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Trade and Industry Committee

Success and failure in the UK car manufacturing industry

Fourth Report of Session 2006–07

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written evidence*

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Committee staff

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Contacts

All correspondence should be addressed to the Clerks of the Trade and Industry Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is tradeindcom@parliament.uk.

Footnotes

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1 Introduction

1. Concerned at the collapse of the last UK-owned volume car maker, MG Rover, we launched an inquiry in January last year into the Government's role in the attempts to sustain MG Rover, with a view to finding out whether any lessons could be drawn on how to help large manufacturing companies in difficulties in the future. During the course of our inquiry, PSA Peugeot-Citroën announced that it intended to close its plant at Ryton near Coventry;¹ Vauxhall Motors, owned by General Motors, said that it was going to cut a shift at its factory at Ellesmere Port;² and the owner of the niche carmaker TVR explained that he wished to move production from a factory at Blackpool to more modern premises.³ Much of the news about the UK automotive industry was bad, but we were aware that while some companies were closing their UK plants, others had a thriving manufacturing base in the UK, in which they continue to invest in manufacturing new models. For example, during the course of this inquiry, Honda at Swindon produced its new Civic, Nissan in Sunderland its new Qashqai, Land Rover its new Freelander at Halewood and Toyota at Burnaston its new Auris.

2. We were also conscious of the fact that our predecessors had published a wide-ranging Report on the state of the UK automotive industry in September 2004,⁴ and had followed this up with oral evidence on the closure of Jaguar's Brown's Lane plant in November of that year.⁵ We wished to test whether our predecessors' main conclusions held good. These were as follows:

"The UK is still a competitive place to make vehicles, but, regardless of this, individual plants may still close. However, the risk of this will be reduced, and the prospects of continued investment in the remaining plant will be maximised, if constraints on competitiveness are identified and minimised. Whilst the UK is acknowledged to be a good venue for automotive production, our witnesses identified a number of areas of concern in the course of our inquiry."⁶

"It seems that UK production is unlikely to migrate to the [EU] accession countries in the short term. Car companies work on an international basis and have been investing heavily in the accession countries for some time so there seems little prospect of an immediate 'shock' to UK vehicle production. However, the recent investment in production capacity in the new EU members will inevitably intensify competition between EU members for future investment in manufacturing and increase the competitive pressure on the UK."⁷

1 On 18 April 2006

2 In May 2006

3 In late April 2006, TVR has since (in December 2006) gone into receivership, but the former owner bought it back in February 2007. It is not clear whether production will resume in the UK or be moved abroad: see, for example, 'Administrators sell TVR back to former owner', *Financial Times*, 23 February 2007, p2

4 Eighth Report from the Trade and Industry Committee, Session 2003-04, *UK Automotive Industry in 2004*, HC 437 (hereafter 'Eighth Report')

5 Published as 'Midlands car industry', oral evidence taken on 2 and 17 November 2004, HC 1224-i and ii

6 Eighth Report, paragraph 22

7 *Ibid.*, paragraph 61

“Unless the UK is seen to have solved the basic skills problem rapidly, the comparative advantage enjoyed by our competitors may be a significant factor in decisions by companies on where to locate production.”⁸

“Research and Development is fundamental to the continued success of the UK automotive sector, but we heard concerns that the UK is falling behind its competitors.”⁹

3. We therefore decided to widen and change the emphasis of our inquiry to cover the reasons for success and failure in the UK automotive sector. On 9 May 2006, we asked for evidence on:

- the principal reasons for the different records of success;
- how companies arrived at investment and closure decisions in this country and abroad;
- the role played by trade unions in the industry;
- the appropriate response of Government to closure announcements or speculation; and
- (building on the evidence we had already received on the effectiveness of the recovery package and Task Force for the MG Rover workforce and the West Midlands more generally after the company went into receivership)¹⁰ what the Government could do to help the workforce and the supply chain if plants closed.

4. We took oral evidence from two companies, General Motors (‘GM’) (Vauxhall/Opel) and PSA Peugeot-Citroën (‘PSA’); from two trade unions, the Transport and General Workers’ Union (‘T&G’) and Amicus; and from Mr Richard Burden, MP, who represents Northfield, the part of Birmingham where a large proportion of the MG Rover workforce lived, and who was a member of the MG Rover Task Force set up to deal with the consequences of the closure of the Longbridge plant. We received Memoranda from 21 organisations, companies and individuals, most of which are printed with this Report. We are grateful to all those who submitted written and oral evidence to us.

8 *Ibid.*, paragraph 29

9 *Ibid.*, p31

10 For which see Chapter 4 below

2 The UK industry in its global context

The worldwide automotive industry

5. Our predecessors were told in 2004 that, even with the growth in demand from India and China, the automotive industry was facing overcapacity worldwide.¹¹ Most of our witnesses accepted this analysis: the T&G stated that the industry was able to produce about 60 million vehicles per year worldwide, whereas 40 million were sold.¹² Amicus demurred from the consensus, but only on the basis that, if people in developing countries were richer, there would be much higher demand¹³—which may be true but does not reduce the industry’s difficulties. It was also broadly accepted that the rise of China and India as manufacturing bases and the expansion of the European Union to Central and Eastern Europe had fundamentally changed the economics of the automotive industry.¹⁴

6. While car manufacture is a global industry, automotive companies operate largely in terms of broad regions (such as ‘Europe’ or ‘Asia-Pacific’) regarding both production and markets.¹⁵ The definition of regions may vary from company to company. For example, we have discovered during our inquiry into trade and investment opportunities with Mercosur that companies have different views of whether there is a ‘Latin American’ market and, if so, which countries comprise it. However, all of them plan their operations on a regional rather than national basis, which in some cases—as we shall see later—applies also to the supply chain for their assembly plants.¹⁶

7. Assessing capacity and potential within regions, all our witnesses agreed that Western Europe and North America¹⁷ were mature, and therefore slow-growing or stagnant, markets, and had significant overcapacity.¹⁸ GM estimated overcapacity in Western Europe at 20–25%,¹⁹ and suggested that demand would have to increase by between 8% and 10% a year just to utilise existing manufacturing capacity.²⁰ Growth of 8–10% in such mature markets is unlikely, particularly bearing in mind increasing environmental concerns. In the meantime, GM’s operations in Europe, for example, had lost \$6 billion “over the last six years”.²¹ PSA noted that no new car assembly plant had been opened in Western Europe, including the UK, for some years—the last one being Toyota’s factory in northern France which started production in 2001.²² On the other hand, a significant percentage of

11 Eighth Report, paragraphs 1 and 10

12 Q 74

13 Q 13

14 See, for example, Q 76 (T&G)

15 For example, the SMMT told us: “It is Europe, not just the UK, that now provides the ‘home market’ for vehicle producers”: Appendix 18, para 2.12

16 Paragraph 23 below

17 Including Canada and Mexico

18 Qq 107–109 (GM) and 136 (PSA) See also Q8 (Amicus) and Appendix 18, para 2.12 (SMMT) GM mentioned projections that the UK market is set to contract by 5% between 2005 and 2011: Appendix 12

19 According to GM, roughly equivalent to an excess of 20 assembly plants

20 Q 107 and Appendix 12

21 Q 109

22 Q 259

automotive companies' sales were still in these mature markets—Western Europe accounted for 70% of PSA's sales, for example—and we were told that they needed to maintain their manufacturing base there to meet regional demands.²³

8. PSA identified three major trends affecting car production in mature markets. The first was the 'fragmentation' of mature markets: customers were demanding more choice, but this made it difficult for manufacturers to obtain economies of scale, so costs had to be reduced. Second, in response to this and to general competitive pressures, companies were entering into agreements to share development and/or production costs: PSA said that it had seven such 'co-operation strategies' with different companies. Thirdly, the focus on cost reductions had led to a reliance on 'platforms', basic structures common to several models (for a single car producer or a number of companies) which could then be varied with different styling, engine capacities and types, and other features. The manufacturers were thus able to produce the variety demanded by customers while retaining economies of scale.²⁴

9. We were told that these strategies were not sufficient: companies were considering closing plants and changing the number and pattern of shifts to try to match production to demand.²⁵ Volkswagen was significantly reducing its workforce in west Germany—its target being 20,000 jobs or about 12%—to increase its competitiveness.²⁶ GM had undertaken wide-ranging 'restructuring' since late 2004, which involved the loss of 12,000 jobs by 2007, mostly in Germany: the workforce had already been reduced by 10,000 but the process had not been completed, and GM could not assure us that there would not be more job losses after the current wave.²⁷ Even Nissan's Sunderland plant, which received investment of £586 million between 2001 and 2006, witnessed a reduction of 15% in the workforce over the last four of those years.²⁸ Moreover, both unions and companies agreed that the application of technology to the industry, and in particular IT, had increased and would continue to increase productivity significantly, with a resulting decline in the labour force.²⁹

10. Our witnesses agreed that the regions with growth potential were Central and Eastern Europe, Latin America and parts of Asia (especially China)³⁰, where the majority of middle-class consumers still earned much lower salaries than in the developed nations and western-manufactured cars would be uncompetitively expensive³¹ (though the richest segments of their populations were an expanding market for luxury cars³²). Automotive

23 Qq 174-175

24 Q 163

25 Q 176 (PSA) See also 'Cost-cutters try to catch a moving target', *Financial Times*, 28 September 2006, p3

26 Appendix 9 (DTI)

27 Qq 110-113

28 Appendix 4, para 5.2

29 Qq 4 (Amicus) and 107 (GM); Appendix 9 (DTI)

30 China has recently become the second largest market for cars in the world, after the USA and displacing Japan: figures from the China Association of Automobile Manufacturers reported in <http://news.bbc.co.uk/go/pr/fr/-/2/hi/business> on 11 January 2007.

