

UNITE WRITTEN EVIDENCE
TO THE TRANSPORT SELECT COMMITTEE
- 7 September 2011 -
UK ROLLING STOCK PROCUREMENT



1 Introduction

- 1.1 Unite¹ is the majority union at the Bombardier Transportation site in Derby, and strongly welcomes the Transport Select Committee's decision to discuss matters related to UK rolling stock procurement following the recent decision to award Siemens preferred bidder status for the supply of the new Thameslink trains.
- 1.2 Unite, has taken great pride in the illustrious history of rail manufacture, and employment of thousands of working men and women in the Derby rail manufacturing site. Now, together with colleague unions RMT, TSSA, GMB and the whole community, Unite is deeply concerned by the government decision to make the Derby Bombardier site reserve bidder for this contract, with the immediate threat to jobs, skills, apprenticeships, and to the future of the only rail manufacturing site in the UK.
- 1.3 Unite's written evidence to the select committee concentrates on the following key areas :
- **The New Leasing Requirement Contained in the Tender for the Thameslink Contract**
 - **The Lack of Inclusion of the Social Impact in Awarding the Contract**
 - **The Impact on Jobs Across the UK**
 - **Technical Concerns**
 - **Recommendations**

2 THE NEW LEASING REQUIREMENT CONTAINED IN THE TENDER FOR THE THAMESLINK CONTRACT

- 2.1 For the first time, the Thameslink contract contained a requirement for the manufacturer to not only produce and maintain the trains, but also one whereby they would retain ownership of the rolling stock and would lease the trains to Thameslink directly, in direct competition to the ROSCOs. Unite understands that it was hoped that this requirement would reduce the leakage of profits away from the industry. Instead it gave Siemens an overwhelming advantage in the Tendering process given its credit rating and backers providing it with the ability to obtain loans at a 1.5% lower interest rate than Bombardier to finance the deal², and giving Siemens an estimated £700 million cost advantage over 30 years³.
- 2.2 The background to this new approach to the contract lies in the privatisation of the rail network in 1993, when the previous Conservative government set up a series of Rolling Stock Operating Companies (ROSCOs) who lease the rolling stock out to

¹ Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport, local government, food, agriculture, education, health, not for profit and of particular relevance to this submission, the docks, rail, ferries and waterways sectors.

² CRESC report <http://www.cresc.ac.uk/sites/default/files/Knowing%20what%20to%20do.pdf>

³ investment bankers estimate Daily Telegraph 7 July 2011

the Train Operating Companies (TOCs). This created an environment where the size and number of orders being placed became highly volatile.

- 2.3 This volatility has led to the closure of all train manufacturing in the UK with the exception of the Derby facility which has changed hands to new owners five times in the last twelve years. The situation has also created significant problems regarding the retention and replacement of skilled workers. At times over the past few years, the workforce have been asked to either clean or maintain the factory or sent home on full pay, owing the company up to three months worth of hours on a flexible working system while the company awaits the next order to arrive. At other times the factory's workforce has had to be augmented with a considerable number of temporary workers.
- 2.4 The ROSCOs were initially sold in November 1995 for a combined sum of around £1.7 billion. By 1996 the rolling stock companies generated a combined pre-tax profit of £1.8 billion and have continued to employ what have been identified as potentially anti-competitive practices with repeated accusations of overcharging which was investigated by the Competition Commission⁴. Despite excessive profits the ROSCOs did not commit to new rolling stock procurement programmes due to the train operating companies not being prepared to commit to the need for new rolling stock as they feared that by the time the new rolling stock arrived they would have lost the franchise.
- 2.5 Profit margins for 2000 reveal the extent to which the ROSCOs have benefited from privatisation - Angel Trains 29%, Porterbrook 35% and HSBC (Rail) UK 38%. These profits have continued, with Angel trains, for example making a 60.36% profit margin in the 7 months till December 2010.

3 THE LACK OF INCLUSION OF THE SOCIAL IMPACT IN AWARDING THE CONTRACT

- 3.1 The Government has stated that they believe that Siemens offered the best value for money yet when you take into consideration the taxation revenue which would have been generated by building the trains here, it becomes clear that it would be cheaper to manufacture the trains in the UK⁵.

"for purposes of argument, let us assume that 1,000 jobs could have been secured by Thameslink and other contracts. In this case the tax receipt offset would be nearly £20 million per annum by 2012 and increasing each year with inflation and real wages (and that £20 million pessimistically excludes all pension contributions)."

CRESC REPORT : KNOWING WHAT TO DO? How not to build trains July 2011⁶

- 3.2 Unite has noted that the tender document does clearly enable the Secretary of State to intervene in the process and to revisit the contract⁷. He has the power to put in place provisions to ensure the security of supply and maintenance of these trains by having them manufactured and maintained in the UK. Unite believe that European procurement rules allow social and economic factors to be taken into account when awarding contracts yet the government openly admits that these were not considered when awarding the preferred bidder status under this contract.

