

# Netzwerk Privatbahnen

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## NP Newsletter 4/07

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### 1. People's share

Popular, but not target-oriented

Publicising a DB people's share or registered share or a registered share with restricted transferability or even a preferred share with guaranteed dividends: This all sounds nice and citizen-centric, but it's no more than a placebo. Every kind of third-party investment in the **integrated** group only **cements** the rail infrastructure **within** the group. That is precisely the aim and precisely that is counterproductive in achieving the common goal<sup>1</sup>. If the infrastructure was later to be separated from the shareholder's assets, then this can only be achieved through expropriation. This applies to all types of investments and all types of shares. Network Private Rail is against any third-party investment in DB AG as long as it is the sole proprietor of the rail network. Network Private Rail is in favour of the full privatisation of DB AG, but the rail infrastructure must first be separated from the corporate group. Otherwise today's power structures will be perpetuated. As outlined in section 5, these power structures have not lead to any progress in German transport policy in the years since the rail reforms were introduced.

### 2. The bastion of the Bundesrat

The Länder are in agreement

The spokesman for the Länder Transport Ministers in the Bundesrat (Upper House of the German parliament), Minister Dr. Karl-Heinz Daehre (Saxony-Anhalt), mentioned one fundamental issue in the BR debate on October 12, 2007: "**The Länder** are responsible for local transport. They are, therefore, **guarantors** to secure the

<sup>1</sup> "More transport by rail" and "Priority for environmentally compatible modes of transport"

*assignments mentioned in the German Constitution for this sector. But we can only meet this responsibility if either we, ourselves, have the necessary instruments to do so or if we can rely on the Federal State to have these instruments at hand and use them in our interest. We are not prepared to agree to this bill as long as this reliability is compulsory in the reading of the text of the bill".* This ought to ensure that this bill is doomed to failure: the interests of the Federal States cannot be accommodated through cosmetic surgery to the text of the bill. The competitive rail operators have proposed a completely new approach<sup>2</sup>. Better a horrible end of that bill than horror without an end.

### 3. The bastion of the SPD party conference

The basis can't be taken for a ride

The SPD party conference on October 26, 2007 could turn out to be a bastion against the ratification of the privatisation act. SPD members of parliament were railroaded several times as the bill was being developed. However, up to now an obligation to tow the party line has always prevented a conflict manifesting itself. But the party faithful doesn't know where to begin with the partially trivialised, sometimes half-true or even incorrect reasons given by government and the management of German Rail (no withdrawal from the regions, no close-downs, 'fresh money' from the IPO, 'giving away' infrastructure at a prohibitively high 'repurchasing value', tactical communication on the condition of the rail network, and much more). Furthermore, the SPD is afraid of losing socialist votes to other parties: Mr Lafontaine and Mr Gysi are just waiting for the government to 'give away' German infrastructure to the evil capitalists. But the issue has a cosmetic flaw: Opponents of the bill in the SPD and DIE LINKEN are fundamentally against any privatisation. **However, Network Private Rail is lobbying for a) the immediate sale of the global logistics division b) for the (medium-term and socially compatible) privatisation of long-distance rail traffic, Regio and Railion while c) ownership of the infrastructure companies should be transferred to the state:** the rail network must be neutral. The scope and priorities of investments in rail infrastructure are subject to political decision-making processes. How much railway Germany would like to provide is a political question. As a profit centre, the railway is as unsuitable as the German Army (*Bundeswehr*), public schools or government registration offices. Only the *execution* of governmental guarantees is open for progressive management methods.

### 4. Selling Cologne Cathedral and selling DB AG?

High value for little money

At the beginning of the year, the Commerzbank assessed the current market value of DB to be around €12 billion<sup>3</sup>. It is futile to argue whether that is a few billion € too few to too much. According to the bill currently being proposed, private investors in the DB AG will obtain a share in an asset worth at least €150 billion, an utterly unimaginable amount. One is concerned when Mr Mehdorn says of this dissymmetry that the Cologne Cathedral would also have a negative market value because its maintenance costs are so high. Once certainly cannot disagree with him on this issue. But: who would think of selling the Cologne Cathedral and compare this hypothetical deal with the privatisation of the rail network?