31 Qq 13 (Amicus), 76 (T&G) and 165 and 173 (PSA)

32 For example, Rolls-Royce sales in China increased by 60% in 2006 over 2005.

companies were therefore manufacturing vehicles close to these markets, which enabled them to compete with local producers.³³

11. The automotive companies were reluctant to give us comparative costs for production in the UK and Eastern Europe. The trade unions, however, suggested that labour costs in the Czech and Slovak Republics were about a third of those in Western Europe and they quoted labour costs of €6 per hour for Slovak workers as compared with €25–26 per hour for UK workers.³⁴ The trade unions argued that it was these costs, rather than the growth in the local market, that were encouraging some companies to close their factories in Western Europe and move production eastwards, and that it might be only a matter of time before other firms, such as the Japanese manufacturers, followed suit.³⁵ Indeed, Toyota is already manufacturing jointly with PSA in the Czech Republic.

12. At present the automotive industry still seems to be wedded to a regional approach to its markets, expanding or contracting capacity to meet regional demand. Logistical costs and the need to reflect local tastes are important factors in limiting the scope for supplying customers from plants outside the region. While we do not believe that a shift in production from Western Europe to the cheaper Asian economies is imminent, like our predecessors we believe that the closure of car plants in Western Europe and the opening of up-to-date facilities in Eastern Europe, using cheaper labour, will continue.

UK automotive industry

13. The Department of Trade and Industry ('DTI') and Society of Motor Manufacturers and Traders ('SMMT') seemed fairly optimistic about the state of the UK automotive industry. The DTI summarised the situation as follows: "The diversity of the UK auto industry is such that some companies have grown, some have failed, and many have continued to do well. ... the total number of companies has remained stable over the last 10 years.... Headline vehicle production is also relatively stable."³⁶ The SMMT commented: "The UK automotive industry remains wide and diverse in nature with a larger number of global brands located here than in any other European country."³⁷ The DTI also noted that in 2004 the UK attracted more inward investment projects by car manufacturers (15% of the European total) than any other European country³⁸—though it must be said that Korean car manufacturers seem to be locating their European plants in Slovakia, in the same way as Japanese car companies used the UK as their base for Europe 20 years ago.³⁹

14. Our trade union witnesses painted a fairly gloomy view of the general state of the UK car industry: with total car production having decreased by 3.6% in the previous three years; car production in the first four months of 2006 being at its lowest rate since 2001 and

33 Q 173 (PSA)

34 Qq 67 and 71 (T&G)

35 Qq 71 and 79 (T&G) and 9 (Amicus)

36 Appendix 9 (DTI)

37 Appendix 18, para 2.3

38 Appendix 9

39 'Korean cars rev up for Europe', BBC News report, <http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/6294151.stm>

more than 10% lower than the average for the previous five years; and with—according to the T&G—further falls predicted for 2007 and 2008.⁴⁰ However, the UK was not alone in experiencing problems: as shown in the table below, almost all of the EU15, including France, Spain and Italy, saw a decline in total motor vehicle production in 2005 as compared with 2004; Germany was the only big Western European car-making country to experience a rise in production.⁴¹ Moreover, a breakdown of these figures reveals the fact that, across Europe, passenger car production declined more sharply than that of other vehicles, with growth in light commercial vehicles and heavy lorries and a slight decline in bus and coach production.⁴² Even the ‘new’ EU Member States were not completely immune from the malaise affecting passenger car production: while Poland, Hungary and—especially—the Czech Republic bucked the trend, the Slovak Republic saw car production slump from 281,160 vehicles in 2003 to 218,173 in 2005.⁴³

Table 1: European Motor Vehicle Production

Selected countries, ordered according to 2005 figures

	2003	2004	2005	Change 2004/05
Germany	5,506,629	5,569,954	5,757,710	3.40%
France	3,620,053	3,665,990	3,549,003	-3.20%
Spain	3,029,826	3,011,776	2,752,500	-8.60%
UK	1,846,429	1,851,589	1,803,049	-2.60%
Italy	1,321,631	1,142,105	1,038,352	-9.10%
Czech Republic	441,717	448,106	604,930	35.00%
Poland	n/a	522,900	540,200	3.30%
Slovak Republic	281,165	223,542	218,173	-2.40%
Netherlands	192,634	247,503	180,568	-27.00%
Hungary	126,296	122,661	138,918	13.30%
Finland	19,658	10,510	21,644	105.90%
EU 15 Total	16,798,345	16,892,611	16,492,796	-2.4%

Table derived from statistics on Total Motor Vehicle Production in the EU by country 2003–05 produced by the European Automobile Manufacturers’ Association⁴⁴

40 Q3 (Amicus) and Q 68 (T&G)

41 Three other EU 15 countries experienced an increase in total motor vehicle production: Finland (as the table shows) plus Austria (an increase of 1.8%) and Belgium (an increase of 3.0% overall, despite the fact that its production of Light Commercial Vehicles fell from 81,125 units in 2003 to zero in 2005).

42 Latest statistics (dated 09/03/06) from the European Automobile Manufacturers’ Association on <http://www.acea.be/files/EU-15%20Production-FY2005-ACEA20%Final.pdf>

43 *Ibid.*

44 *Ibid.* There are elements of double counting in the individual country totals—the EAMA identifies these as affecting Germany/Austria, Germany/Belgium and Spain/Portugal. The EU total given in the table is net of these double countings.

Table 2: European Production of Passenger Cars Only
Selected countries, ordered according to 2005 figures

	2003	2004	2005	Change 2004/05
Germany	5,145,403	5,192,101	5,350,187	3.0%
France	3,220,328	3,227,416	3,112,956	-3.5%
Spain	2,399,374	2,402,103	2,098,168	-12.7%
UK	1,657,558	1,647,246	1,596,296	-3.1%
Belgium	791,703	857,119	895,788	4.5%
Italy	1,026,454	833,578	725,528	-13.0%
Czech Republic	436,297	442,812	599,472	35.4%
Poland	*	522,900	540,200	3.3%
Sweden	280,394	290,383	288,659	-0.6%
Austria	118,650	227,244	230,505	1.4%
Slovak Republic	281,160	223,542	218,173	-2.4%
EU 15 Total	14,694,868	14,748,189	14,272,045	-3.2%

Table derived from statistics on Passenger Car Production in the EU by country 2003–05 produced by the European Automobile Manufacturers' Association⁴⁵

15. Even within the UK, fortunes vary widely. The T&G agreed that the commercial vehicle sector was doing fairly well;⁴⁶ according to the SMMT, it was thriving, as was the taxi manufacturer LTI Ltd, while the bus and coach sector was stable.⁴⁷ Most of our witnesses also commented on the differences between passenger car companies. Although, according to the T&G, six of the last eight car assembly plants in Europe to shut down or announce their closure were in the UK,⁴⁸ we noted that the Japanese manufacturers were thriving, with Nissan in September 2006 launching its first ever car designed, engineered and built in the UK (the Qashqai),⁴⁹ Honda employing another 700 staff at Swindon to support an increase in output from 190,000 to 250,00 vehicles a year, and Toyota heading towards production of 300,000 cars a year at Burnaston in Derbyshire.⁵⁰ These three plants are within the top ten most productive car plants in Europe: Sunderland is the most productive.⁵¹ Other car companies were also showing confidence in the UK industry:

⁴⁵ *Ibid.* For double counting, see footnote 44 above.

