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Rail

China to loosen west's grip on rail sector

By Robert Wright
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At Siemens' train-making plant in Uerdingen, near Düsseldorf, engineers wear 3-D spectacles as they examine detailed projections of their company's latest designs. The facility lets them rotate multi-dimensional projections of the train and its components to see how easily they can be maintained, how comfortable the driver will be and other minute details.

Similarly impressive work is undertaken at General Electric's main locomotive plant in Erie, Pennsylvania, where the company works to cut fuel consumption and develop hybrid, power-saving techniques.

The world's big-three passenger train manufacturers – Siemens, France's Alstom and Canada's Bombardier – along with GE and Caterpillar's EMD Division, the dominant forces in diesel locomotives, have long bet advanced technology would keep them on top of the world's rail supply market. All have transferred some technology to Chinese partners, largely trusting their designs will not be misused to develop other products.

All argue that, while their products might cost more to buy than those from emerging economies, their superior technology makes them cheaper and more reliable.

But the results of the latest rail market report commissioned by Unife, the European railway industry association, raise the possibility that the big manufacturers could lose market share to cheaper Chinese products.

According to Peter Ulrich, the Boston Consulting Group partner who oversaw production of the report, the question for the big rich world manufacturers is no longer how they should position themselves in the Chinese market. "It's also: 'How do I position myself with the Chinese or against the Chinese outside China?' " Mr Ulrich says.

The dilemma has already faced Siemens after it initially bid to supply high-speed trains for Saudi Arabia's inaugural high-speed rail project – between Mecca and Medina – then instead decided to join a Chinese-led consortium.

Chinese manufacturers are expected to challenge to build infrastructure and supply trains in emerging markets, such as Brazil, Vietnam and South Africa, which are considering developing high-speed rail services. The country's trainmakers could be natural choices to supply diesel locomotives to the many railways being built or modernised by Chinese companies in Africa.

Such developing markets may not feel their needs are met by sophisticated European and North American products, Mr Ulrich says.

But China's suppliers face uncertainties. While there are many Chinese-built high-speed trains in China, all current models are based on European or Japanese technology, and under the technology transfer agreements, exported trains must be new and cannot be based on this.

According to **Henry Posner**, a US-based railway investor with experience of Africa, reliability problems have also been reported with some Chinese-built diesel locomotives exported to African countries.

European and North American suppliers' technology is expected to retain an edge for some time.

"With European suppliers, with some products it's taken time for us to develop the maintainability and reliability of our products," Michael Clausecker, director-general of Unife, says. "There's still a gap."

Lorenzo Simonelli, chief executive of GE's transportation division, hopes there will be space in the marketplace for all the suppliers. His company has some joint ventures with Chinese suppliers, as well as competing with them elsewhere.

"We focus on technology and making sure we provide what customers say they need," he says.

Yet Mr Ulrich's study predicts a slowdown in average annual growth rates in Asia's rail markets to just 2.5 per cent in the period to 2015-16. That could leave factories supplying China's high-speed network with spare capacity. "Those companies will look for opportunities outside China," Mr Ulrich says.

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