



To the
licence holders of EPAL

Dear Sir/Madam,

At the beginning of January 2013 we informed you of the decision of the UIC working group "Questions of palletisation" to terminate the many years of cooperation with the European Pallet Association e.V. (EPAL), following EPAL's reassignment of the audit contract for quality controlling within the framework of a tender process. Although this situation does not initially result in any changes for the licence holders of EPAL and the participants in the EPAL Euro pallet pool, today we would like to report to you once again regarding the further developments.

In doing so we will be looking at the questions that EPAL has received from licence holders and users as well as those forthcoming from the trade press in the last three weeks. If you should have any further questions please feel free to inform us of these. We assure you of a speedy response.

A. Change in the audit company by EPAL

1. Who will conduct quality controlling in the future?

The independent quality controls will be carried out in the future by the internationally renowned audit organisation Bureau Veritas. The contractual partner of EPAL is

Bureau Veritas Industry Services GmbH
Veritaskai 1
21079 Hamburg

The quality controls will be carried out in the numerous different countries by the national companies of Bureau Veritas operating within these respective countries.

2. Why did EPAL reassign the audit contract?

The contract with the former audit company had existed in its most recent form for 8 years. The scope and financial aspects of this contract were no longer suited to the market conditions and EPAL was in particular unable to implement the requisite amendments to the licence contracts with the licence holders of EPAL and specifically to intensify the prosecution of product piracy. The former audit company rejected an amendment to the contract structure and the board of EPAL therefore agreed to reassign the audit contract within the framework of a tender process.

3. With the change in audit company, was EPAL reacting to the decisions of the UIC working group?

No.

EPAL decided back in March 2012 to reassign the audit contract within the framework of a tender process. At this time there was no knowledge of the activities of the UIC working group regarding the amendment to the UIC Codices or the naming of new pallet organisations. EPAL was first informed of this by the UIC working group in December 2012, once the tender process was complete and the new audit company had been selected.

4. How was the assignment awarded?

From the period between May 2012 and August 2012 EPAL conducted an international tender process for the assignment of the audit contract. Audit companies from 10 countries - including the former audit company - participated in this.

When assessing the proposals, their quality (concept for the execution of the quality controls, specific know-how, qualified personnel, international experience) and the quoted price for the controlling services were evaluated on an equal basis, each with a 50% weighting. Following the completion of multiple negotiation rounds EPAL awarded the contract to the best - and not simply the cheapest - bidder.

The objective of the tender process was not to reduce costs but to improve international uniformity and the high quality assurance and therefore the actual quality of EPAL cargo carriers. The new contract enables EPAL to react quickly and effectively to changes in the market and to problems associated with product piracy, and in doing so to further improve the quality of the exchange pool.

5. What does the change in audit company mean to the licence holders?

The change in audit company is not associated with any significant changes for the licence holders. Primarily, the audits will be carried out by other inspectors. The reports regarding monthly production and repair figures will be issued directly to EPAL. The audit and licence fees will be calculated by EPAL on this basis. These will be payable directly to EPAL in the future, rather than to the audit company.

6. Will the audit process change?

The audit process will not change.

The quality controls shall be carried out in the future by the inspectors of Bureau Veritas on the basis of the Technical Regulations of EPAL with simultaneous observation of the UIC Codices.

7. To whom should the monthly reports be sent in the future?

The monthly reports detailing the number of produced and repaired pallets and box pallets shall be sent directly to EPAL in the future. When doing so use the online reporting procedure as defined by EPAL.

8. Will the audit fee/licence fee rates change?

The audit fees will not change initially.

If the change in the structure of the contract with the audit company leads to a reduction in EPAL's costs then EPAL shall make a decision regarding the reduction of the licence/audit fees.

9. To whom will the audit fees/licence fees be payable in the future?

The audit fees/licence fees shall be payable directly to EPAL in the future, on the basis of the invoices issued by EPAL.

