



May 6, 2024

Ursula von der Leyen  
President  
European Commission  
Brussels, Belgium

Dear President von der Leyen,

The Rail Security Alliance (RSA) respectfully requests the European Commission (EC), utilize the authorities granted by the Foreign Subsidies Regulation (FSR), to investigate CRRC Tangshan Co. (CRRC Tangshan)'s bid to Metropolitano de Lisboa (Lisbon Metro) for up to 36 metro trains. CRRC Tangshan, a subsidiary of CRRC Corporation Limited (CRRC), a Chinese state-owned train manufacturer, is well known for using government subsidies and anti-competitive tactics to underbid private companies for global rolling stock contracts.

### **Introduction**

RSA represents the manufacturing segment of the rail industry in North America for freight railcars and the supply of railcar components. Working alongside U.S. congressional leaders and current and past U.S. presidential administrations, we have sought to erect barriers to the Chinese state-owned rail enterprise (SOE), CRRC, as it pursues its goal of dominating railcar manufacturing worldwide. This \$35 billion SOE<sup>1</sup> has made aggressive and alarming inroads into North American and European markets by using state-backed financing, direct government subsidization (\$1.8 billion since 2015)<sup>2</sup>, below-market pricing, and other anti-competitive tactics to decimate non-CRRC railcar manufacturing and with the single end goal of producing all railcars in the People's Republic of China (PRC) – wiping out domestic manufacturing in the process.

### **Foreign Subsidies Regulation and CRRC**

Earlier this year, CRRC was the subject of the first-ever in-depth investigation under the Foreign Subsidies Regulation. The investigation was launched after CRRC Qingdao Sifang Locomotive, another CRRC subsidiary, was awarded a contract to build 20 electric trains for the Bulgarian State Railways with an estimated value of \$663 million. CRRC's bid was 50% lower than the next competitive bid.

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<sup>1</sup> CRRC Corporation Limited, *Annual Report 2021*, June 2022.

<sup>2</sup> Oxford Economics, [Off Track: The Role of China's CRRC in the Global Railcar Market](#), July 2022



Instead of going through a public and transparent investigative process, CRRC withdrew its bid only six weeks after FSR announced its investigation<sup>3</sup>.

### **CRRC in Portugal**

On November 30, 2023, Lisbon Metro opened a public tender for the acquisition of 24 metro trains with an option for 12 additional vehicles with an execution period of 54 months. With a contract budget worth €138 million, Lisbon Metro received two bids, one from CRRC Tangshan for €115 million, and one from Stadler Rail Valencia (Stadler) for €134 million<sup>4</sup>. CRRC Tangshan's bid was a significant 14.2% lower than that of Stadler's. Given CRRC's history, we believe it appropriate for the European Commission, under the Foreign Subsidies Regulation, to investigate any receipt of an improper foreign subsidy by CRRC Tangshan, which would have allowed them to submit such a low bid to Metro Lisbon.

This is not CRRC's first entrance into the Portuguese market and there is reason to believe CRRC has much larger ambitions for the E.U. In 2020, CRRC secured its first contract in urban rail in the European Union, worth €49.6 million, and included 18 trams for Metro do Porto<sup>5</sup>. During a 2023 meeting between the Portuguese Ambassador to China, Paulo Nascimento, and CRRC Tangshan executives regarding the Metro do Porto project, CRRC Deputy General Manager Huang Liewei stated: "We are very interested in the Portuguese market and will implement the project strictly. We look forward to cooperating with Portuguese companies in the future and to contributing our knowledge and strength to the development of rail transit in Portugal."<sup>6</sup>

### **China's Quest to Dominate Global Rail Supply Markets**

As noted above, CRRC has made aggressive inroads into international markets to decimate domestic railcar manufacturing over the past decade. The subsidies received by CRRC enable it to significantly underbid private companies for global rolling stock contracts and pose a direct threat to the domestic rail manufacturing industry and should serve as a warning to the European Union.

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<sup>3</sup> The Wall Street Journal, [Chinese Train Maker CRRC Drops Bid for \\$665 Million Bulgarian Contract](#). March 27, 2024.

<sup>4</sup> Railway Pro, [CRRC and Stadler compete for Lisbon new metro trains](#), April, 12, 2024.

<sup>5</sup> Railway Supply, [The first CT tram from CRRC has been put into operation in the Portuguese city of Porto](#). July 2023.

<sup>6</sup> China Daily, [Chinese, Portuguese companies to deepen rail ties](#), April 10, 2023.



