

Rail and bus firms poised to cash in on assets sale in Europe

UK transport companies frustrated at delays to rail bidding competitions are turning to Europe as cash-strapped governments are forced to open up their train and bus markets.



National Express, which has a significant Spanish business, is also pushing further into Europe after winning two 15-year contracts to run commuter rail services to Cologne and Bonn. The group is similarly rolling out coach services in Germany. Photo: PA

By Nathalie Thomas

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Continental Europe's €145bn (£122bn) transport market is expected to provide a rich source of income for UK rail and bus operators over the next five years, as other European countries turn to privatisation.

Crisis-hit countries, including Spain and Portugal, are due to open up their rail systems to private operators in an effort to reduce the public debt.

Companies such as Arriva are also keeping a close eye on developments in Eastern Europe, as EU legislation forces cities to hold bidding competitions for lucrative bus contracts by 2019.

David Martin, chief executive of Arriva, the UK company bought by Germany's Deutsche Bahn in 2010, said Europe was likely to offer rich pickings.

"Historically, and still at the moment, much of Europe is still largely controlled by state-owned and city-owned monopoly operators on trains and buses. All of that marketplace will come to competitive tender at some stage over the coming years," Mr Martin said in a rare interview.

"The financial pressure post-2008 and the euro crisis is clearly putting massive pressure on both state and local governments to reduce subsidies. And the way to reduce subsidies is effectively to open their markets up to a private operator."

Mr Martin believes the European transport market could potentially be worth more than €145bn, as European cities will have to comply with legislation that dictates that contracts to run bus services will have to be put out to competitive tender by 2019.

The group has recently won two eight-year bus contracts in Budapest, worth €29m a year, through a joint venture in Hungary.

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According to a report by KPMG, even more advanced European markets such as Sweden will continue to present opportunities for UK rail companies, as the Swedish state operator, SJ, continues to lose market share to private rivals.

Both National Express and Arriva were among the four bidders that lost a combined £40m when in January the British Government controversially scrapped a bidding competition to run Great Western rail services, between London, Bristol and Cardiff.

The competition was halted in the wake of last year's West Coast Main Line scandal, which triggered a rethink of the rail franchise timetable.

Only three franchise competitions will now be held before the General Election in 2015 – for Essex Thameside, Thameslink and East Coast services – frustrating rail companies that have been employing expensive bid teams.

Mr Martin said a decision by Patrick McLoughlin, the Transport Secretary, to cancel all bidding rounds in the wake of the West Coast fiasco was an over-reaction.

"I was very disappointed that they suspended the whole process," he said.

The Arriva boss, who has been in the industry since 1986, urged the Government to cut down on the bureaucracy surrounding rail franchise competitions.

"We have got an opportunity now to put some crazy things right," Mr Martin said. "Effectively in the past, the franchises were totally over-prescriptive and utterly crazy in a real commercial world, and restricted the operator from being able to respond to market and economic changes.

"The ludicrous situation then is potentially you could be running trains with nobody using them but you can't actually stop running them. The whole process is ridiculously bureaucratic – clearly from my perspective I don't want to spend £10m on just putting a bid together and I think it can be done more effectively."

Mr Martin said that if the UK system became too bureaucratic, Arriva would pursue more opportunities abroad. The firm already operates in 11 other European countries.

"Look at my perspective: I don't need to win a UK rail franchise, I have huge growth opportunities running railway franchises in many different countries," he said. "It's a part of my portfolio so if it becomes overly bureaucratic and the risk-reward ratio doesn't work for me, I don't desperately have to do it."