⁴ http://www.competition-commission.org.uk/rep_pub/reports/2009/546rosocos.htm

⁵ CRESC report <http://www.cresc.ac.uk/sites/default/files/Knowing%20what%20to%20do.pdf>

⁶ CRESC report <http://www.cresc.ac.uk/sites/default/files/Knowing%20what%20to%20do.pdf>

⁷ Invitation to Tender document 2008

- 3.3 The Government has claimed that they could not alter the terms of reference of the Tender set by the previous administration. This Government has had 14 months to review and amend the tender and did not use this opportunity to protect the British workforce in the light of the very changed economic circumstances prevailing. Under the previous Inter City Express Programme (IEP) contract, which was won by a consortium led by Hitachi, that tender was amended significantly on several occasions after it was sent out, including an additional 3-month review taking into account the extent and length of the tender⁸.
- 3.4 The supplementary instructions sent out to the bidders amending the delivery date was contained in one of five separate amendments which occurred during the tendering process for the Thameslink contract⁹. The last of these instructions was sent to Bombardier as late as November 2010 with their response going in during January 2011. The original Official Journal of the European Union (OJEU) notice was sent out in April 2008 with a planned announcement date of preferred bidder in October of that year. The Thameslink contract was then to be signed in March 2010. These five supplementary instructions have themselves delayed the award of this contract by over a year.

4 THE IMPACT ON JOBS ACROSS THE UK

- 4.1 The decision to go with Siemens as preferred bidder has led to the announcement that over 1,400 will lose their jobs, all apprenticeships have been stopped and the very future of the plant is now at risk. Although Bombardier had previously been discussing the potential loss of 700 temporary workers by November when their current level of work subsided, there were plans to invest in apprentices and other educational and training programmes to build a future for the workforce and its supply chain.
- 4.2 Of the 1100 suppliers of goods or services to Bombardier, around 900 are based in the UK with almost all constituencies affected, including almost 100 in Derby or the surrounding area. Unite is further researching this impact.
- 4.3 The Government highlighted that the award of the contract to Siemens would create around 200 jobs but even if the contract is finally given to Bombardier, Unite believes that the majority if not all of these jobs would still be have been created as they are within the supply chain for elements common to both designs, not final assembly or manufacturing of the finished rolling stock.
- 4.4 According to the Office of National Statistics over 6% of the UK's gross value added (GVA) is created in the East Midlands. The region's headline GVA in 2009 was £77.2 billion. In 2008, 16% of the region's GVA was contributed by the manufacturing sector, the largest percentage in this sector of any region or country. Throughout the recession, employment has fallen and unemployment has risen and at the end of 2010 showed no clear signs of recovery. This hammer blow to the region will therefore only serve to create more problems.

⁸ Lord Adonis at exactly the same stage in the process of bidding for the Inter City Express Programme, after the announcement of Agility Trains as preferred bidder, made an announcement in Parliament in 2009, in which he set up a 3-month independent assessment of the value for money of the Programme

⁹ See appendix

- 4.5 Work done by Birmingham University on the long term loss of skills that resulted following the mass redundancies at MG Rover in 2007¹⁰ showed that a quarter of those who lost their jobs were still in a financially difficult position three years on. The study also showed that although 90% of ex-workers were back in work, 60% were no longer using the skills they used whilst working at Rover. Just 30% were still in manufacturing roles.
- 4.6 The IEP contract which has still to be finalised three years on, gave preferred bidder status to a consortium led by Hitachi. Once signed and sealed it will create around 600 jobs, but these will be primarily assembly line roles putting together elements manufactured in Japan and elsewhere. Bombardier and Siemens are of course still reserve bidders on this.
- 4.7 The Government are talking about the next big contract for Crossrail. It is vital that the impact of the Thameslink contract decision on Bombardier's ability to bid for this contract is also recognised. Again, not just the jobs at Bombardier placed at risk, but also those in the region's supply chain.

5 TECHNICAL CONCERNS

- 5.1 Siemens¹¹ have not as yet produced a bogie capable of carrying their design of trains on the network. This flaw in their bid could result in the rolling stock being delivered without a compliant bogie, sets being overweight, having performance issues, and may result in the stock requiring new bogies within as little as five years. The problem is so significant that Unite has evidence to suggest Siemens asked for and received a revision to the tendering process for Thameslink to give them the time to allow them to develop and assess the suitability of these wheels¹². If they get it wrong there could be significant damage done to the track and points on the route. The Bombardier bogies took 10 years to develop and construct and are now seen as the world's leading bogie frame and has proven reliability.
- 5.2 Additionally the Thameslink current stock is all of a standardised Bombardier design. Consequently all the drivers on the route will need to be retrained on the new control layout.