10. Has the change in audit company taken place without problems?

No problems have occurred with the handover of quality controlling to Bureau Veritas from the 01.01.2013. EPAL and Bureau Veritas carried out intensive theoretical and practical training of the inspectors in advance of this.

If you should have any suggestions for the further improvement of the audits, please inform EPAL of this.

11. What additional measures is EPAL planning for the improvement of quality and quality assurance?

EPAL shall undertake constant evaluation of the quality controls with Bureau Veritas within the framework of a steering committee. On this basis it is intended that the controls be further improved through regular training of the inspectors.

EPAL shall have no influence over the execution and evaluation of the individual controls in the future because the independence of quality assurance from any interests or instructions on the part of EPAL guarantees the high quality nature of the controls.

12. Who can licence holders contact with questions regarding the controls conducted by Bureau Veritas and quality assurance in general?

In case of questions related to the quality controls, licence holders can contact the representatives of Bureau Veritas (inspectors, national companies and Bureau Veritas Industry Services GmbH), EPAL or the National Committees of EPAL in 14 European countries.

B. Decisions of the UIC working group "Questions of palletisation"**1. What were the actual decisions of the UIC working group "Questions of palletisation"?**

The UIC working group "Questions of palletisation" decided on the 30th / 31st October 2012 to redefine the conditions for the approval of new pallet organisations.

At the same time and in the same meeting two other companies were named new pallet organisations of the UIC. Despite ongoing contracts with EPAL, these had already applied to the UIC working group.

The UIC working group also decided that the pallet organisations and licence holders cooperating with it should utilise labelling with the letters UIC in the future, in place of the EPAL/oval mark. The UIC working group describes this strategy as a "One Brand Strategy". Further information on the labelling planned by the UIC working group has not been made available to date. EPAL has not received answers to questions on this matter submitted to the UIC working group.

In December 2012 the UIC working group decided to withdraw its designation of EPAL as a pallet organisation with effect from the 01.01.2013.

2. Who are the members of the UIC working group?

Members of the UIC working group are national European railway companies from the countries in which EPAL Euro pallets, as well as MAV, CD and Green Cargo Euro pallets were produced in the past. However, not all of the railway companies were involved in the decisions of the UIC working group, for example incl. Deutsche Bahn AG. Deutsche Bahn AG has therefore requested that the UIC working group hold an extraordinary meeting.

3. Why did the UIC working group change the conditions for the approval of pallet organisations?

The UIC working group has not provided an explanation to EPAL.

The UIC working group explained to the individual railway companies that the autonomy of the controls required strengthening. However, the subsequent decisions by the UIC working group contradict this argument.

One of the new pallet organisations is an audit company, meaning that the specific independence of the controls as existed through the separation of the pallet organisation and audit company has been lost. The second new pallet organisation is a pallet dealer, who will be unable to deliver independent audits as a result of their own commercial interest.

In contrast, EPAL has demonstrated since 1995 that the decoupling of licence contract and quality control services guarantees permanently independent and therefore high calibre quality assurance. Indeed, this fact has never been questioned by the UIC working group in the past.

4. How is it possible that the new pallet organisations were able to apply to the UIC working group prior to the amendment and publication of the approval conditions?

EPAL has already posed this question to the UIC working group but it has thus far received no response. It is apparently the case that both new pallet organisations were involved in the amendment to the approval conditions by the UIC working group and that they were therefore able to exert influence over the change in regulations required for their own approval.

5. What purpose is the UIC working group pursuing with the so-called One Brand Strategy?

It is first necessary to clarify that the UIC working group is planning labelling not with one mark (brand), but with two: EUR/oval and UIC. Uniformity is merely intended through the avoidance of the use of deviating labels, such as MAV, CD or Green Cargo.

The apparent reason for this is the fact that users in the past have sometimes complained of the quality of EUR cargo carriers with different labels and exchange has been rejected in some instances. EPAL repeatedly offered to conduct the quality controlling of these cargo carriers too, in order to avoid such quality problems and in this way achieve uniform labelling. However, the responsible railways and the UIC working group rejected this.

