

## EU business regulation

### EU signals big asset sales to greenlight Alstom-Siemens tie-up

Commission rejects companies' argument that size is needed to fend off Chinese rivals



The cockpit of a TGV train under construction at the Alstom factory in Belfort, France © Bloomberg

Rochelle Toplensky in Brussels 27 November 2018

EU antitrust authorities have indicated that [Siemens](#) and [Alstom](#) would have to give up prized assets such as their most advanced high-speed train technology and their lucrative signalling unit to secure clearance for their merger, according to people with direct knowledge of the EU competition review.

Such meaningful disposals would undermine the logic outlined by the French and German engineering groups when they announced their planned combination. They would also run counter to ambitions put forward by some EU heads of state including Emmanuel Macron to create “European champions” able to fend off much larger state-backed Chinese groups.

Margrethe Vestager, the EU's competition commissioner, is unconvinced by the [companies' arguments](#) that they needed to combine to fend off those Chinese rivals, said the people, who requested anonymity because the talks are

confidential. Ms Vestager's criticism comes after the commission last month [issued a charge sheet](#) warning that the merger would create a near-monopoly in certain European rail markets.

When competition officials warn that a deal may be prohibited on competition grounds, they typically give indications of the scale of concessions required to remedy issues in problematic markets. Companies are then left to propose specific divestments. Alstom and Siemens have until mid December to finalise their offer.

But people close to the talks said the companies might have to consider disposing of Alstom's TGV Avelia Horizon, its new high-speed train technology, to address the commission's concerns in this market, as Siemens' rival Velaro Novo technology is at an earlier development stage and has no signed orders.

When Alstom and Siemens [announced the deal](#), one of the most ambitious corporate moves of 2017, they said it would help them thwart Beijing-backed CRRC, the world's biggest railway equipment manufacturer. It won the backing from the French president as well as Angela Merkel, the German chancellor.

Siemens and Alstom are resisting any significant sell-offs, instead exploring alternative options, according to the people familiar with the antitrust process. One rival group involved in the case said this might include guarantees over licensing of technology at fair prices.

The companies are also expected to sell some of their signalling businesses, which make on-board computers, trackside equipment and monitoring systems. Eight of the EU's nine main rail corridors run on equipment supplied by either Siemens or Alstom, according to industry specialists.

Such equipment is expected to remain in place for decades and will give the new company an advantage when it bids for new contracts, as they own the proprietary technology needed to run trains on those lines.

Typically the commission prefers to address competition issues via asset sales rather than pledges to constrain future business behaviour. Competitors are also critical of licensing promises, arguing they would be hard to police and unworkable in hard-fought tenders where Siemens-Alstom would be both supplier and competitor.

Critics of the merger are pushing the commission to block the deal. Tom Cole, head of competition at the Office of Rail and Road, the UK regulator, told the Financial Times that “ORR continues to press for a prohibition”.

While not specifically referring to the case, Ms Vestager last week made pointed arguments over the dangers of creating European champions with overwhelming market power.

“If we combine all Europe’s businesses in a certain sector into one European champion, the results of getting it wrong can be devastating,” she said. “Because doing that means that thousands of jobs, the future of a whole European industry, depend on the decisions of just one company.”

She argued instead for many business to compete “because then, there’s a very good chance that at least some will get it right”.

Brussels last month laid out [its concerns over the merger](#) in a so-called “statement of objections” running to more than 500 pages. Alongside signalling and high-speed trains, the investigation identified high concentrations in the markets for regional trains and urban metro systems. The companies responded to the charges this month, but did not request a hearing.

Siemens and Alstom declined to comment.