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Russian Railways Moves Closer to French Logistics Purchase

By Roland Oliphant

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Peugeot automobiles being assembled on a GEFCO production line.

Russian Railways has entered into exclusive negotiations to buy PSA Peugeot-Citroen's GEFCO logistics holding, after the French carmaker identified the rail monopoly's bid as the most attractive, Russian Railways said Thursday.

The acquisition would be a significant boon to the Russian rail monopoly in its long-term goal of building an overland cargo route from China to Europe.

Russian Railways submitted an 800 million euro ($1 billion) bid for a 75 percent stake in GEFCO on Sept. 5, outbidding other suitors.

GEFCO, which ships Peugeot and Citroen cars around the world, is one of the struggling French carmaker's only profitable divisions. PSA is selling the stake in an effort to alleviate growing debt.

PSA Peugeot-Citroen would receive a special dividend of 100 million euros from GEFCO as part of the deal, which is subject to approval by competition regulators in both countries.

Russian Railways said it intends to retain all of the company's divisions, including those that provide services to PSA, and keep the same management in place if the deal goes through.

Christian Lafaye, a spokesman for the union representing PSA workers, said a debate is now under way about whether to sell 75 percent or 51 percent of the company, Reuters reported.

The acquisition was not included in Russian Railways' investment program, and analysts say they expect the company to fund the deal by borrowing on the debt market.

Russian Railways said the acquisition would benefit it and the Russian economy as a whole by decreasing production costs "thanks to world-class state-of-the-art logistic technologies" and an increase in "the effectiveness of using existing infrastructure through the optimization of transportation."

But the most prized goal seems to be using the company to build the Russian Railways' long-planned "Eurasian land bridge," an overland cargo route between east Asia and Europe.

"The acquisition of GEFCO would help Russian Railways to promote the attractiveness of transit cargo flows along the Europe-Asia transcontinental route," the company said. "Russian Railways has recently undertaken a significant amount of work to be in a position to offer competitive transportation services along this route."

The "next logical step" would be developing a sales network for transcontinental transportation services via an international logistics company, the company added.

One industry professional described the acquisition as part of a "serious play" on the part of Russian Railways to become the dominant provider on the route.

"We're going to see a shift in power in China-to-Europe logistics, which has previously been dominated by Deutsche Bahn," said Alexander Rogan, CEO of AJR Logistics.

Russian Railways has also made offers for Poland's PKP Cargo, the second-largest rail freight operator in Europe after Deutsche Bahn, and has expressed interest in cargo operators in Bulgaria, Slovakia and Greece.

Earlier this year, Russian Railways president Vladimir Yakunin announced that the monopoly would contribute its 50-percent-plus-one-share stake in TransContainer to a joint venture with Kazakhstan and Belarus to carry container traffic between Asia and Europe.

The joint venture has yet to be approved by the Russian government, however. Transferring GEFCO to TransContainer might make the Kremlin more favorable, although the final decision is likely to be "more political than financial," said Andrei Rozhkov, a transportation analyst at Metropole.

Yakunin has frequently expressed an interest in developing a Eurasian land bridge and has even expressed support for building a rail tunnel beneath the Bering Strait to Alaska.

While the overland rail route is much quicker, even the longest trains cannot compete with the sea route on either price or volume, meaning the route would likely have to focus on high-value goods customers are keen to get to market quickly.

Rogan said many in the industry believed China is seeking to boost overland links to Europe in case territorial disputes in the East China Sea threaten the security of sea routes.

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