According to CRRC, its products are now offered in more than 104 countries, and it has 83% of the world's rail and rolling stock market.<sup>7</sup> Further underscoring the threat from CRRC, in 2020<sup>8</sup>, 2022<sup>9</sup>, and again in 2024<sup>10</sup>, the United States Department of Defense included the firm in a list of major state-owned companies it says are effectively controlled by the Chinese military. Also, in 2020, the United States Department of Treasury included CRRC in its Chinese Military-Industrial Complex Companies Sanctions List.<sup>11</sup>

CRRC's activities in Australia should serve as a blueprint for its designs in the European market. Within a decade of entering Australia's once-thriving domestic rail manufacturing industry, CRRC used its anti-competitive tactics to wipe out Australia's domestic rail manufacturing entirely in less than nine years. Today, Australia's railcar manufacturing is wholly controlled by CRRC.

In the United States, CRRC has secured more than \$2.6 billion in U.S. taxpayer-supported transit contracts to provide passenger railcars for the cities of Boston, Chicago, Philadelphia, and Los Angeles (U.S. federal funding is included in three of those contracts). CRRC underbids its competitors by 22% on average but has submitted bids as much as 50% lower than "Buy-America" compliant companies with large manufacturing facilities in the United States.<sup>12</sup> CRRC also attempted to win several other transit contracts in the U.S., including one from the Washington Metropolitan Area Transit Authority (WMATA). These bids, however, were unsuccessful due to a combination of public and U.S. Congressional pressure, and the passage of the Transportation Infrastructure Vehicle Security Act (TIVSA).

CRRC has pivoted to the Canadian domestic market as well. In 2017, CRRC won a bid to supply Montreal's transit system with 44 double-decker coaches. That same year, CRRC announced a joint venture with ARS Canada Rolling Stock Inc. to build freight railcars in Moncton, New Brunswick. In 2019, ArcelorMittal purchased CRRC freight railcars for use in its mining operations. Currently, CRRC is one of four companies pre-qualified to bid on a Toronto transit contract worth \$1.7 billion. More recently, CRRC has also moved to the Mexican domestic market. In 2019, CRRC was awarded a \$1.5 billion contract to renovate Line 1 of the Mexico City metro. In 2020, the firm won a \$60 million contract for the Monterrey Metro.

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<sup>7</sup> @CRRC\_global, "[Following CRRC's entry to Jamaica, our products are now offered to 104 countries and regions. So far, 83% of all rail products in the world are operated by #CRRC or are CRRC ones. How long will it take for us conquering the remaining 17%?](#)" Twitter, January 11, 2018.

<sup>8</sup> U.S. Deputy Secretary of Defense David L. Norquist. [Letter to Senator Tom Cotton](#). June 24, 2020.

<sup>9</sup> [DOD Releases List of People's Republic of China \(PRC\) Military Companies in Accordance With Section 1260H of the National Defense Authorization Act for Fiscal Year 2021](#), Oct. 5, 2022

<sup>10</sup> [DOD Releases List of People's Republic of China \(PRC\) Military Companies in Accordance With Section 1260H of the National Defense Authorization Act for Fiscal Year 2021](#), Jan. 31, 2024

<sup>11</sup> [Executive Order 13959 of November 12, 2020](#)

<sup>12</sup> Nigel Cory, Information Technology and Innovation Foundation, [Heading Off Track: The Impact of China's Mercantilist Policies on Global High-Speed Rail Innovation](#), April 2021.



CRRC has mirrored their North American activities in various E.U. member states and other European countries. In 2019, Vossloh, a German-based rail technology company, announced it was selling its locomotives business to CRRC Zhuzhou Locomotive<sup>13</sup>. The deal became final on May 31, 2020. Also in 2020, and mentioned previously, CRRC secured their first contract in urban rail in the European Union, worth €49.6 million and includes 18 trams for Metro do Porto in Portugal<sup>14</sup>. In Bari, Italy, CRRC secured a public tender in January 2024 to provide 99 electric buses valued at ~€42.7 million<sup>15</sup>. CRRC is conducting trials of autonomous buses in France and plans to deliver more autonomous buses to bus operators in Paris in 2024<sup>16</sup>. To continue to grow their influence in the European rail sector, CRRC has established multiple research and development centers in Germany, United Kingdom, Sweden, and Italy<sup>17</sup>.

Further, CRRC's investments in Europe extend beyond the rolling stock sector. In 2018, CRRC purchased a 75% controlling stake in Alpi Aviation, an Italian military drone maker<sup>18</sup>.