⁴⁶ Q 70

⁴⁷ Appendix 18, paras 2.15–2.18

⁴⁸ Q 67

⁴⁹ Amicus pointed out that at least five new models have been introduced to Nissan's Sunderland plant in the last four years: Appendix 4, para 5.2

⁵⁰ See 'Nissan rules Britannia', *Daily Telegraph*, 9 September 2006, p3; 'Honda to take on 700 more staff at Swindon', *The Independent*, 29 September 2006, p56; and 'Japanese ride to the rescue once more', *The Independent*, 29 September, p57

⁵¹ Appendix 8, para 4 (DTI); Appendix 18, para 2.39 (SMMT)

BMW announced its intention to invest £200 million at its Cowley plant to build a new generation Mini and to expand production from 200,000 to nearly 250,000 a year; Rolls-Royce has said that it is planning a new, smaller and somewhat cheaper series of models at Goodwood in Sussex for sale in 2010; and Ricardo has signed an agreement with Lifan, a Chinese motor manufacturer, to develop a new family of car engines and transmissions.⁵² BMW, Land Rover, Toyota and Vauxhall all achieved record car production in the UK in 2005, and the Halewood plant was Ford's best performing plant in the world in 2004.⁵³ Engine production in the UK increased by 22.6% between 1999 and 2004 and, as the SMMT pointed out, since engines represent 17% of the total value of a passenger car, they are "a lucrative form of automotive manufacturing".⁵⁴ The niche manufacturers are still important, too: Morgan and Bristol are introducing new products, and Aston Martin—which also achieved record production in 2005—is the exception to Ford's Premier Automotive Group's falling sales.⁵⁵ Even some of the companies that have closed or reduced car assembly capacity are still investing in some areas of the UK industry, with the most visible example being Ford's development of its engine plant at Dagenham (including a move into the design of advanced diesel engines);⁵⁶ also PSA has embarked on joint research with Ricardo Associates (an automotive research and design firm, based in the UK) into improving diesel technology.⁵⁷

16. When we asked how, in particular the Japanese-owned, companies were managing to thrive in the UK despite the difficult trading conditions, we were given several answers. Amicus emphasised these companies' commitment to investment in new models and plant, in contrast, they alleged, to the "more traditional" British car industry.⁵⁸ The T&G gave two principal reasons. It said that Toyota's strategy was to grow organically rather than through mergers and acquisitions (unlike Ford and GM), and it highlighted the importance of the company's careful nurturing of its supply chain, both of which, it implied, increased the company's commitment to, and its ability to withstand pressure in, the mature European car market.⁵⁹ PSA and GM suggested that it was the companies longer-established in the UK that were experiencing problems: the Japanese companies had started manufacturing in the UK comparatively late, and were able to build modern plants and incorporate the latest lean manufacturing techniques from the start.⁶⁰ Amicus

52 'BMW invests £20 m in new range of Minis', *Financial Times*, 14 September 2006, p2; 'Rolls-Royce plans cheaper series', *Daily Telegraph*, 29 September 2006, p5; 'Ricardo wins deal with China for car engines', *The Guardian*, 25 October 2006, p30 For a fuller list of new investments and model launches in the UK, see Appendix 18, para 2.5 (SMMT)

53 Appendix 18, para 2.39 (SMMT)

54 *Ibid.*, para 2.19

55 'Motor manufacturing industry moves up a gear', *Daily Telegraph*, 30 November 2006, p9; 'The rise and rise of Morgan', *The Independent*, 26 September 2006, p4; 'Ford's luxury unit hits problems', *Financial Times*, 24 October 2006, p31; Appendix 18, para 2.39 (SMMT) Ford has recently announced the sale of Aston Martin to a consortium led by the British company, Prodrive, a motorsport group.

56 Ford will soon be supplying about a quarter of its global engine requirements from its UK plants: Appendix 9 (DTI) and Appendix 18, para 2.5 (SMMT) In 2005 Ford announced £200 million-worth of investment in development and production of a new diesel engine at Dagenham: Q 76 (T&G) For Ford's other recent investments, see Appendix 11, para 23 (Ford)

57 Q 258

58 Q 3 See also Appendix 4, para 5.2 (Amicus)

59 Q 84

60 Q 258 (PSA) and 127 (GM)

contrasted the situation in the UK with that in Germany, and attributed the increase in car production in Germany to investment by the industry, and government support and training.⁶¹ We examine all these elements in more detail in the next chapter.

3 Factors affecting the future of individual plants

17. While the pressures facing car manufacturers are similar throughout Western Europe, certain factors make some plants more vulnerable to closure than others. Whatever contribution the actions of management may have made to the timing and exact circumstances of its collapse—and we note, with regret, that the Companies Act investigation into these circumstances has not yet concluded—MG Rover failed primarily because it lacked the resources and capability to develop new models on its own and was unable to secure partners. Even where companies are able to develop new models that customers like, however, they may be unwilling or unable to use existing plants to produce them. Our witnesses mentioned the following factors as major considerations when the future of plants was to be decided:

- flexibility, which encompasses such matters as the age of the plant and the scope for rebuilding it; and whether the production lines are adapted to a ‘platform’ approach or whether the plant is dependent on a single model;
- the relationship of the plant to others in the group (whether, for example, it is just an assembly plant or whether it produces any components) and to the company’s supply chain; and logistics more generally;
- costs, in particular for labour and energy; and
- productivity rates, labour flexibility and skills.

Other factors appear to us to be the extent to which the company regards the country as its ‘home base’ for a particular regional market; and the influence of exchange rates on competitiveness.

Plant flexibility

18. Two of the plants identified for closure last year, PSA’s at Ryton and TVR’s at Blackpool, were old factories. As a result, they both needed reconstruction to meet modern manufacturing requirements for equipment and processes, but media commentators noted that there were doubts whether either site was capable of redevelopment in the way needed.⁶² Amicus said that it had no evidence that planning problems played any part in Ryton’s and TVR’s closure, though it conceded that purpose-built plants on greenfield sites had a competitive advantage.⁶³ The T&G, on the other hand, said that many UK car plants were suffering from the fact that there was limited scope for re-equipping the sites, thus hindering innovation. The T&G said that, while companies had invested in production facilities, they had been unable or unwilling to invest enough to bring the UK industry “towards the 21st century”.⁶⁴ GM compared the difficulties posed by its legacy of

62 See, for example, ‘TVR “intends to become another Aston Martin”’, *Financial Times*, 26 April 2006, p4

63 Q 10

64 Q 90

production at Ellesmere Port with the situation of some of its competitors “who have been more recently established, they have not had to make the changes, the updates, they have been able to come in with a fresh set of facilities, a fresh set of working practices and the ability to start from a clean sheet.”⁶⁵ GM suggested that, at a rough estimate, older plants in brownfield sites were 20–25 % less efficient overall than newer greenfield ones.⁶⁶

19. PSA confirmed that the age and configuration of the Ryton factory posed major difficulties to the company. The only model produced at Ryton in recent years had been the Peugeot 206. Although Ryton had produced two other models from its single production line during the 1980s, the company decided that the design of and assembly techniques for the 206 were so different from those of the earlier models that a single production line could not be shared.⁶⁷ After the 206 was introduced, PSA had adopted the strategy of designing its plants for the production of multiple models on the basis of a single ‘platform’.⁶⁸ When it was decided to reduce production of the 206, Ryton was not configured so that it could produce a variety of models on the basis of a platform. We asked whether it would have been possible to rebuild or refit Ryton, and PSA said that this had been considered but it would have cost about £255 million to adapt the plant to platform working and to install the tooling to assemble particular vehicles. As the group was trying to reduce costs throughout Europe and Ryton was the most expensive plant in the group, PSA decided it was not worth investing that much.⁶⁹ Moreover, the company did not even consider the possibility of constructing a new factory on a greenfield site in the UK to replace Ryton, because the volume of cars produced there did not justify the investment cost.⁷⁰

20. Unsurprisingly, the age of plants influences decisions on which factories to run down or close where there is over-production.⁷¹ However, it is not simply the case that if a facility is old, it will close. Some companies have invested large sums of money in developing and upgrading factories—for example, neither BMW’s Cowley plant nor Ford’s Dagenham one is a new facility on a greenfield site. It is also arguable that, after more than 20 years of operation, Nissan’s factory in Sunderland is hardly “new”. Of more importance than simple age is the degree to which plants are capable of adaptation to modern manufacturing equipment and practices, and the cost of adapting them relative to building or upgrading facilities elsewhere.

65 Q 127 (GM)

66 Q 124

67 Q 206 (PSA)

68 For a description of the ‘platform’ strategy, see paragraph 8 above

69 Qq 207–208

70 Q 210

71 “Many [empirical] studies show that plant size, age and productivity affect the likelihood of plant closure. Overall, larger, well-established and more efficient plants are less likely to be closed than small, less efficient plants”: Appendix 9 (DTI)

The supply chain

21. About 1.5 million passenger cars are produced and about 2.4 million sold in the UK every year,⁷² but these statistics mask the fact that over 70% of cars built in the UK are exported and 80% of cars sold in the UK are imported. In other words, UK car factories are heavily dependent on overseas markets.⁷³ PSA and GM reflected that pattern: both claimed to export about 60–65% of the cars they produced in the UK.⁷⁴ Moreover, automotive manufacturers have adopted different approaches to their supply chain: some prefer to acquire components from suppliers close to the final assembly plant,⁷⁵ whereas others have centralised the purchase of components and prefer to send them out from a single source or limited number of suppliers to their plants throughout Europe. (The sourcing of components for GM, for example, is done on a worldwide basis.⁷⁶) As a result, the relationship of UK factories to the rest of the supply and distribution chain is an important factor when companies consider the future of individual plants.