From the perspective of EPAL however, uniform labelling in place of uniform quality controlling is not a solution. EPAL therefore rejects the so-called One Brand Strategy of the UIC working group.

6. Why was the withdrawal of EPAL's status as a pallet organisation not announced at an earlier time?

EPAL was informed of this by the UIC working group late in the afternoon on the 21.12.2012; i.e. the last working day before Christmas.

To date it is not clear when the UIC working group made this decision. Apparently it is the case that - in contrast to when the new pallet organisations were approved - no meeting of the UIC working group took place. Furthermore, EPAL - and indeed Deutsche Bahn as a member of the UIC working group - do not know who petitioned for the decision and which railways, as members of the UIC working group, were involved in agreeing on the decision of the chairman of the working group.

C. What reasons led to the decisions of the UIC working group "Questions of palletisation"

1. For what reasons did the UIC working group terminate cooperation with EPAL?

EPAL is not aware of any concrete reasons for the decision of the UIC working group. In the past, the UIC working group raised no complaints regarding the organisation of the exchange pool by EPAL and in particular in relation to the quality and autonomy of the quality assurance.

In fact, there was no occasion on which a complaint was warranted.

Since EPAL commenced with the organisation of the exchange pool, the production of quality-assured EPAL Euro pallets has risen from approx. 15.1 million in 1995 to approx. 69 million in 2011. This documents the successful work of EPAL.

2. Do the decisions of the UIC working group relate in any way to the tender and reassignment of the audit contract?

EPAL has no concrete information in this regard.

However, the representatives of the UIC working group on the board of EPAL voted against the tender without giving any grounds for this. Following the evaluation of the proposals the representatives of the UIC working group voted against awarding the contract to the best proposal, as appraised on the basis of quality and price. Instead, the representatives of the UIC working group advocated continuing with the assignment of the previous audit company, again without stating a reason for this - although the proposal by the former audit company was not one of the best three proposals from a financial and qualitative perspective.

For reasons of compliance EPAL was therefore unable to continue working with the former audit company.

Only in December 2012 did EPAL discover that the UIC working group had been conducting talks with the former audit company in parallel to the tender process. The working group then went on to name this company a new pallet organisation in October 2012.

7. Since when has EPAL been aware of the decisions of the UIC working group?

Despite the constant participation of both of the representatives of the UIC working group in the board meetings of EPAL, no information had been provided to EPAL by the end of 2012.

EPAL was only informed of the withdrawal of its status, as effective from the 31.12.2012, by the UIC working group late in the afternoon on the 21.12.2012 - i.e. directly before the public holidays over Christmas. Within the framework of subsequent research, EPAL has ascertained that the UIC working group had already decided to approve other pallet organisations in its meeting on the 30th / 31st October 2012. No official information has been forthcoming from the UIC working group in this regard to this day.

8. **How is it possible that the UIC working group had already approved new pallet organisations on the 30th / 31st October 2012, without EPAL having been informed of this?**

The reason for this conduct by the UIC working group is also unknown to EPAL.

EPAL did receive minutes from the UIC working group meeting from the 30th / 31st October 2012 on the 30.11.2012. However, for unknown reasons these minutes did not contain any mention of the decision to approve the new pallet organisations. It would appear that this was supposed to be concealed from EPAL.

D. Consequences of the decisions of the UIC working group?

1. What legal relevance do the decisions of the UIC working group have?

The decisions have no legal relevance.

No contracts have existed between EPAL and the UIC working group in the past. The UIC working group has therefore not terminated any contracts with EPAL either.

The UIC working group has simply ended cooperation with EPAL, which manifested itself in the past through the UIC's designation of EPAL as a pallet organisation. It is therefore specifically the case that the UIC working group's decision does not bring with it the consequence that EPAL is no longer able or permitted to operate as a pallet organisation. EPAL shall therefore naturally continue with the organisation of the exchange pool without any change (see below).