It's clear CRRC and its subsidiaries, including CRRC Tangshan, intend to deploy these same market distorting tactics to dominate the European Union's rail manufacturing sector.

### **China's Anticompetitive Subsidized Behavior**

China continues to significantly subsidize its rail champion, CRRC. CRRC is the most heavily subsidized rolling stock company in the world. In a 2023 report that analyzed subsidies and distortions in the rolling stock international markets, the Organization for Economic Co-operation and Development (OECD) found that CRRC obtained as much as 72% of all global government absolute support, including government grants, tax concessions, and below-market borrowings identified by the study.<sup>19</sup> CRRC is also one of the most heavily subsidized companies in China. In fact, CRRC received explicit government subsidies of \$271 million in 2020 and almost \$1.3 billion from 2014 to 2020.<sup>20</sup> Like other Chinese SOEs, CRRC receives large implicit subsidies. In a recent report, the Center for Strategic and International Studies estimated that direct subsidies to Chinese firms represent up to 20% of total industrial spending.<sup>21</sup> For instance, as one of the ten sectors China targets under the Made in China 2025

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<sup>13</sup> Rail Tech, [CRRC acquires first locomotive manufacturer in Europe](#). May 2021

<sup>14</sup> Railway Supply, [The first CT tram from CRRC has been put into operation in the Portuguese city of Porto](#). July 2023

<sup>15</sup> Sustainable Bus, [CRRC and BYD win two tenders in Southern Italy](#). January 2024

<sup>16</sup> Bus News, [France's First Autonomous Bus Starts Trial in Val-de-Marne](#), October, 2024

<sup>17</sup> China News, [China, Italy launch modern railway R&D center in Turin](#). June 2019

<sup>18</sup> CNBC, [China took control of an Italian military drone maker without authorities knowing it, report says](#). November 2021

<sup>19</sup> OECD, [Measuring distortions in international markets: The rolling-stock value chain](#), February 2023.

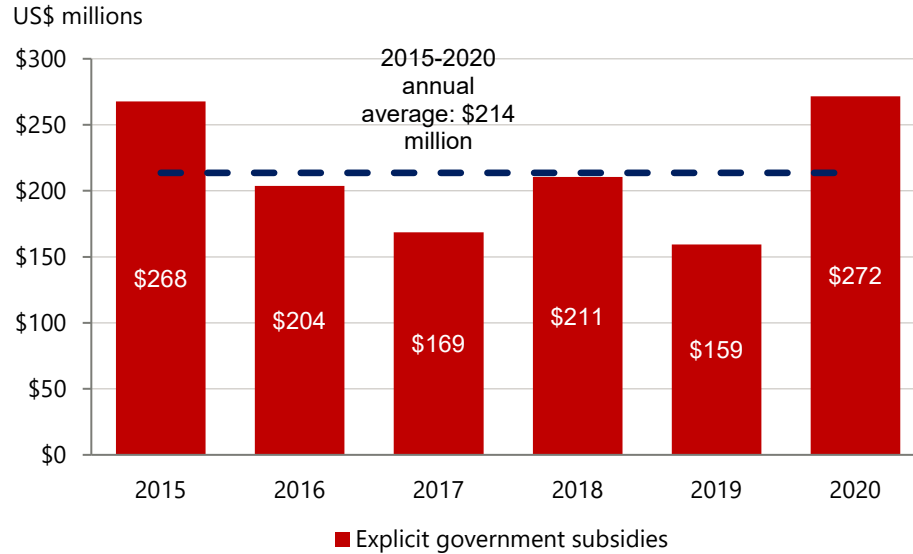
<sup>20</sup> Oxford Economics, [Off Track: The Role of China's CRRC in the Global Railcar Market](#), July 2022.

<sup>21</sup> DiPippo et al. The Center for Strategic and International Studies (CSIS). [Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective](#). May 2022



strategy, CRRC is also eligible to receive preferential subsidies and tax incentives for R&D.<sup>22</sup> In addition, China reduced the income tax rate for high-tech firms like CRRC from 25% to 15% and raised the rate of additional deductions of R&D expenses from 50% to 75%.<sup>23</sup>