<sup>2</sup> See end of section 3, "The bastion of the SPD party conference"

<sup>3</sup> [http://www.netzwerk-privatbahnen.de/pdf/070426\\_FAZ\\_Leserbrief\\_NP\\_Dementi\\_Commerzbank\\_DB\\_Bewertung.pdf](http://www.netzwerk-privatbahnen.de/pdf/070426_FAZ_Leserbrief_NP_Dementi_Commerzbank_DB_Bewertung.pdf)

Let's turn the tables around: under what conditions is an investor prepared (this also applies to shareholders of peoples's shares) to invest in a globally active logistics group which somewhere has a huge black money-hole into which many billions of € have to be pumped each year? The investor would only buy the shares a) if a thick, impermeable wall was built around this black hole and b) if a €-pipeline leads directly from government coffers into the hole, whereby the pipeline may have a few leaks. - The Federal Government's 'privatisation concept' has been designed precisely according to this model: setting up a globally operating and profitable conservation park for shareholders, the costs of which remain socialised. If 'completely unexpectedly'<sup>4</sup> in the next 10 years, €20 billion needs to be invested in the refurbishment of bridges, then shareholders will be delighted to pay for it. They're just waiting for it: the government has always said DB has to go "to the capital market" to raise private money.....

## 5. Disinformation I

### Rail reforms complete

As the half-yearly figures for DG AB were presented, rail boss Mehdorn announced proudly that the rail reforms were complete and their aims had been achieved. - Network Private Rail revealed, based on facts, that the development to date of the German railway can certainly not be celebrated as a success<sup>5</sup>.

Compared to all the other modes of transport (modal split) the railway only outperformed the figures from 1993 for the first time in 2006. The same applies to the passenger transport and rail freight market segments. So, this development can hardly be called a success, particularly since these figures would definitely have not been achieved if the hot breath of its competitors had not been breathing down the neck of DB AG. The DB AG still has stifling dominance over all sub-markets; in long-distance transport it even has a share of around 98%. Hardly anything has changed. *"In this situation, I believe it would be fatal to impede competition, the only long-term growth-driver!"* explained Hartmut Gasser, Chairman of Network Private Rail. He was referring to the government's proposed draft bill, which, according to almost all experts, would cement the integrated rail group long-term. *"We need a completely neutral rail network which does not make life for the railways more difficult, but which actively acquires its customers. This is the only way we are going to entice more traffic to travel by rail in all segments".*

## 6. Disinformation II

### No dismantling

Also on the occasion of the announcement of the half-year figures for 2007, the board of DB AG declared that rail tracks were only closed down in large numbers during the times of the old *Bundesbahn* and *Reichsbahn*. - Network Private Rail has also refuted this claim using facts<sup>6</sup>. Since 1994, twice as much track (7,200 km) has been closed down as in the 40 years between 1950 and 1990. The number of points has fallen by 47%. In 1994, there were around 12,000 connecting tracks to industrial areas and factories; today there are only around 4000. There are also the serious quality losses in the rail infrastructure as a whole, which even smart, newly constructed routes cannot sweep under the carpet.