2. Will EPAL be taking legal steps in response to the withdrawal of its status as a pallet organisation?

Considerable legal concerns exist in relation to the formal effectiveness of the decision. Unlike the approval of the new pallet organisations, the decision of the UIC working group was not agreed within the framework of a meeting of all the railways. Deutsche Bahn in particular was not involved.

However, the status withdrawal as agreed by the UIC working group does not bring with it any actual legal effect and has no other impacts on the activity of EPAL (see point 5). As such, EPAL is not presently intending to legally examine the decision.

3. Does the withdrawal of EPAL's status by the UIC working group mean that EPAL will no longer operate as a pallet organisation?

EPAL shall naturally continue with its activities as a pallet organisation in the future.

Even after the termination of cooperation with the UIC, EPAL remains the operator of the largest open pallet pool in the world and is therefore one of the leading pallet organisations in the field of the free exchange of quality-assured timber pallets and box pallets.

EPAL has been operating as a pallet organisation since 1995. 1,500 licensed members are organised within EPAL. In 2012 approx. 67 million EPAL Euro pallets were produced around in the world under the licence and quality assurance of EPAL. The number of EPAL Euro pallets presently in exchange is approx. 450 million.

The exchange of EPAL Euro pallets and box pallets organised by EPAL is gaining in national and international significance, based on the independent quality controlling, the logistical and the ecological advantages in comparison with other cargo carrier systems. Due to the close network of EPAL licence holders and the constant contact between EPAL, its member associations in 14 European countries and the users of EPAL Euro pallets and box pallets, support to the users within the framework of the procurement, exchange and repair of EPAL Euro pallets and box pallets is guaranteed at all times.

4. What does the naming of other pallet organisations mean for EPAL?

The approval of other pallet organisations does not have any relevance to the activities of EPAL. The new pallet organisations named by the UIC working group are not comparable with EPAL as an international pallet organisation and its national associations in 14 countries.

The naming of an audit company and a small national company as new pallet organisations does not constitute a response to the challenges of international goods logistics, for which the cross-border exchangeability of EPAL Euro pallets is of such significance. The establishment of EPAL at the beginning of the 1990's, following the opening up of the borders with Eastern Europe, served specifically to facilitate the overcoming of national solutions to the benefit of international uniformity in terms of quality controls and exchange conditions.

The decision of the UIC working group is therefore not a step towards the future but instead a step (back) into the past. In order to permanently guarantee uniform quality and exchange conditions there is therefore no expedient alternative to the organisation of the exchange pool by EPAL and the National Committees of EPAL.

5. Are the pallet organisations named by the UIC working group already active?

According to the latest information provided to EPAL this is not the case.

On the 14.01.2013 the chairman of the UIC working group declared to the EPAL board that both new pallet organisations were unable to fulfil the applicable prerequisites. The chairman of the UIC working group has not explained the reasons why approval was granted back in October 2012 and announced in December 2012, and this is incomprehensible to EPAL.

The same also applies to the amendment to the UIC Codices, which has not been implemented to date.

It would appear to be the case that the UIC has no active pallet organisation at the present time and that it also has no currently valid or practicable terms for the labelling of exchange pallets.

6. Must/should licence holders of EPAL agree a contract with other pallet organisations?

No.

A licence from EPAL is sufficient for the production or repair of internationally exchangeable EPAL Euro pallets.

The new pallet organisations named by the UIC working group do not have any right to the use of the EPAL/oval mark and are therefore unable to agree licence contracts for the production or repair of EPAL Euro pallets.

7. What significance do the decisions have to the National Committees of EPAL?

The decisions of the UIC working group have no relevance to the National Committees of EPAL. However, with respect organisational structure the additional presence of the National Committees of EPAL constitute one of a number of significant differences between EPAL and the new pallet organisations.

Unlike EPAL, the new pallet organisations of the UIC working group do not have national organisations, which oversee the exchange pool within the various countries.

The guarantee of international exchangeability demands not only international uniformity and independent quality controls; of much greater significance is the constant support to the licence holders and in particular the participants in the exchange pool with respect to all quality assurance questions and pallet exchange issues. This is guaranteed by the National Committees of EPAL.