22. Both PSA and GM suggested that the UK's geographical position on the edge of the Western European market added to the expense of manufacturing cars here. GM said that production at Ellesmere Port cost an extra €19 million⁷⁷ compared with GM plants manufacturing Astras elsewhere in Europe, which it attributed to the extra costs of importing parts into and exporting finished vehicles from the UK.⁷⁸ This is surprising as GM noted that many of its components are acquired from suppliers outside Europe, so all its European plants are at some disadvantage logistically and as a result of exchange rates; and as it also claimed to have bought components worth more than £500 million per year from suppliers in the UK.⁷⁹

23. PSA's Ryton plant was, in some respects, more vulnerable than Ellesmere Port—it was a purely assembly plant, with no body-pressing facility; PSA did not manufacture any engines or other major parts in the UK; and all the components for the 206 car assembled at Ryton had to be acquired from UK or overseas suppliers.⁸⁰ Furthermore, the volume of cars assembled at Ryton was lower than for PSA's other plants, so the cost of components (taking into account both the supply price and transportation costs) was higher per car produced, as was the cost of distributing the final product.⁸¹ This played a part in PSA's

72 Figures for 2005. 'Cars sold' are measured by new registrations. See Appendix 18, para 2.14 (SMMT) The SMMT recorded a year-on-year decrease of 3.9% in new registrations in 2006: <http://smtt.co.uk/news>

73 According to ONS statistics, the UK produced about 136,000 cars a month in the three months to April 2006: 103,000 per month were exported (about 75%) and 33,000 were for the home market (less than 20% of demand): cited in Appendix 4, para 6.5 (Amicus).

74 Qq 138 (GM) and 185 (PSA)

75 For example, it is expected that 40% of component suppliers to the Toyota/PSA joint venture plant at Kolin in the Czech Republic will also be located in the Czech Republic: Appendix 4, para 6.7 (Amicus) There are predictions that Iran and Ukraine may become major suppliers of components in the foreseeable future as their labour costs are cheaper than those in the new EU Member States: 'Bumpy ride is far from over', *Financial Times*, 28 September 2006, p1

76 Q 141

77 Presumably per year

78 Qq 121 and 138

79 Qq 139–144

80 Q 206

81 Qq 218–219

decision not to rebuild the plant on a new site: “Ryton is an assembly plant and the volumes produced in Ryton do not substantiate the investment that would be necessary in order to make body pressings in the UK, to make engines in the UK, and so to eliminate the logistics costs of bringing such components from the group’s factories in France across the Channel to the UK.”⁸²

24. We asked PSA why it had adopted this supply model—after all, Ford had adopted a completely different approach, no longer producing any cars in the UK but manufacturing two million engines a year at Dagenham for its car plants throughout Western Europe. PSA refused to speculate on Ford’s reasoning, but said that the supply model for the 206 was intended to minimise costs when the 206 had been at peak production: since Ryton was responsible for only a quarter of the total production of the 206 at this time and the plants in France for the rest, it made sense to acquire components from suppliers in France to reduce logistical costs overall.⁸³

25. GM appeared to be of the view that the UK Government could do more to help with the logistical problems “whether it be in terms of the costs of operating transport activities, the speed of moving goods through the processing, the administrative side”; but gave no specific examples of difficulties that needed to be addressed.⁸⁴ This was not a topic raised by any of our other witnesses, despite the fact that, on the face of it, these problems should be common to any car makers dependent on the import of components—and, for that matter, to other manufacturers as well.

26. Despite the existence of some world-class component manufacturers in the UK (the SMMT noted that 17 of the world’s top 20 component manufacturers have operations here), there has long been concern about the automotive supply chain in the UK. Of the nearly 2,000 companies supplying the sector, about half are SMEs, and many have not been able to raise the skill levels of their employees or move to higher value products, and as a consequence are struggling to be competitive in the face of lower cost imports.⁸⁵

27. With the help of the Government and the Regional Development Agencies, a National Supply Chain Group funding programme was established to encourage large UK-based manufacturers to improve the competitiveness of their UK-based suppliers, including by developing skills, much as the Japanese car companies have traditionally done.⁸⁶ However, in the final resort, it must be for individual companies to decide how to construct their supply chain, whether sourcing components locally or from regional or international hubs.

28. It is clear that the logistical models adopted by GM and PSA have contributed to the cost disadvantages faced by Ellesmere Port and Ryton. However, other car companies are also importing significant proportions of their components and

82 Q 210

83 Qq 227 and 224

84 Q 122

85 “For example, despite a backdrop of increasing energy and raw material prices, the charges levied by automotive component suppliers have fallen in real terms by as much as 20 per cent in order to remain competitive and attractive to manufacturers.”: Appendix 18, para 2.43 (SMMT) See our predecessors’ comments in Eighth Report, paragraphs 35-41; Appendix 18, paras 2.20 and 2.51 (SMMT) and Appendix 13 (I Mech E)

86 Appendix 9 (DTI)

exporting most of their finished products, while still managing to manufacture profitably in the UK.

Labour and energy costs

Labour costs

29. A number of our witnesses identified labour costs as a vital factor in the decisions taken by car manufacturers about whether individual plants should continue to operate. They were in agreement that wages were significantly higher in the UK than in, for example, Eastern Europe. However, they took radically different views of the aspects of labour costs that were of most significance: the companies emphasised legacy costs of things like pensions and out-of-date working practices, and the fact that new plants were free of these; the trade unions focused on what they regarded as the low cost and excessive ease with which companies could shed labour in the UK.

30. It is difficult to make accurate comparisons of wage rates: as mentioned previously, the T&G quoted hourly labour costs of €6 for Slovak workers and €25–26 for UK workers. Amicus cited hourly rates of €7 in the Slovak Republic and Slovenia, €18 in the UK, €22 in France and €34 in Germany.⁸⁷ According to Amicus, the German Centre for Automotive Research in 2005 suggested a greater disparity: labour costs of only €3.3 per hour in the Slovak Republic, €4.2 in the Czech Republic, €4.7 in Hungary and €5.4 in Poland, in comparison with €25.8 in Western Germany.⁸⁸ PSA said that its labour costs per worker in the UK totalled €3200 per month, as compared with €3,000 in France and €2,300 in Spain. It is not clear what ‘labour costs’ comprises in this context—whether it includes, for example, pension costs and social taxes; however, the company did confirm that labour costs per worker were higher at its Ryton plant than in France, even when France’s notorious social costs were taken into account.⁸⁹

31. We were surprised to learn that PSA considered labour costs higher in the UK than in France. We recommend that the Government study this potentially significant claim to see whether there is such an incentive to cut manufacturing jobs in the UK; and we would like to be informed of the Government’s conclusions. We are also concerned about the more predictable labour cost disadvantage vis-à-vis eastern Europe. We have recently started an inquiry into the impact on UK business of the expansion of the EU to Eastern and Central Europe, and intend to consider, amongst other things, the synergies that UK companies could achieve through working better with their equivalents in Eastern Europe.

32. GM lamented the burden faced by companies long-established in the UK of “legacy working practice agreements, terms and conditions, and also ... a large legacy cost in terms of retirees and the benefits to support those retirees”.⁹⁰ It said that, for example, it had to

⁸⁷ Appendix 4, para 6.2, citing research by the Centre for Automotive Industry Research at the Cardiff Business School in 2005

⁸⁸ *Ibid.*, para 6.6

⁸⁹ Qq 211–212

⁹⁰ Q 127

finance the pensions of just over 23,000 retired employees of Vauxhall in the UK.⁹¹ However, we note that these pensions will continue to have to be paid by the company whether or not it manufactures cars in the UK. Future pension costs are a factor in calculating the viability of operating in particular locations; legacy costs have a more indirect effect, because of their impact on the overall profitability of the company as a whole—they should play only a minor part in deciding the future of specific plants.

33. Amicus went so far as to say that the ease of dismissing workers in the UK was the “over-riding” factor behind the decisions to close Ryton and reduce shifts at Ellesmere Port.⁹² The T&G suggested that it would take a company about twelve months to complete the legal process to remove a production shift in Germany, while in the UK the process took 90 days.⁹³ Amicus cited its calculation that the workers made redundant from the Ellesmere Port factory would receive a maximum of £50,000 in redundancy and other severance payments, whereas equivalent workers in France, Germany or Italy would receive £150,000.⁹⁴ Not surprisingly, the two companies involved denied that they had been influenced by the ease and cheapness of dismissing labour in the UK, emphasising instead the cost disadvantages faced by the specific plants. GM noted that it was not using compulsory redundancy at Ellesmere Port anyway, but had undertaken a “voluntary separation programme”.⁹⁵ PSA suggested that the main reason it had brought forward the final closure date for Ryton was that so many employees had opted for the severance terms it was offering that it was no longer viable to run down the plant as slowly as originally envisaged. It also said that it was providing higher redundancy payments to the workers at Ryton than it had to employees in France the previous year.⁹⁶

34. Because of what it saw as the ease of making people redundant in the UK, the T&G advocated a Government-brokered review of every closure involving more than 250 workers: in effect, a compulsory pause in the company’s decision-making process to enable the management and unions to discuss the need for such a drastic measure, with the mediation of the Government. The T&G suggested this was necessary because of inadequacies in the EU Information and Consultation Directive,⁹⁷ not least the level of penalties (a maximum of £75,000) for failures in consultation.⁹⁸

35. We understand the concern of the trade unions for their members. We note the T&G’s assurance that unions would not oppose all closures, and we further note that this review procedure would involve substantial government involvement in the decision-making processes of the private sector.

