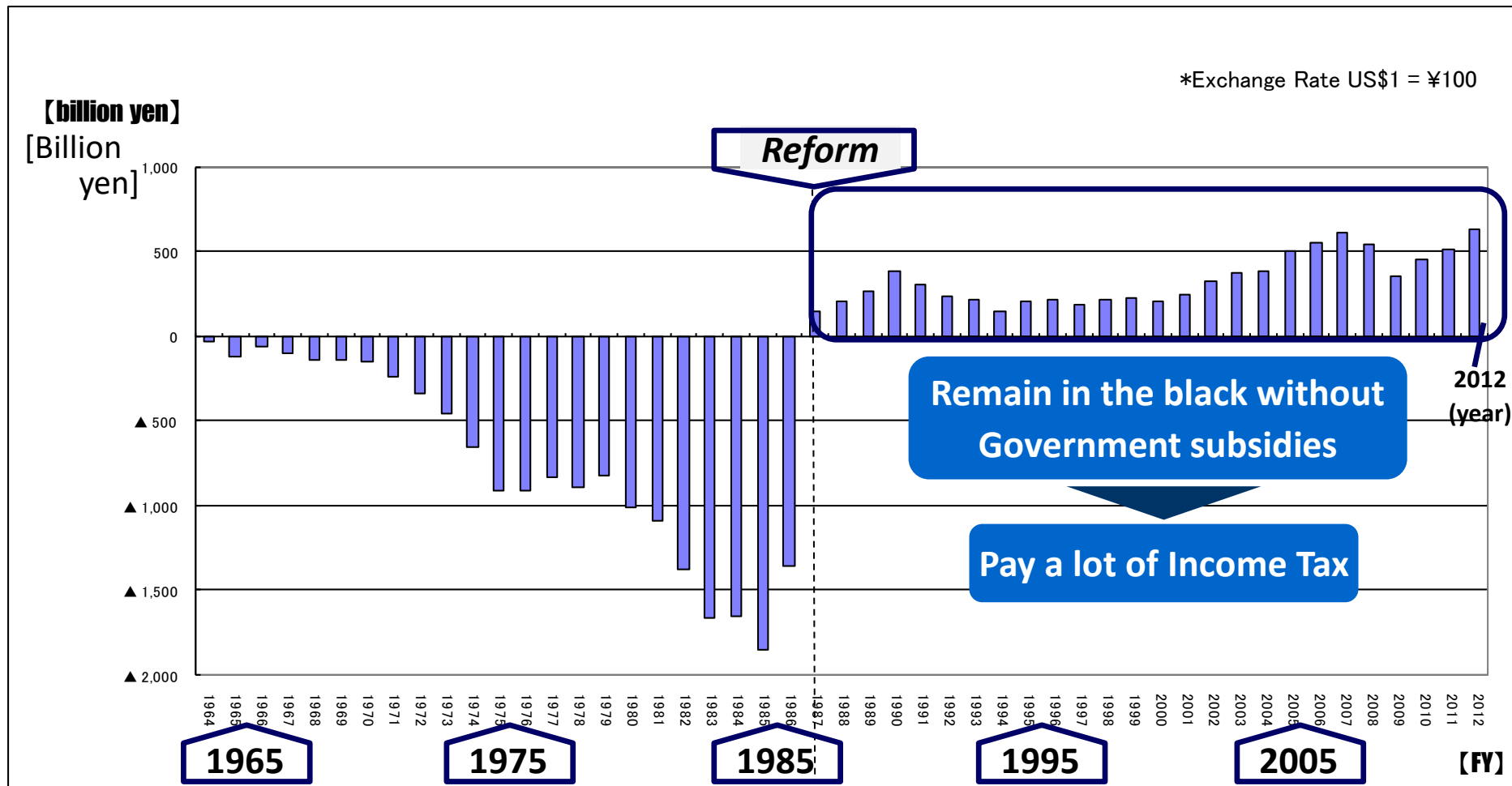
# Transportation Condition of JRs

- JRs' Transportation volume has been increasing. This is because fares have not raised (one exception of JR Hokkaido, JR Shikoku and JR Kyushu) and their services have been improved.



# Financial Condition of JRs

- Financial condition went dramatically better than the expectation of the Government of Japan.
- JNR was subsidized ¥600 bn (=US\$ 6 bn\*) a year (in 1985) but posted large deficits. However, JRs reached **¥630 bn (=US\$ 6.3 bn\*) of profits** and paid **¥260 bn (US\$ 2.6 bn\*) of taxes** to the Government in 2012.



■ After the JNR reform, the number of accidents has been steadily reduced