6 RECOMMENDATIONS

- 6.1 Unite is calling for the government to take a pause and reconsider the full situation in line with issues raised above, taking into account the social impact.
- 6.2 Look at experience elsewhere in Europe, including the following two examples:
- In March 2008 Siemens won a contract to produce 300 three car units for the Belgium rail network defeating Alstom and Bombardier. Due to the level of protests about the potential loss the last rail manufacturing site in Belgium, Siemens agreed to subcontract some of the fitting out work back to Bombardier in Bruges.

¹⁰ Dealing with plant closures and redundancies - Key lessons from MG Rover by David Bailey, Gill Bentley, Caroline Chapain, Alex de Ruyter, Stephen Hall and Michelle Mahdon – University of Birmingham Business School

¹¹ Canadian academic, Robert Hickey of Queen's University, Canada has described Siemens¹¹ as engaging in "*Aggressive Bargaining and Union Busting*" and that it has Siemens as an "*aggressively anti-union business strategy*". Morally, Siemens has an appalling record conducting business in a number of other countries deemed sensitive by the Journal of Management Research (such as Burma and Pakistan) due to factors concerning labour, political freedom, civil liberties, and human rights. On 3 March 2011, Siemens lost its appeal to a European Court to have an anti-trust fine overturned. The EU Commission imposed a fine of almost €400million on Siemens in 2007 for heading a cartel on gas insulated switchgear for electricity grids.

¹² See the Appendix time line

- More recently Siemens won another contract to produce trains in Germany. They have again subcontracted the production of the bogies and some of the metalworking to the Bruges Bombardier plant.

6.3 At present the UK operates an open tendering process (in line with EU regulations) that has a systematically negative effect on the UK manufacturing sector, and does not take into account the location that products will be manufactured in. This means that although a UK company may be awarded a contract, this does not automatically mean there will be job security for UK workers or the creation of new manufacturing jobs. At Rolls Royce, 62% of research and development activity now takes place abroad. Where the intellectual capability goes so do the jobs.

6.4 According to network rail there are currently 12,000 vehicles on the GB rail network, divided into 64 different rolling stock classes. Each new design adds to procurement, maintenance and driver training costs. Unite believe it would be significantly cheaper and easier to standardise designs rather than go with a bespoke option. Such an arrangement would result in contracts lasting longer, stabilising the volatility, potentially long enough to enable time for a series of apprentices to complete their training. It would also be easier to select a further run of an existing design and provide updates

6.5 The track profile on the UK rail network has helped and hindered the Derby plant. In UK, rails negotiate a series of low bridges and other restrictions causing the activities in Derby to be generally restricted to the UK domestic market. It also creates challenges for manufacturers from outside the country, as they have to adapt their designs to work on the UK specification track. The Derby Plant could produce rolling stock for the European network but the resultant rolling stock would currently have to be shipped to the docks by road, adding significantly to the cost. Rail freight gauge enhancements may provide a future possible solution. There are already advanced plans to improve the rail freight route from Felixstowe to Nuneaton. Such a corridor could eliminate the road element of such a journey.

6.6 Unite further recommends more widely :

- Government needs to talk to companies in the manufacturing sector and trade unions to ensure a pragmatic, sustainable and long term strategy for key industries within the sector
- The commitment of the present government is the key to ensuring that public procurement works in an advantageous way for UK manufacturing companies
- Government needs to show its support for industry and ensure that social clauses are used successfully to support local businesses, communities and workers.
- Government must emphasise public procurement as a lever of skills, training and apprenticeships for suppliers and especially SMEs.

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Appendix - Thameslink tender timeline

Official Journal of the European Union notice issued and pre-qualification

questionnaire received April 08
Bombardier Response June 08

Invitation to tender issued Nov 08
Original Response Date April 09
Actual Response Date June 09

Supplementary Instruction 1 - *Bid Extension*¹³
Received Feb 09
Submitted June 09

Supplementary Instruction 2 - *Batching, Re-financing, introduction of 20 trains per hour scenario*

Received Feb10
Submitted Mar10

Supplementary Instruction 3 - *Revised depot base schemes*
Received Feb10
Submitted Mar10

Supplementary Instruction 4 - *Revised depot base schemes, revised diagrams and fleet size, refresh debt terms, revise programme (number of trains at the strategic, number of full length/reduced length units etc)*

Received Apr10
Submitted May10

Supplementary Instruction 5 - *Revised depot base schemes, revised diagrams, revised programmes, development of contract documents (populate schedules etc)*

Received Nov10
Submitted Jan11

Preferred Bidder Announcement
(planned) Oct 09
(actual) June 11

Contract Award
(planned) March 10
(actual) tbc

The first and final delivery dates moved with the SI dates (with the occasional 1 or 2 month variation)

¹³ giving more development time to Siemens.