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SNCF chief seeks route to serve commuters

By Mark Odell and James Boxell

France's SNCF is best known for the high-speed TGV, but the state-owned rail operator is looking to the commuter sector as it seeks to modernise at home and expand abroad.

"We serve 10m passengers a day in the world and among those 10m there are 300,000 on the TGV. So I would say it is something very important in terms of image and reputation ... but most of our customers are daily commuters ... and that is our main job," says Guillaume Pépy, chairman and chief executive of SNCF.

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The high-speed train division accounts for just over a fifth of group revenue, which reached €33.8bn in 2012. This compares with €13bn of turnover from the regional transport division and €9.5bn from the global logistics and freight business. While freight and logistics is established as a "truly global business", Mr Pépy says the real growth prospects lie in mass transit services such as commuter rail, metro, trams and buses.

In 1981, France became the second country after Japan to launch high-speed rail services. After decades of investing in the TGV, it is switching its focus to its neglected core business at home, as well as further expansion abroad.

Mr Pépy estimates it will take 10 to 15 years to bring France's conventional network up to scratch.

But that will not deter him from pursuing his other strategic aim of expanding SNCF's international footprint. The opportunities are there with more governments around the world looking for expertise in setting up integrated public transport systems as increasingly congested cities get bigger.

SNCF is already the largest provider of urban transport services in France, through its Keolis subsidiary, which runs metro, trams and bus services in areas such as the Ile de France region around Paris and towns and cities, including Bordeaux, Brest and Lyon.

Keolis, in which SNCF has a 70 per cent stake (the rest is held by Canada's Caisse de dépôt et placement du Québec), started its international expansion about a decade ago and now accounts for about a third of the turnover of SNCF's regional transport division. About half of that comes from its international operations.

Mr Pépy has identified Keolis as the “most important” part of the company’s drive to grow the contribution from its international operations from 25 per cent of SNCF turnover now to 30 per cent by 2017.

Last year, Keolis entered its 12th international market when it won an eight-year contract, thought to be worth €300m, to operate the new Hyderabad metro in India, due to open in 2014.

It was its first contract in Asia, a region Mr Pépy says has “problems in developing a sustainable mobility system for very big cities” amid rapid urbanisation. While China is dealing with the issue by developing its own expertise, he sees plenty of opportunities in India.

Australia is another key market for Keolis, where the government is turning to public transport in a bid to get people out of cars. It operates the tram network in Melbourne – the largest in the world – and has recently won the tender to run a new network being built along the Gold Coast.

In Europe, the UK and Sweden, which have the most liberalised transport markets in the region, remain the priority for Keolis. SNCF faces stiff competition, largely from European rivals, especially Deutsche Bahn of Germany.

The smaller UK transport groups – National Express, FirstGroup and Stagecoach – also compete in some of Keolis’s markets, but Mr Pépy identifies Hong Kong-listed MTR as the “big newcomer”.

Mr Pépy, who is close to France’s ruling Socialist party, has been linked with the chief executive post at state-controlled nuclear power group EDF. But he says: “I really would like to continue [at SNCF] and implement the French railway system reform that the government is designing, so I’m applying for a second-term mandate, and it will be decided within the next few days.”

Mr Pépy insists he would welcome more competition in France, despite a recent move, backed by SNCF, that saw Paris and Berlin water down a plan by Brussels to introduce further competition.

In France, the domestic passenger market remains shut. “We believe that competition is a driving force for innovation and productivity,” says Mr Pépy, although he admits that under current proposals domestic rail services do not have to be liberalised until 2019.

Even with its vice-like grip over its domestic passenger rail and access to international contracts, SNCF reported operating profit of €1.196bn in 2012 – a margin of just 3.5 per cent. Competition could prove quite painful.

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