91 Q 128

92 Q 22; see also Q 4

93 Q 80

94 Q 22

95 Q 155

96 See, for example, ‘Early closure of Ryton car plant provokes anger’, *The Guardian*, 11 October 2006, p23; and Q 266

97 Transposed into English law by the Information and Consultation of Employees Regulations 2004

98 Q 101

Energy costs

36. When asked why Ellesmere Port was so much more costly to run than other Astra plants in Europe, GM listed three factors: one was the logistical problems we have already discussed;⁹⁹ the others were comparative energy costs, and a heavier local rates burden than existed in other European countries where it operated manufacturing plants.¹⁰⁰ GM did not comment further on the last of these, but it and other witnesses did provide more information about energy and raw material costs. GM said the energy costs for Ellesmere Port were 30–35% higher in 2006 than in 2005, and alleged that energy costs in the UK were higher than elsewhere in Western Europe—though it produced no comparative figures. It admitted that this problem was not unique to the UK nor to the automotive sector, but felt that it was more acute in the UK than elsewhere. GM’s suggested solution was for the UK Government to maintain open and competitive markets for energy.¹⁰¹ We asked PSA whether energy costs had played as large a role in its decision to close Ryton. It replied that lower energy costs were one reason for building the new 207 model in the Slovak Republic rather than at Ryton, but this was only a “modest” factor in the decision.¹⁰²

37. It is true that the price of electricity and gas increased markedly in the UK between 2003 and 2006, and our predecessors were told that prices elsewhere in the EU were significantly lower, thus reducing the competitiveness of UK industry.¹⁰³ However, the statistics published in the Government’s series of Quarterly Energy Prices reports (the latest of which is dated December 2006) show that, including taxes,¹⁰⁴ UK ‘large’ industrial consumers¹⁰⁵ had below average electricity prices compared with the rest of the EU15 from July 2002–July 2005, and although UK prices then rose above the EU15 median, consumers in Italy, Germany and Ireland and—more recently—Belgium and Austria have consistently had to pay more than those in the UK.¹⁰⁶ Electricity prices for ‘extra large’ industrial consumers in France¹⁰⁷ have been at or below the EU15 median since at least July 1998 (when the sequence of comparisons begins); while prices for large electricity consumers in the Slovak Republic were above the EU15 median for the whole of 2005 and the first half of 2006,¹⁰⁸ and above those in the UK for the whole of 2005 although markedly lower than UK prices in 2006. Industrial gas prices for large consumers show a similar pattern, with UK prices being among the lowest in the EU15 until July 2005 and being above the median since January 2006. In this case, however, Germany and Italy have had

99 See paragraphs 22 and 25 above

100 Qq 119 and 121

101 Qq 121 and 133–137

102 Qq 221–222

103 Trade and Industry Committee, *Fuel Prices*, Twelfth Report of Session 2004–05, HC 279, paragraphs 11–18

104 Excluding VAT as VAT is refundable on purchase. However, it includes other taxes such as the Climate Change Levy.

105 Defined as those consuming 50 Gigawatts per year with a maximum demand of 10 Megawatts

106 The relevant tables are not reproduced in the printed version of *Quarterly Energy Prices* but are available on the DTI’s website at <http://www.dti.gov.uk/energy/statistics/publications/prices/index.html>. The table showing industrial prices for large electricity consumers is Table 5.4.3; that showing industrial electricity prices for extra large industrial consumers is 5.4.4; and that for industrial gas prices for large consumers is 5.8.3. In all cases in the above analysis, the prices including taxes have been used, as being closer to what the customer would actually pay.

107 There are no statistics available for France in the ‘large’ consumer category. ‘Extra large consumers’ are defined as those consuming 420 Gigawatts pa with a maximum demand of 50 Megawatts.

108 The price sequence for the ‘new’ Member States starts in January 2005.

prices higher than the EU15 median since January 1998, France since July 2004 and the Slovak Republic since figures started to be recorded by the DTI, in January 2005.

38. This suggests that the UK is not necessarily disadvantaged by the level of electricity and gas prices faced by large industrial users like automotive companies, although there was understandable concern about the volatility of UK prices. We also note that the European Competition Commissioner seems determined to continue to put pressure on Member State Governments to remove such barriers to competition in the energy market as price caps for industrial consumers.¹⁰⁹ This, and the recent signs of decreases in UK gas and electricity prices, may reduce or eliminate the cost disadvantage recently felt by companies with manufacturing operations in the UK.

Productivity, labour flexibility and skills

39. Higher costs per worker can be offset in some circumstances by higher productivity and operational performance. The SMMT Industry Forum has endeavoured to raise UK productivity, concentrating on things such as spreading knowledge of lean manufacturing techniques and, in partnership with the related sectoral skills council (SEMTA) and the Learning and Skills Council, improving skills.¹¹⁰ Unfortunately, in the view of GM and PSA, though Ellesmere Port and Ryton had recently witnessed improvements in productivity (and they paid credit to the local employee, management and union teams in achieving this), they had still not achieved world-class standards.¹¹¹ PSA suggested that, based on a two-shift operation, costs per car were still €415 higher in the UK than in France. Moreover, this disadvantage was set to worsen with the decline in production of the old 216 model, however good the productivity levels at Ryton.¹¹² GM explained that Ellesmere Port still had “the highest operating costs and product lifecycle cost projections” of any of the current Astra plants, despite the fact that since 2002 production quality had improved by 40%, the number of manpower hours spent producing each car had almost halved, total plant cost by car had fallen by 40% and assembly cost per car by 36%.¹¹³

40. While acknowledging the improvements in productivity, GM hinted at continuing problems with labour flexibility. GM seemed to contrast the broad situation in continental Europe—where, it said, overall manufacturing productivity had increased by 23.5% between 2002 and 2005 “partly as a result of more competitive labour agreements and more flexible working practices”—with that in the UK where “we continue to face challenges in re-negotiating employee contracts in order to bring labour flexibility up to the world class standards already negotiated from the outset” by automotive companies more recently established in the UK.¹¹⁴

109 *DG Competition report on energy sector inquiry* (SEC (2006) 1724, 10 January 2007), Part II.5.2 Regulated supply tariffs, paras 610-613, and Part II.5.3 Special support schemes for energy intensive users, paras 614-617: available on http://ec.europa.eu/comm/competition/sectors/energy/inquiry/full_report_part2

110 Appendix 18, para 2.41

111 Qq 124 and 129 (GM) and 185 and 230 (PSA)

112 Qq 211 and 232

113 Appendix 12

114 *Ibid.* See also the reference to “legacy working practice agreements, terms and conditions” in Q 127 (GM)

41. Some of our witnesses commented on the continuing need for better training of the current and potential automotive workforce in the UK. The SMMT stated: “The priorities of the automotive sector are to raise the standard of basic skills, improve the role of vocational education, and increase the guidance available to young people about careers in the industry.”¹¹⁵ It also said that, in common with the rest of the manufacturing sector, the automotive industry experienced difficulty in recruiting graduates.¹¹⁶ Ford detected wider problems, suggesting “we must do more in the UK to raise teaching standards in mathematics and science, and improve the image of technology and engineering”; and saying that one difficulty companies like Ford faced was “accessing funding for basic skills and retraining activity. The existing training delivery structure is unnecessarily complex and there is a need to simplify and secure greater ease of access to training funds”.¹¹⁷ We are addressing these problems at present in our inquiry into skills shortages in UK manufacturing industries.

42. As our predecessors found in 2004, there were complaints that, with some exceptions (Toyota, for example), car companies had invested too little in training their employees.¹¹⁸ There was praise for the Automotive Academy, which promotes skills improvements at all levels of the industry, from shop floor to technical staff and management;¹¹⁹ but both trade unions also favoured a training levy, to spread responsibility for funding throughout the industry and to ensure a sufficient supply of skilled workers.¹²⁰

43. As our predecessors suggested, skills and training are critical issues “in an industry where processes are increasingly high-tech and innovation and adaptability are crucial and where persistent skills shortages could threaten the UK’s continued success”.¹²¹ The two and a half years since our predecessors’ Report is, perhaps, too short a timeframe to expect much improvement in a longstanding problem like the skills shortages in the automotive industry. The Automotive Academy, opened in 2004, was eagerly anticipated as an innovative approach to the problem, and it seems that it has represented a new commitment from all parties—the individual companies, trade unions and Government—to addressing skills needs. In fact, the Government regards it as being such a success that it has decided to build on this model for a National Manufacturing Skills Academy. We are considering this subject during our current inquiry into skills shortages in the context of the future of UK manufacturing industry more generally. However, in relation to our automotive inquiry we simply note that the Automotive Academy is being merged into the new body.¹²² It is not clear to us what, if any, implications this has for the future of training for the automotive industry. We would welcome an explanation from the Government of the reasons for this

¹¹⁵ Appendix 18, para 2.27; see also Appendix 13 (I Mech E)

¹¹⁶ Appendix 18, para 2.31

¹¹⁷ Appendix 11, paras 29 and 30

¹¹⁸ Qq 25 (Amicus) and 88-89 (T&G); for Toyota, see Appendix 18, para 2.30 (SMMT)

¹¹⁹ Q 89 (T&G) and Appendix 13 (I Mech E) For a description of its work, see Appendix 18, para 2.29 (SMMT)

¹²⁰ Qq 25 (Amicus) and 88-89 (T&G)

¹²¹ Eighth Report, paragraph 28

¹²² ‘Automotive Academy to join forces with new skills body’, DTI press release dated 7 December 2006

surprisingly early change to the structure of training for the industry, with its associated risk of a loss of focus on the needs of the automotive sector.

