

# The privatisation of the German railways system and the train drivers strike

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The current conflict between train drivers and the German Railways (Deutsche Bahn—DB) is taking place against the background of the planned privatisation of the German railway system. This accounts for the determination and obstinacy on the part of the DB management led by Hartmut Mehdorn, which has rejected any concessions to the train drivers.

The aim of the privatisation is to transform a national service built up over decades with taxpayers' money into a globally operating logistics enterprise and a lucrative asset for private investors. Such a step presupposes low levels of wages and social conditions. The high levels of profits expected by the private investors can be only be achieved at the expense of the workforce and the quality of a service that, up until now, has been carried out by the railways as a public service.

In this respect, the strike by train drivers comes at a very inopportune moment. To launch German Railways on the stock market, it is necessary to demonstrate to investors that it has an obedient and submissive workforce.

While the exact form and timing of the launching of the railways on the stock exchange is still being haggled over, it represents the final stage in transforming the railways into a purely profit-driven enterprise. German Railways are at the moment still in the hands of the state, but the current company has little in common with the West German Railroads Co. and the National Railroad of the GDR (former East Germany), which merged together following the reunification of the country in 1990.

The transformation of state-owned railways into internationally competitive private concerns is taking place across Europe under the direction of the European Union. This constitutes the international background to the current train drivers' strike. With his refusal to compromise, Mehdorn is not only seeking to make an example of the train drivers and other railway personnel in Germany; he also wants to set a precedent for opposing wage demands in all other European states. Only recently, rail workers in France took nine days of strike action to defend their pension entitlements.

In 1991, the European Union Council of Ministers adopted the guideline 91/440/EWG, which, under the slogans of "liberalisation" and "deregulation," opened the way for the European-wide transformation of state railways into private enterprises. It obliged member countries to restructure their railways along competitive lines, separating their accounting systems from the national budget, allowing other enterprises access to the railway system, and dividing the bookkeeping for the infrastructure and railway traffic—all basic conditions for the introduction of competition into the railways.

The direct consequence of this guideline was a massive wiping out of jobs. In the following seven years, rail personnel in Denmark and Sweden were cut by 47 percent, respectively, and in Italy, 41 percent of employees lost their jobs. In France, 13.4 percent of workers were made redundant.

In Germany, the European Union guideline was integrated into the Railways Reorganisation Law of 1994, which led to radical changes in the industry. As well as splitting off unprofitable branches, rationalisation

measures, personnel reduction, wage cuts and the introduction of new technical measures, new internationally active divisions were created or purchased in the sphere of long-distance traffic, goods transport and logistics.

In a second stage of the railways reform in 1999, individual branches such as long-distance traffic, Regio (suburban traffic) and Railon (goods traffic), as well as station and service, were converted into state-owned shareholdings.

Within the framework of the reform, officials employed by the railways were subordinated to a new authority. Following a cap on the recruitment of officials based on the former criteria, three quarters of these formerly well-paid jobs had been done away with by 2000.

In total, one half of all German rail jobs were axed: the number of railway employees sank from 482,300 in 1990 to 294,000 in 1995 and to 209,600 in 1998. In the context of the global expansion of the company, employment levels rose to 242,000 in 2003. If one compares the employment figures to overall turnover, however, it is clear that the company is continuing its savings on personnel. Between 2003 and 2006, the global turnover of the company rose from €23.03 billion to €30.1 billion, while employment fell once again in the same period by almost 14,000 to 229,000.

The wages of rail personnel have also been subject to continuous decline. This is clear from a current European-wide comparison. In Germany, a childless train driver with two years' professional experience earns a net €1,290 per month. Only Polish drivers receive less. In Switzerland and France, train drivers earn approximately double this amount.

The regionalisation of the railways is also aimed at shifting the burden of expenditure—this time onto the individual German states and consumers forced to pay rapidly increasing prices for train tickets. With less money allocated in rail subsidies by the national government to the states, the Alliance for Rail federation has estimated that in the coming four years, a further fifth of all suburban traffic will be shut down, while ticket prices will rise by an additional 10 percent.

