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UK rail franchises face threat from abroad

By Mark Odell and Rose Jacobs

The winning bid by a unit of the Dutch state rail operator for the Greater Anglia rail franchise was almost a fifth higher than those of UK-based rivals, according to data released by the government.

The gap between the winning bid and those from the two losing, shortlisted candidates – Stagecoach and Go-Ahead – underlines the threat posed to the incumbent London-listed transport groups by a growing number of continental European state-owned rail operators.

The government is close to finalising its review of rail policy, which could be published before the end of the month, and has already signalled that it is looking to attract big foreign operators as part of a shake-up of the UK rail industry. More than half of the 19 rail franchises are up for renewal over the next three years.

Abellio, a subsidiary of Nederlandse Spoorwegen, which took over the running of the Greater Anglia services out of London Liverpool Street this month, secured the 29-month franchise by offering to pay the government £418m. This compares with losing bids of £359m and £347m, according to information released by the Department for Transport following a freedom of information request by *Local Transport Today* magazine.

Karl Burns, a transport analyst at Shore Capital, said the premium payments looked “really punchy”.

He pointed out that National Express, which held the franchise before Abellio, paid the premiums of £91m in 2010 for its two rail franchises, including the smaller C2C, compared with the £151m Abellio will be paying in its first full year running Greater Anglia.

He added: “To stand still it will have to grow revenues by a rate of 5.5 per cent a year, on a franchise that is quite commuter-focused, at a time when employment levels might be dropping.”

“I don’t think they’ll be making much money on this at all, but it is a foothold and a warning shot – especially to small operators in this country, such as Go-Ahead.”

Abellio said: “We submitted a high quality and commercially deliverable bid for the Greater Anglia franchise, with a very strong emphasis on customer service.” It refused to comment further.

Analysts are watching the competition for one of the UK’s biggest and most lucrative rail franchises – the intercity West Coast line between London, Manchester and Glasgow – closely. The government has shortlisted the incumbent Virgin Trains, a joint venture between Virgin Group and Stagecoach, along with FirstGroup, Abellio and Keolis, a company controlled by France’s SNCF. The winning bidder is expected to be announced in August and Virgin Trains is growing increasingly concerned about the threat from the foreign bidders.

Mr Burns pointed out that because of the state-backed operators’ lower cost of capital, they could bid more aggressively as they do not need to make the same rates of return as their listed rivals. “Based on these numbers [for Greater Anglia], I think competition is going to be tough.”

The Dutch and French state rail operators already have a sizeable presence in the UK market through joint ventures, along with Deutsche Bahn, the German state rail group, through its acquisition of Arriva in 2010.

Renfe, the Spanish state-owned rail operator, and MTR, the Hong Kong-listed, government-controlled transport group, are also looking at opportunities.