44. It is difficult for us to comment much on the vital area of automotive research and development. Although we received some evidence on the Foresight Vehicle Programme and the Automotive Centre of Excellence for Low Carbon and Fuel Cell Technology, this dealt principally with activity rather than outcomes, so we cannot come to any conclusions on these;¹²³ nor did we receive evidence on the development of Formula One and high performance cars with their associated high tech research.

45. GM emphasised the longer-term needs of the industry, taking into account the pressure on companies to cut costs by, among other things, relocating straightforward manufacturing operations to lower cost economies. GM argued that the UK should take the lead in future technologies, such as the so-called hydrogen economy; and, to do this, it needed to present the automotive industry as a ‘high-tech’ sector by, for example, developing technology corridors along the M40 and in the West Midlands, fostering specific research capabilities at universities like Warwick, and ensuring that the infrastructure for a hydrogen economy was built in the UK.¹²⁴ More generally, Ford considered that public funds to support R&D in the UK “are currently very limited” and believed that there was scope for improving the R&D tax credits regime which, as far as it was concerned, “has no current impact” due to the deferral of payment of Ford’s corporation tax.¹²⁵

46. We note that the whole issue of ‘low carbon’ transport is being addressed again in the context of the Government’s Energy Review. We hope that this will lead to a consistent and long-term approach to research funding. We also seek the Government’s views on GM’s and Ford’s suggestions about how to improve the R&D base. These are subjects to which we intend to return in a future inquiry.

47. We are delighted that the industry wishes to build on the highly-regarded research facilities in this country, and note that even companies which have been closing production facilities, such as Ford and GM, are using the UK as a research base for their worldwide operations.¹²⁶ We note that the Ford Motor Company claims to account for “some 80% of UK automotive R&D”—whether by staff numbers or value is not specified.¹²⁷ While welcoming Ford’s commitment to the UK, this does make the efforts of the rest of the sector appear less impressive. We recommend the Government to review whether the UK is really still at the forefront of innovative design and technology in the automotive sector, or whether research facilities are being used for work to support technological developments elsewhere in the world. Again, this is a subject to which we intend to return.

123 Appendix 18, paras 2.34–2.38 See Eighth Report, paragraphs 80–83 for our predecessors’ views in September 2004

124 Qq 149 and 151–153

125 Appendix 11, paras 43 and 40

126 Appendix 11, para 21 (Ford) and Q 150 (GM)

127 Appendix 11, para 3

Other factors

48. The trade unions stated that ‘foreign’ manufacturers were less willing to close plants or cut jobs in their ‘home’ country than overseas.¹²⁸ In particular, it was widely suggested that Ryton was closed in preference to one of the French plants because PSA was a French company.¹²⁹ PSA rebutted this suggestion, citing all the reasons for Ryton’s closure described above and the company’s history of investment in the UK since 1978.¹³⁰ The DTI referred to research suggesting that in the UK foreign-owned automotive plants were no more likely to close than UK ones.¹³¹ Despite this, **there is a lingering suspicion that companies strongly connected by ownership, management headquarters or production capacity with a particular country will, unless countervailing arguments are overwhelming, choose to err in the direction of axing jobs overseas rather than at home. It is possible that the Japanese companies which have shown such strong commitment to the UK have been, at least in part, motivated by the fact that the UK has been their ‘home base’ within Europe.**

49. GM suggested that it was experiencing unfair competition as a result of exchange rate ‘manipulation’ by the Bank of Japan. It calculated that what it saw as the artificially-induced weakness of the yen resulted in a price advantage of more than €3,000 for a vehicle imported into Europe from Japan over a European-manufactured one.¹³² We cannot comment on this, other than to say, while some mentioned the difficulties for European manufacturers posed by the high value of the euro and sterling (especially in relation to exports to the USA), none of our other witnesses complained about the weakness of the yen and resulting advantages to Japanese imports.

The future of individual plants

50. We questioned PSA closely about the background to the closure of the Ryton plant.¹³³ In the context of regional excess production capacity and relentless pressure on costs, Ryton was vulnerable because of its age and configuration, its dependence on a single model, and its status as a simple assembly plant, comparatively remote from the rest of the supply chain. It is clear that closure at some date was inevitable as soon as PSA made the decision not to invest to enable production of a new model after the 206. Because of the faster-than-expected decline in demand for the 206, closure has occurred sooner than the company planned.¹³⁴

51. Ellesmere Port shares some, but not all, of these characteristics, including the difficulty of adapting older facilities to new working methods and logistical difficulties with the supply of components. However, while there are competitors to its Astra model, GM

128 Q 80 (T&G) and Appendix 3, para 12 (Amicus)

129 See, for example, ‘Peugeot packs its bags’, *The Economist*, 22 April 2006, pp29-30 See also Appendix 3, para 12 (Amicus)

130 Qq 184–185

131 Appendix 9

132 Q 158 and Appendix 12

133 Qq 177–180, 186–197, 201–208, 210–212, 218–224, 227 and 246–254

134 Qq 177–178, 180, 186–198, 201–208, 210 and 246–254

appears to hope that the removal of the third shift will increase the efficiency of the plant and put it in a better position to win new models in the future.¹³⁵

52. The job losses at Ryton and Ellesmere Port appear to have resulted from a combination of causes. The fundamental one, for volume car producers, is the excess production capacity in areas of the world (including Western Europe) where demand is stagnant or falling. This does not mean that the UK automotive industry is doomed; but it does indicate that individual plants which are old-fashioned and inflexible, are simple assembly plants, are remote from the company's supply chain, produce only one main model, and have productivity or skills problems will be vulnerable. There may be large-scale job losses, such as those seen at Ryton and Ellesmere Port, in the UK automotive industry in future. It is therefore all the more important that lessons are learned from the experiences of dealing with the mass redundancies arising from the collapse of MG Rover; it is to this subject that we now turn.

135 Appendix 12 and Q 127 (GM)

4 Lessons from the MG Rover Task Force

53. The background to the collapse of MG Rover is well known.¹³⁶ Within a few years of the sale of MG Rover to Phoenix Venture Holdings, it was clear that, unless the company could set up a really effective joint venture—and the possible partnership with the Shanghai Automotive Industry Corporation seemed the most potentially profitable—then MG Rover was unlikely to be able to continue to sustain its losses, not least because its greedy owners singularly failed to use the £500 million ‘dowry’¹³⁷ from BMW to develop new models. This was tacitly confirmed by the Chairman of MG Rover in oral evidence to our predecessors in March 2004.¹³⁸ Realising that MG Rover was in grave danger of bankruptcy if the proposed deal with the Shanghai Automotive Industry Corporation failed, in December 2004 the Department of Trade and Industry began contingency planning for the possible failure of the company. In December 2004, the DTI set up a joint planning group to carry out an economic analysis of the impact of the closure of Longbridge and detailed planning of the Government’s practical response. The group comprised representatives from the DTI, HM Treasury, the Department for Work and Pensions, the Government Office for the West Midlands and the Learning and Skills Council, and was advised by the Regional Development Agency, Advantage West Midlands.¹³⁹ MG Rover went into administration on 8 April 2005.

54. The National Audit Office’s report on the closure of MG Rover gives an admirably clear and detailed account of how the DTI dealt with the consequences of the company’s collapse.¹⁴⁰ We do not intend to go into similar detail. In summary, the principal actions were as follows.

55. As a result of the planning, on 15 April 2005 the Secretary of State for Trade and Industry announced a £156 million (subsequently increased to £176 million)¹⁴¹ package of support for former MG Rover employees, suppliers and the wider community round Longbridge.¹⁴² The programme was intended to last for three years and the support comprised :

¹³⁶ A comprehensive account, upon which much of this chapter is based, is given in the National Audit Office Report, *The closure of MG Rover*, Session 2005–06, HC 961, published on 10 March 2006 (hereafter ‘NAO Report’)

¹³⁷ For the exact nature of financial support provided by BMW, see NAO Report, para 1.3

¹³⁸ Qq 187-199 of the oral evidence printed with the Committee’s Eighth Report of Session 2003-04, *UK Automotive Industry in 2004*.