It would appear that the UIC working group and one of the new pallet organisations has now ascertained this. This organisation has now proposed working together with the National Committees of EPAL. All of EPAL's National Committees have rejected this proposal because the trust required for cooperation does not exist as a result of the events described.

E. Labelling the pallets and box pallets

1. Will pallets and box pallets still be labelled with the EPAL/oval mark?

Yes.

EPAL retains the internationally renowned EPAL/oval mark as proof of quality assurance and comprehensive exchangeability.

In the future the EPAL/oval mark will therefore continue to verify that EPAL Euro pallets and box pallets have been produced and repaired in accordance with the quality specifications of the UIC Codices and that this is constantly and autonomously monitored through quality controls.

At the same time users are assured that pallets and box pallets bearing the EPAL/oval mark can be exchanged internationally without limitation.

Furthermore, the dense network of repair organisations licensed by EPAL ensures that damaged pallets and box pallets can be repaired with minimal effort and expense, and brought back into circulation accordingly.

2. Who is the proprietor of the EUR/oval mark and who is entitled to use it?

The proprietor of the EUR/oval mark is Rail Cargo Austria AG (RCA). This company registered the EUR/oval mark on behalf of all railway companies organised within the UIC working group. However, RCA has granted all associated railways the right to use the EUR/oval mark. The associated railways have passed this right of use on to EPAL or alternatively to the National Committees of EPAL. EPAL has in turn guaranteed the licensed production and repair companies the right of use to this, as long as these companies undertake to adhere to the quality standards and permit constant, unannounced controls by the audit company of EPAL.

3. Will EPAL Euro pallets still be labelled with the EUR/oval mark in the future?

At the present time nothing will change with respect to labelling.

The contracts existing between EPAL or the National Committees of EPAL and the European railways regarding the use of the EUR/oval mark are not affected by the decision of the UIC working group. The decision of the UIC working group does not therefore result in the termination of the licence agreements with the railways.

In the majority of cases the licence agreements with EPAL or the National Committees of EPAL have not been terminated. EPAL is presently negotiating an extension to the licence agreement with Deutsche Bahn.

F. Pallet exchange**1. Will it remain possible to exchange EPAL Euro pallets in the future?**

Yes.

The exchangeability of EPAL Euro pallets and box pallets produced and repaired in the past and future will be unaffected by the decision of the UIC working group. It is still possible to exchange pallets and box pallets that have been labelled with the EPAL/oval and EUR/oval marks in the past without restriction. This also applies to EPAL Euro pallets and box pallets produced and repaired in the future, which bear the EPAL quality seal EPAL/oval.

2. Is there a risk that multiple separate exchange pools will emerge?

No.

At the present time it is not apparent that any work is going on within the UIC working group to create an independent exchange pool in addition to the EPAL Euro pallet pool. However, even if this were the case, EPAL Euro pallets would retain their exchangeability with UIC, MAV and CD pallets because all pallets bearing the EPAL/oval and/or EUR/oval mark fulfil the requirements applicable to exchangeable pallets with respect to compliance with quality standards and the execution of independent quality controls.

3. Will it be necessary to sort exchangeable Euro pallets in the future?

No.

Even if a UIC European pallet pool were established, the pallets and box pallets produced within it would be exchangeable with the familiar EPAL Euro pallets and box pallets (see above) in the same way as it has been possible to exchange EPAL Euro pallets for MAV or CD Euro pallets to date.

Therefore, in the rather unlikely event of a UIC Euro pallet pool coming into being, there would be no need for exchangeable Euro pallets to be separated or sorted.

4. Will the international exchange of pallets still work?

Yes.

The continuation of the organisation of the EPAL Euro pallet pool - by EPAL at least - will certainly ensure that exchangeable EPAL Euro pallets and box pallets continue to be produced and repaired in all countries within Europe and in many other countries around the world. At the same time EPAL and the National Committees of EPAL shall guarantee the organisation of the exchange pool in all of these countries. This depth of organisation is unique. A comparable international structure comprising the overseeing of an open pallet exchange by other pallet organisations is unknown.