At the same time, the company's profits are soaring. It expects a record gain of €2.4 billion this year (€2.1 billion in 2006). Chief executive Mehdorn now regards the time as ripe for handing over the railways to private investors.

Rail traffic currently constitutes just one half of the business activities of the German Railways. In addition to long-distance passenger traffic, the company is systematically expanding its network of international goods transport and global logistics—preferably in cheap-wage countries. Business is being concentrated in those areas that are especially attractive for private investors.

A third of the company's turnover is now earned abroad. China, for example, promises growth rates of 10 percent. The DB logistics subsidiary Schenker has expanded through massive purchases internationally, including the US logistics group BAX Global. The company's interests in

air, land and sea freight are currently growing between 10 and 18 percent per annum. Schenker notched up the biggest increase in turnover in the whole company, followed by the goods transport enterprise Railon, which made a profit of €226 million in Germany alone (€12 million in 2006).

DB is the last major remaining state-owned company in Germany. It is the biggest railway company in Europe and, with over 200 subsidiaries, the second largest transport concern worldwide. First place is taken by the denationalised German Post company.

A study by the IBM Global Business service concluded: "With its purchases and organic growth, above all its freight and logistics activities in Asia and North America, Deutsche Bahn has emerged as a global player in the logistics business." The study points out that DB had entered a league that made it of enormous interest for potential major finance investors.

The first prospective customers are stretching out their tentacles. Vladimir Jakunin, head of Russian Railways (RSD)—one of the largest route networks in the world—stated he would be pleased to acquire a piece of the German Railways pie. Russian and German Railways have already jointly undertaken a deal for goods traffic between Europe and Asia.

The avowed aim of the planned privatisation is to massively expand this process of international growth with the funds accruing from the stock market launch. A letter by Mehdorn one year ago to the SPD Bundestag faction was quoted on the *Spiegel Online* web site and detailed the massive shopping list of the railways boss. This includes the acquisition of major railway holdings in France, the buying up of entire long-distance and suburban rail networks in a number of eastern Europe countries, and the construction of a trans-Siberian railway linking Europe and Asia in cooperation with Russian Railways.

There exist different models for the privatisation of the railways put forward by the various parties in Germany's ruling grand coalition—Social Democratic Party (SPD), Christian Democratic Union (CDU), Christian Social Union (CSU). In addition, there are differences between the German states and the federal government regarding privatisation.

The original scheme put forward by DB head Mehdorn and German Transport Minister Wolfgang Tiefensee envisaged the federation yielding a maximum of 49 percent of its share holdings for private investors. The consequences of the proposal would be to guarantee a large part of the financing of the German network of 34,000 kilometres with taxpayers' money (an estimated €52 billion over 15 years) while opening up the company as a whole to private investors intent on high profit margins.

This concept, however, met with the disapproval of various state administrations, which envisaged increased financial demands on their part. A report drawn up by the states concluded that the launching of the railways on the stock market could involve extra costs for the states amounting to €1 billion. At the same time, the report indicated that between 6,000 and 10,000 kilometres of unprofitable railway lines were likely to be axed.

At the end of October, the SPD party congress in Hamburg then raised its own model involving a so-called "people's share." The proposal had been made earlier by Berlin Finance Minister Thilo Sarazin (SPD), in order to implement the privatisation against the opposition of consumer and passenger federations. According to the Sarazin model, 25.1 percent of shares in the railways would be sold off in the form of non-voting preference stocks to small shareholders. The SPD argued that this would prevent any monopoly of control over the privatised railways by major investors.

A few years ago, a similar scheme was introduced to launch Deutsche Telekom on the stock exchange—with disastrous results. The worth of the Telekom shares plummeted within a short period, resulting in large losses for small shareholders. At the same time, tens of thousands of jobs were wiped out while wages were cut for those retaining their posts.

Under conditions where the SPD model has been ruled out by the CDU

and CSU, the government is due to discuss a third proposal on December 10. The German finance minister, Peer Steinbrück (SPD), has put forward a "holding model," first drawn up in 2002, that envisages the splitting up of the railways into two divisions. One division would consist of the infrastructure of the track system, stations and power supply, while the second would consist of all forms of rail vehicles, plus the logistics section, including the subsidiary Schenker and goods traffic.