¹³⁹ For more detail on this group, see NAO Report, paras 3.2-3.5

¹⁴⁰ *Ibid.*, paras 3.1-3.43

¹⁴¹ By further contributions of £10 million each from Birmingham City Council and Advantage West Midlands: See Annex 1 to Appendix 1 (AWM). EU support formed part of the package.

¹⁴² For details, see NAO Report, paras 3.6-3.8

Nature of support	£ million
<i>For former employees</i>	
Statutory Redundancy payments and compensation awards	40
Training for workers made redundant at MG Rover and suppliers	50
<i>Support to MG Rover suppliers and retailers</i>	
Grant support to former MG Rover suppliers	42
Loan support for suppliers and retailers struggling to finance a viable recovery plan	25
Investment in technology and innovation infrastructure in the three West Midlands High Tech corridors	9
<i>Support for the community</i>	
Measures to address community impact	10

Help to former employees

56. As the NAO Report succinctly explains:¹⁴³

“When MG Rover went into administration, the employees who had lost their jobs received no redundancy payments from the Company, no period of notice, and no payment in lieu of notice. The immediate priority of the MG Rover Task Force was therefore to ensure that former employees claimed and received whatever statutory redundancy pay that was due to them as quickly as possible; claimed and received the benefits to which they were entitled; and that help was on hand to identify new employment opportunities, career paths and relevant training needs and programmes.”

57. The practical help put in place by the Task Force included:

- funding to keep the Human Resources team at MG Rover in place until December 2005 (which, in the NAO’s view, made it much easier to contact former employees with information and benefit claims forms, and enabled the Redundancy Payments service to obtain records of employment to speed up the process of providing redundancy pay);
- establishing a number of telephone hotlines and dedicated websites for former employees and others;
- the Redundancy Payments Directorate setting up a drop-in centre at Longbridge to speed up processing of payments;
- the early deployment by Jobcentre Plus of staff from other regions to help with processing benefits claims; and the provision of information such as a pack on the services provided by Jobcentre Plus;

143 Para 3.9

- a jobs fair in May 2005, an employer hotline and other actions to advertise job vacancies for former MG Rover workers;
- attempts to increase training provision on courses for former employees, including financing for local colleges to put on extra courses in the summer holiday period;
- provision of a greater variety of training courses, including ‘taster’ courses, than is normally available to redundant workers.¹⁴⁴

Help to former suppliers and retailers

58. At the time of its collapse, MG Rover owed its UK-based trade creditors £109 million, of which £44 million was owed to companies based in the West Midlands.¹⁴⁵ As indicated above, the Government’s support package for suppliers included £41.6 million of grants available over a three-year period, £10.5 million of which was set aside for emergency support while the remainder was intended for longer-term help to increase the competitiveness of suppliers. There was also a loan fund, financed to the tune of £25 million but—because £5 million was set aside to cover any loans not repaid—actually comprising an available fund of £20 million.

59. Additionally, on a case by case basis, HM Revenue and Customs deferred immediate and current VAT payments of viable former MG Rover retailers and suppliers up to the limit of their bad debt from MG Rover; and this Department was also willing to discuss deferral of VAT, PAYE and National Insurance payments to ease cash flows. By late September 2005, it had agreed deferrals totalling almost £12 million.¹⁴⁶

60. When the NAO published its report, it noted the slower than anticipated take-up of grants and loans to MG Rover’s former suppliers and retailers. At that stage, Advantage West Midlands calculated that it might underspend the £41.6 million grants budget by £5 million, and the £20 million loans fund by £10 million.¹⁴⁷ Accelerate (part of the Birmingham Chamber of Commerce) attributed the low take-up of support measures in part to the success of earlier efforts to help the local economy diversify (particularly the Rover Task Force 2000) and in part to the fact that Rover’s troubles in 2000 had alerted suppliers to the risk of too-heavy a dependence on the company, leading them to diversify customers and products.¹⁴⁸ Regeneris Consulting reported in July 2005 that the net result was, while in 2000 161 companies in the UK had been dependent on MG Rover for over 20% of their sales, by 2005 this had dropped to 74 companies, 57 of which were in the West Midlands.¹⁴⁹

¹⁴⁴ More detail is given in the NAO Report, paras 3.10-3.29. See also Appendix 8, para 34 (DTI) and Appendix 1, paras 3.3-3.7 (AWM).

¹⁴⁵ NAO Report, para 3.32.

¹⁴⁶ *Ibid.*, para 3.33.

¹⁴⁷ *Ibid.*, paras 3.35-3.36.

¹⁴⁸ *Ibid.*, para 3.37.

¹⁴⁹ Regeneris Consulting, *Closure of MG Rover: Economic Impact Assessment – Interim Report*, July 2005, available on <http://www.advantagewm.co.uk/rover-response.html>; cited in NAO Report, para 3.37.

61. The underspend does not mean that the support for suppliers and retailers was unnecessary, however. Based on a survey of the suppliers who claimed some grant assistance, fewer than 2,000 employees were made redundant as a result of the closure of MG Rover, and over 2,200 supplier and dealer jobs were safeguarded because of the grants and loans. The most financially-beneficial part of the support package for many companies appears to have been the deferral of VAT and PAYE payments.¹⁵⁰

Effect of the Task Force

Employment rates and quality of new jobs

62. The MG Rover Task Force met for the last time on 21 February 2006, and issued its final report in March 2006. At the time of that report, it estimated that 4,000 (63%) of the 6,271 former MG Rover employees and supply chain workers had found work, over 90% of whom were in full-time work and “the majority” saw their new career as long-term; and while just over half were earning less than they had at MG Rover, a quarter were earning more.¹⁵¹

63. Some of our witnesses were sceptical about this generally positive picture. When it gave oral evidence in May 2006, Amicus said that for its membership (which it described as among the most skilled part of the Rover workforce) half were still unemployed, and of those in work only 15% had secured manufacturing jobs and 80% were in temporary, part-time or agency work and “invariably on a significantly lower income”. Moreover, some of those who had taken temporary jobs had since lost them. As far as the wider workforce was concerned, Amicus had heard that about two-thirds were in jobs (the same proportion as that given in the Final Report of the Task Force), but had a lower income and the jobs were temporary, agency or part-time work.¹⁵² The T&G agreed with this bleak picture: of the less than half of former Rover employees which it believed had found jobs, 90% were experiencing lower pay and worse conditions.¹⁵³

64. A study by the Work Foundation, commissioned by the BBC,¹⁵⁴ concentrated on the quality of the jobs taken by former MG Rover employees. This gave a less positive picture of the situation than the Task Force Final Report, with nearly half of the 300 workers surveyed saying that they thought their current jobs worse than their work at Longbridge. The survey also found that those employed were paid, on average, £3523 a year less than at MG Rover.¹⁵⁵

150 Appendix 1, para 4.6 (AWM)

151 MG Rover Task Force *Final Update Report: The Work goes on*, page 10, available on <http://www.advantagewm.co.uk/rover-response.html>

152 Q 33 and Appendix 4, para 8.7 According to press reports, a February 2007 survey of 1750 former MG Rover employees who were Amicus members showed that 23% were still unemployed or on training courses: ‘A quarter of Rover workers still unemployed’, *The Guardian*, 5 February 2007, p24

153 Q 104 The T&G gave us oral evidence in June 2006

154 *Life after MG Rover: the impact of the closure on the workers, their families and the community*, 2006, published on <http://www.theworkfoundation.com/Assets/PDFs/MGRover.pdf>

155 See ‘Ex-Rover staff take pay cut of £3,500’, *Daily Telegraph*, 29 March 2006; and ‘T&G reveals former Rover workers forced into low-paid “McJobs”’, *Morning Star*, 28 March 2006; ‘Life after Longbridge’, *The Guardian*, 26 April 2006

65. In contrast, Richard Burden, a member of the Task Force—again in May 2006—estimated that about 69% of the former MG Rover employees were back in work (although, he suggested, over half of these were earning less than they had at Longbridge), 80% of those who had initially claimed¹⁵⁶ were no longer on benefits (though some would subsequently have retired or taken up training courses that precluded them from claiming, so not all would have returned to work), and about 1900 people had been trained under the Task Force schemes.¹⁵⁷ On 25 October 2006,¹⁵⁸ Advantage West Midlands told us that of the original 6346 redundancies from MG Rover and known suppliers, 4960 people were back in work (78%) while 834 (13%) were still looking for work.¹⁵⁹

66. As far as suppliers and retailers were concerned, the Task Force estimated that in the event, eleven supply chain companies closed—far fewer than had been feared. By October 2006, Advantage West Midlands calculated that the MG Rover Task Force had helped to save 1400 supply chain jobs, and had helped to keep company closures and job losses to a minimum.¹⁶⁰

67. Richard Burden explained the difficulties in placing those still unemployed in jobs. The most persistent unemployment problem was in the area immediately around the Longbridge factory, which had been the dominant local employer. It was in this area that the older and less skilled employees tended to live. The average age of the workforce had been in the 40s, and the average age of workers still unemployed was 45.¹⁶¹

