Friday, 2 December 2005

Press Release

Deutsche Bahn's acquisition of Bax Global

ERFA noted DB's acquisition of American international freight transportation and supply chain management company Bax Global with great interest. In principle ERFA welcomes any move made by a European transport operator to make itself competitive on the global logistics market. However, when the company is question is fully state-owned (like DB) and has, for years, failed to generate profits of its own that could finance such takeovers, the question arises as to how the deal was funded.

ERFA previously criticised the EU's approval of state subsidies for French operator SNCF. In this case it is calling upon the relevant departments at the European Commission to investigate DB's purchase to ascertain whether or not the German government awarded DB any inadmissible aid and to investigate any potential cross-subsidisation by DB Regio within the DB group. The Commission may also wish to examine whether or not DB, which is already increasingly dominant in numerous international transport markets, is illicitly expanding its leading position in Germany at the expense of small and medium-sized rail operators or others in the logistics chain such as forwarders which have become active on public networks since the sector's liberalisation.

The acquisition of Bax Global raises the question of what the consequences will be if the company turns out to be loss-making, rather than profitable as expected. DB is already deep in debt and is once more having to secure funds on the capital market to finance its acquisition. In this loss-making scenario, it is questionable whether DB can continue to meet its obligations as infrastructure operators - since, as we all know, DB is both a rail service provider and infrastructure operator. This year alone DB has hoarded €450 million's worth of state funds, maybe to make its balance sheet more attractive in the run-up to an impending IPO, maybe to save cash flow for acquisitions like that of Bax Global. Thus, DB seems to be pursuing a policy of disinvestment on its domestic market in favour of stepping up its investments abroad. In so doing, DB is exploiting an advantage that none of its competitors has: Since DB is a state-owned company, its debt rating is virtually the same as the top rating in the Federal Republic of Germany. As a result, it is far cheaper for DB than any of its domestic rivals to secure financing in Germany, Europe and worldwide. And because network tariffs are not rising at the same pace as interest rates on the international financial markets, the question is how DB envisages continuing to finance the rail network if its massive mountain of debt continues to grow and the logistics sector fails to net the expected profits. The current historic low in interest rates won't last much longer.

Based on its business running the German rail network, DB has piled up a tangled mass of global risks that have little to do with the German railways. In fact, DB's entire empire rests on the assumption that the state will leap to its aid if need be. That is the conviction of the people concerned and also what the company's lending banks are relying on. At least that is the conclusion reached by analyses performed by international rating agencies. Under the laws governing subsidies, this state of affairs should really be defined as inadmissible 'latent' support. Since the rail network represents the bridge on the state's obligation to intervene (Article 87 of the Basic Law), DB cannot be listed on the stock exchange unless it has an integrated rail network.

Following DB's acquisition of Bax Global, ERFA calls upon the relevant departments of the European Commission and German federal government to create the conditions for genuine competition in the rail sector by inducing the clear institutional separation of networks and operations. If Germany intends to continue playing the pioneering role in Europe that it has claimed to play in the past, it should set an example that is both politically correct and respects competition laws. The leading role highlighted by DB itself regarding the number of competing players in Germany would then not only be purely quantitative, but in actual fact also qualitative in nature. In other words, the high number of railway SMEs would then be 'real' competitors.

In the current context of intermodal competition, i.e. with road traffic, such a development could only be welcomed. For whilst the market share of rail transport is stagnating or only growing slowly, road transport is notching up double-digit growth. In this connection, lack of investment in the infrastructure or diverted investment is prompting disastrous developments. After all, today already DB finds itself unable to run a rail network with persistently free, smoothly flowing traffic. On the rail networks in Bavaria and Baden Württemberg alone the number of bottlenecks has risen by more than 30% over the past year.

ERFA represents the interests of private, independent rail freight operators. Its mission is to eliminate any administrative, technical, legal or political disadvantages and hindrances that make it difficult or impossible for competing operators to build up their business in the sector or deliver rail freight services. In performing this task, ERFA, like many other stakeholders, is very clearly advocating the vertical separation of state-owned railway monopolies since, only by this means, will ERFA members be able to compete fairly with the state owned train operators. Only when this separation has been done can operators and infrastructure providers genuinely concentrate fully on their core task. Infrastructure operators in particular could then actively engage in the sale of sections of line, which is not the case, especially in today's Germany.

For further information, contact:

Mr R. Spierings	ERFA President	0031 646 38 72 09	r.spierings@european-bulls.com
Mrs M. Heiming	ERFA General Secretary	0032 476 88 96 46	monika.heiming@erfa.be