5. When exchanging EPAL Euro pallets in the future, will it be necessary to reach any additional agreements?

No.

A separate agreement within the framework of a pallet exchange will not be required because EPAL Euro pallets are exchangeable without limitation and will remain so.

6. In the future, will pallets with other labelling or without labelling be exchangeable within the EPAL exchange pool?

No.

In this regard no change will come into effect. Pallets and box pallets that do not bear either the EPAL/oval or EUR/oval mark will not be exchangeable within the EPAL Euro pallet pool. Only labelling with these marks provides verification that production or repair is taking place in accordance with the quality standards of EPAL and the UIC, and that this is specifically checked through constant and independent quality controls.

Only in this way can users have confidence in the safety of the cargo carriers within the framework of their intended use and also be sure that the pallets will be accepted by other users as an exchange pallet within the scope of goods traffic.

G. What goals will EPAL be pursuing in the coming years?

1. How will EPAL's activities change as a result of the cooperation with the UIC working group coming to an end?

No fundamental changes will take place.

However, EPAL will be able to react more quickly to market demands, e.g. the presently ongoing development and trialling of new cargo carriers and other innovations.

The agreement process with the UIC working group - which was required in the past - will be omitted in the future. The UIC working group generally only holds two meetings per calendar year, in which amendments to the UIC Codices can be prepared. Any amendments must then be confirmed by further committees of the UIC before publication can take place. As a result of this process, a rapid reaction to changes in user requirements in industry and trade, as well as storage and transport logistics, was rarely possible. EPAL will improve on this in the future.

2. Does EPAL have existing plans for new cargo carriers?

EPAL is presently involved in the trialling of a new half pallet which, unlike the existing solutions, fulfils the requirements of users with respect to quality - i.e. stability, durability/service life, safety - and sustainability without limitation. These priority requirements from a user perspective are simultaneously prerequisites for the comprehensive international exchangeability of the half pallets.

The pallets therefore also meet with the expectations of the users and their customers with respect to the advantages of pallet exchange (ecology and sustainability), which have only been partially fulfilled with half pallets in the past.

3. What targets is EPAL pursuing in the field of RFID?

EPAL will shortly be commencing with the trialling of EPAL Euro pallets with RFID chips.

When developing the new RFID chips, EPAL has placed value on ensuring that these fulfil not only the technical expectations of the users in terms of the storage of data, but also the practical requirements in the field of storage logistics, including the problem-free reading of the RFID chips. EPAL therefore involved the manufacturers of RFID chips, static and mobile reading devices, software developers and significant users from industry and trade in the development process. The objective of EPAL is to offer users not only an EPAL Euro pallet with RFID chip, but in fact a complete, fully functional, operationally expedient system comprising all of the requisite components.

To this end, EPAL is working on the smaRTI project of the Fraunhofer Institute for Material Flow and Logistics IML at the Technical University in Dortmund, together with partners from industry, trade, logistics and research. The aim of EPAL's participation in this project is to make EPAL Euro pallets future-proof as part of the ongoing development of a cross industry and supply chain, intelligent material flow.

4. What further goals is EPAL currently pursuing?

In the future, EPAL is planning a considerable intensification of cooperation with users of EPAL Euro pallets from industry, trade, storage and transport logistics. The objective of EPAL is to organise the pallet exchange process simply and fairly in the future.

As an international association, EPAL - unlike the pallet organisations designated by the UIC working group - is not only able to apply many years of experience gained through pallet exchanges in numerous countries, but can also implement changes rapidly and effectively on an international basis. In doing so, EPAL acts as an interface for all parties involved; between the suppliers of the quality assured cargo carriers - namely the licensed manufacturers and repairers of EPAL Euro pallets and box pallets - and the users from industry, trade, storage and transport logistics.

EPAL will further develop this interface function in the future to the advantage of all parties involved, e.g. through the active inclusion of users in the association work. Only in this way can a win-win synergy effect be attained for all participants.