<sup>4</sup> <http://de.news.yahoo.com/dgp/20071007/tbs-bahnprivatisierung-risiken-fuer-steu-625dbdf.html>

<sup>5</sup> NP statement, "The task of rail reforms has not been completed"

[http://www.privatbahnen.com/pdf/070920+NP\\_PositionsP\\_Der+Auftrag+der+Bahnreform+ist+nicht+erfuellt.pdf](http://www.privatbahnen.com/pdf/070920+NP_PositionsP_Der+Auftrag+der+Bahnreform+ist+nicht+erfuellt.pdf)

<sup>6</sup> NP statement, "Massive dismantling of rail infrastructure since the start of rail reforms"

[http://www.privatbahnen.com/pdf/071002+Position\\_2\\_Netzwerk+Privatbahnen\\_Rueckbau+bei+der+Schieneinfrastruktur\\_F.pdf](http://www.privatbahnen.com/pdf/071002+Position_2_Netzwerk+Privatbahnen_Rueckbau+bei+der+Schieneinfrastruktur_F.pdf)

## 7. EU Complaint

### State-backed DB AG leads to competition distortion

The many concluded and planned foreign investments by Deutsche Bahn AG have lead Network Private Rail to submit a complaint with the European Commission in Brussels<sup>7</sup>. The reason for this action was reports that the Bahn AG intended to secure rail infrastructure and logistics locations in Slovenia with 'enormous investment sums'. The talk was of €9 billion. Deutsche Bahn also intended to control the Mediterranean harbour, Koper, in Slovenia. The strategic importance of the harbour of Koper for the logistical development of Europe from the south cannot be evaluated highly enough.

Private rail freight operators have complained that the German state railway can only expand so fiercely because they are financially backed by the state which gives it unlimited financial opportunities. Private companies, on the other hand, can only expand in line with their own creditworthiness and financial strength. Network Private Rail further claims that this kind of state-subsidised expansion impedes competition. If the EU Commission does not intervene then a kind of 'National Champion' will be bred which would develop exclusively at the expense of the private sector. Consequently, Network Private Rail has called on the EU Commission to prevent the expansion of Deutsche Bahn AG abroad which disadvantages private rail freight operators. The EU Directorate General for Transport and Energy is looking into the complaint under the aspect of subsidy law.

## 8. Internal matters

### Welcome to new members

Network Private Rail's website was completely redesigned in March. New sections have been set up, a search function has been installed, you can now subscribe to the newsletter and last but not least: a locomotive permanently pulls a freight train with the logos of all our member companies across the screen. The website has been well received. The number of visits from April to September rose by 900%.

Membership of NP is also a commitment to competition. This is certainly a problem for many potential members because all rail operators are completely dependent on DB as the owner of this natural monopoly, "railway" - the number of members has recently increased by three: Floyd (Budapest), CTL Logistics (Düsseldorf) and Pressnitztalbahn (Jöhstadt)<sup>8</sup>. Welcome to the club.

<sup>7</sup> [http://www.privatbahnen.com/pdf/071011+EU+Beschwerde+wg+Expansion+DB+\(aktualisiert\).pdf](http://www.privatbahnen.com/pdf/071011+EU+Beschwerde+wg+Expansion+DB+(aktualisiert).pdf)  
[http://www.privatbahnen.com/pdf/071012+Mail+an+DG+TREN+wg+Ergaenzung+der+Beschwerde+v+11\\_10+\(Spread\).pdf](http://www.privatbahnen.com/pdf/071012+Mail+an+DG+TREN+wg+Ergaenzung+der+Beschwerde+v+11_10+(Spread).pdf)

<sup>8</sup> Annaberg district/Free State of Saxony

## 9. And finally...

Greetings from Freud

ARD Talkrunde on Sunday evening, October 14, 2007. On the subject of 'DB AG's privatisation bill', Anne Will asked the Federal Minister for Transport, Mr Tiefensee: "If your plans are so great, why can't you convince your colleagues?"

The Federal Transport Minister's answer (analogous):

***My colleagues have the problem that they are too concerned with the period after the draft bill has been ratified... ....***

Until the next newsletter

Yours sincerely,



(Arthur-Iren Martini)

The German version of this Infoletter → [http://www.privatbahnen.com/index.php?option=com\\_frontpage&Itemid=1](http://www.privatbahnen.com/index.php?option=com_frontpage&Itemid=1)