This model was always been favoured by Germany's main business federations, the free-market Free Democratic Party, the Greens and large sections of the CDU/CSU. It is the first step towards complete privatisation, involving the splitting off of the track network from the railways as a whole. The scheme represents a death blow to the railways as a comprehensive, affordable national service.

The most virulent supporters of rail privatisation are the two rail trade unions, Transnet and the GDBA, which have so far supported—in succession—every model on offer. On November 15, the entire DB supervisory board, including representatives from Transnet and the GDBA, expressed their support for the holding model, although five days previously, Transnet head Norbert Hansen had threatened to oppose the very same plan with strike action.

In addition, and at short notice, Transnet and the GDBA agreed to a new wage rate structure with DB management last week. The new contract resembles others already struck in public service and the engineering industry, which link wage increases to performance. The DB offer involves an average wage increase of 4 percent based on a complex system of criteria involving such factors as length of service and type of work carried out.

The aim of the deal is to undermine the train drivers' strike and offer a bait to the striker's trade union, the GDL (Deutsche Lokomotivführer). On the basis of being able to decide independently how the 4 percent is divided up, the GDL could be coaxed into rejoining the contract community alongside Transnet and the GDBA. The resulting disciplining of the workforce is one the most important preconditions for the forthcoming privatisation.

The danger to the railways will remain irrespective of which privatisation model is adopted by the government, the railways executive and the trade unions. Following the power industry, the post, telecommunications and a number of other public services, the biggest remaining state-owned service is now to be denationalised—with enormous ramifications for rail employees and the population as a whole. In common with their colleagues from former state enterprises, rail workers will be subject to massive reductions in wages and working conditions, as well as job cuts of as much as 80,000, according to some sources.

A publicly owned service worth billions—financed over many years with taxpayers' money—is to be sacrificed to satiate the greed of an international financial elite and its managers, who are set to rake in millions. According to the official statistics of the Transport Ministry, the value of the transportation and logistics companies is estimated to be around €55 billion. The railways management and the federal treasury expect revenues of between €4 billion and €6.5 billion from the sales of 50 percent of the stock. In other words, more than €20 billion are to be given away to private investors.

In addition, the future owners will benefit from subsidies based on tax revenues. At least €10 billion is due to flow each year into the areas designated for privatisation. For their part, rail travellers must reckon with increased prices and further cuts to rail routes.

According to the *Frankfurter Rundschau*, an appraisal by railway experts from the US bank Morgan Stanley has proposed three different scenarios. The lowest estimates cuts of 2,630 kilometres of rail line while the highest estimate anticipates 14,000 kilometres. This latter figure amounts to more than 40 percent of the existing network totalling 34,000 kilometres.

The same report makes clear that the denationalisation of the railways will also entail a major and potentially dangerous deterioration in rail safety. According to Morgan Stanley, after opening up to private investors, DB will only be required to maintain the track and stations at a “sufficient” level. This also applies to operational and security technology. At the same time, according to the *Frankfurt Rundschau*, the company must make radical savings in the sphere of maintenance. In other words: the security of passengers is to be sacrificed to the profit drive of private investors.

In this respect, it is worth taking a brief look at the consequences of the privatisation of the railways in Britain. In 1994, the private company Railtrack took over control of the British Rail infrastructure, including track, signals, tunnels, bridges, rail overpasses and some stations.

Two years later, the shares of the company were launched on the London stock exchange. Railtrack made savings particularly in the sphere of security-related track maintenance, ultimately resulting in a series of accidents involving dozens of deaths and hundreds of injured. Following the rail accident at Hatfield in October 2000 (four dead, 70 injured), an investigation of the entire route network was necessary to locate and repair fractures. Having run up debts of €748 million, Railtrack then turned to the British government for subsidies, which were duly handed out. That did not prevent the company from paying out dividends to shareholders amounting to €192 million just six months later.

The experiences of the recent past with regard to the privatisation of state-owned enterprises in Germany, as well as the railways in many other countries, make clear that the interests and even the lives of the working population are to be sacrificed to the drive for profits and dividends by a handful of private investors.



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