**Fig. 1. CRRC explicit government subsidies, 2015-2020**



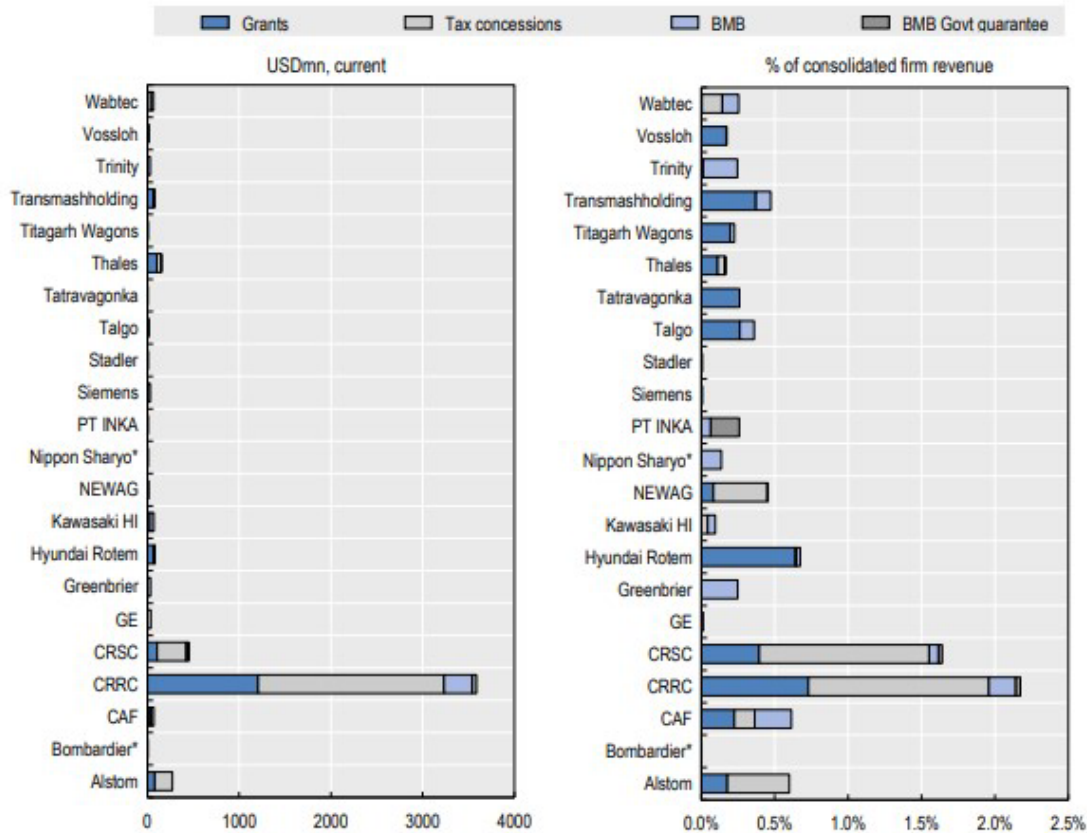
Source: Bloomberg, CRRC annual reports, Oxford Economics

<sup>22</sup> Emily de La Bruyère & Nathan Picarsic. Radarlock. *Beijing's Dash for Global Rolling Stock Dominance*. October 2019.

<sup>23</sup> UNIFE, *A call for urgent action: The Fast Expansion of China's State-Owned Rail Suppliers*, November 2019.



**Fig. 2. Total government support for sampled companies in the global rolling stock market, 2016 – 2020**



Note: BMB = below-market borrowings. Data could not be located on the government grants obtained by firms marked "\*". Data for GE only concern the period 2016-18 as the company exited the rail segment in 2019.  
Source: OECD research.

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Also troubling is the fact that CRRC makes clear that its chief obligation is to the Chinese state, and it has been uncovered that company executives and employees have direct ties to the Chinese Communist Party and the People’s Liberation Army. According to a 2018 report, three of CRRC’s current board members previously held high-level positions at state-owned defense companies, the Aviation Industry Corporation of China (AVIC) and the China Shipbuilding Industry Corporation (CSIC). Moreover, two former CRRC board members held positions at AVIC and the China North Industries Group Corporation Limited (NORINCO).<sup>25</sup>

## Conclusion

<sup>24</sup> OECD, *Measuring distortions in international markets: The rolling-stock value chain*, February 2023.

<sup>25</sup> Brigadier General John Adams, US Army (Retired), *National Security Vulnerabilities of the U.S. Freight Rail Infrastructure and Manufacturing Sector – Threats and Mitigation*, October 2018.



RSA commends previous efforts of the European Commission under the Foreign Subsidies Regulation to investigate CRRC Sifang. We hope the Commission will build upon their previously successful FSR action and we ask you to investigate any receipt of an improper foreign subsidy by CRRC Tangshan which would have allowed them to submit such a low bid to Metro Lisbon.

Sincerely,

Erik Olson  
Executive Director  
Rail Security Alliance