68. **We note the differences in estimates of the employment rate of former MG Rover workers. Some former employees never claimed benefit or used any of the Task Force services, ‘disappearing’ into the general population. Even amongst those who did take advantage of support, advice or training, there was no requirement for them to keep the Task Force, or subsequently Advantage West Midlands, informed of their situation. Leaving aside actual numbers, it seems reasonable to conclude that the majority of those made redundant have found new jobs, but many have had to take a cut in salary, and some are doing less skilled work than they did at Longbridge. However, some of those forced to choose entirely new careers have found greater job satisfaction, even though the pay is lower.**¹⁶²

Advice on benefits and jobseeking

69. Many of the Rover managers, professional employees and skilled engineers were able to obtain new jobs through their own contacts and initiative, without making use of the jobseeking facilities provided by the Task Force. However, the Task Force estimated that at

156 Not all the redundant workers made claims.

157 Q 42

158 The date of its second memorandum to us

159 Appendix 2, para 2.1

160 *Ibid.*

161 Q 46 and Appendix 6, para 32

162 Q 51

least 50% of MG Rover workers re-employed had secured their jobs as a direct result of its initiatives.¹⁶³

70. For its inquiry, the NAO tried to obtain ‘customer feedback’ from former Rover employees. It commissioned Ipsos MORI to carry out research, including the use of group discussions, to gain an impression of how the employees viewed the services provided. Those who took part felt that some aspects of the support had been good, but were disappointed by others. They thought benefit claims had been processed quickly,¹⁶⁴ but had expected better information about the whole process of signing up for Jobseekers Allowance. (The NAO report noted that all workers received an information pack about benefits with their redundancy notices; but it also noted that many workers were in shock because of the closure and may not have been able to absorb the information provided.)¹⁶⁵

71. The employees also felt that they needed greater support from Jobcentre Plus in searching for new employment. (Many had been steadily employed at MG Rover for many years, so had no recent experience of seeking work.) Their detailed comments were summarised by the NAO as follows:

“[The extra support they wanted] included better advice on how to use the job search facilities available, the process of applying for a job via Jobcentre Plus and what they could expect, in particular the services that could and could not be provided. Some participants had expected more tailored personal advice on how to sell themselves ... in the local job market... Others were concerned that the jobs on offer were often minimum wage jobs. Those formerly in management positions felt that the service made little provision to meet their needs and had left them to make their own job-search. Comments from participants suggested that Jobcentre Plus had found difficulties in matching the needs of a sudden influx of skilled and qualified people eager to find employment.”¹⁶⁶

72. Amicus said that the assistance provided to the newly redundant, whilst “welcome and helpful, was largely ineffective”.¹⁶⁷ It also commented that when, after the first few weeks during which there was intensive co-ordination between the local Longbridge Jobcentre Plus and Advantage West Midlands, workers were transferred back to their local Jobcentres, there was no co-ordination at all—and the trade unions were left trying to provide it.¹⁶⁸ Richard Burden pointed out that the Task Force had set up a ‘manufacturing hub’ to match Rover workers with jobs available elsewhere in manufacturing industry, and providing some support for workers to travel to new jobs and some for employers interested in taking on Rover workers. This had helped about 750 people.¹⁶⁹

¹⁶³ Appendix 1, para 4.5 (AWM)

¹⁶⁴ For speed of processing, see Appendix 1, para 4.3 (AWM)

¹⁶⁵ NAO Report, paras 3.14-3.15

¹⁶⁶ *Ibid.*, para 3.19

¹⁶⁷ Q 14

¹⁶⁸ Q 31

¹⁶⁹ Q 51 It is described in more detail in Appendix 17 (Skills4Auto)

Training

73. Various schemes were deployed by the Task Force to support people wishing to move to a new trade. The scale and swiftness of response of the local Further Education and specialist colleges in providing specific courses is described in the Memorandum to us from the Association of Colleges—West Midlands Region.¹⁷⁰ Apart from the one day assessment courses and the training schemes run by these providers, those wishing to set up their own businesses had the option of support through ‘enterprise awareness sessions’, the Mustard high-growth start-ups programme and one-to-one advice on starting up an enterprise.¹⁷¹

74. In March 2006, the Task Force analysed the situation of the 6,271 former MG Rover and supply chain employees as follows. Of the 3,974 individuals in work on 14 February 2006, 2863 (72%) had received no training under the Task Force schemes, but 57% of those who had received training were in work.¹⁷² A further 365 people were currently in training, and another 302 were awaiting training, 230 of whom had a start date.¹⁷³ The remaining 1630 people were classified as follows:

Number trained but currently not working (including part trained)	398
Number currently not working but who had not followed up training options	530
Number who had claimed another benefit after Job Seekers Allowance	259
All other Job Seekers Allowance claimants with no known destination	443

75. Ipsos MORI’s consultees were, arguably, even more critical about training provision than they were about advice on benefits and job-seeking. While some were satisfied with the efforts made to place them on relevant courses, others felt that there was a set range of courses that did not always match their experience or preferences, or even that there was a drive to put people into some form of training even when it was inappropriate.¹⁷⁴ These criticisms were echoed by Amicus, which suggested that people were made to choose training too soon, while they were still in shock over the loss of their jobs, and that there was a significant disjunction between what was provided and what people wanted. Moreover, the union was not impressed by the adequacy of some of the training, which was in the form of only short-term or extension courses despite the fact that money was supposed to be available for up to twelve months of training. (The Association of Colleges—West Midlands Region represented the brevity of the courses in a more favourable light, suggesting that, since the MG Rover workers benefited from a relaxation of the rules on paying benefits to people training for more than a limited number of hours per week, individuals were “able to complete training programmes in an intensive 13 week period rather than the usual 12 months” so that they could move into employment more

170 Appendix 5, paras 5–10

171 Appendix 1, para 4.5 (AWM)

172 1111 out of the 1946 who had been trained

173 MG Rover Task Force Final Update Report, page 11

174 NAO Report, para 3.25

quickly.¹⁷⁵) Finally, Amicus said that the funding was running out in May 2006 even though some people had been able to take only introductory courses and others were likely to be left without funding despite the fact they had not completed their course. Amicus noted that the training package at that time was underspent by £5 million.¹⁷⁶ Richard Burden denied that money was running out, saying funding for training was still available in the financial year 2006–07, although, he explained, there might not be the same degree of financial support for individuals who had already had their full entitlement.¹⁷⁷

76. Richard Burden pointed out the difficulties in providing the right type of training for the right numbers in a short period and at very short notice. He noted that initial support was given fast, but training providers were faced with a lot of people wanting to retrain as plumbers, or for other construction trades, or as driving instructors. It was difficult to identify enough existing courses or to set up sufficient new ones to meet people's requests, especially as the Learning and Skills Council was trying to ensure the quality of all the training provided; and even when the providers did meet demand for training, it was not possible to guarantee that those trained could find a job immediately, as a sudden influx of newly qualified people could flood the local market. He noted also that it was not always wise for those who had no working experience except as employees to become self-employed, but it was difficult to give good advice tactfully when someone was set on doing this. All this, he conceded, led to frustration among those who had lost their jobs.¹⁷⁸

Lessons for the future

77. Our witnesses praised the way the Task Force had brought together all the relevant departments and agencies and the fact that support operations had started so swiftly.¹⁷⁹ Special praise was given to Advantage West Midlands for its co-ordinating role.¹⁸⁰ Given the magnitude of the problem and the need for a very fast response, the organisations involved coped very well, but, unsurprisingly, not everything went smoothly and there are lessons to be learned.

78. **The NAO's report made recommendations on a number of issues, including the need for those providing training and employment advice to take into account the experience and requirements of all staff employed (managerial, unskilled, shopfloor, technical, office and support) and not to concentrate on one section (in the case of MG Rover, on manufacturing and engineering staff) rather than the others; and the need to ensure that the support and information provided on training and employment opportunities is "made available at a time and is delivered in a manner which is most beneficial to the recipients". We endorse these recommendations.** The NAO noted two further areas in which the Task Force had set a standard to be followed: efforts to capture information on the employment later gained by those made redundant, in order to measure the effectiveness of the support given; and the removal of barriers to completing

¹⁷⁵ Appendix 5, para 5

¹⁷⁶ Qq 14, 31 and 34

¹⁷⁷ Qq 50–51

¹⁷⁸ Q 49

¹⁷⁹ Q 103 (T&G) See the list of actions over the first three weeks of the Task Force in Appendix 1, paras 3.3–3.6

¹⁸⁰ Appendix 3, para 8 (Amicus); Appendix 19 (T&G)

training quickly to release people for new jobs—in the case of MG Rover, by means of an agreement between the Learning and Skills Council and Jobcentre Plus which enabled benefit recipients to attend a wide range of intensive work-based courses.¹⁸¹

79. Our witnesses suggested a number of improvements that could be made in the event of a similar Task Force having to be constructed in future. Richard Burden, among others, emphasised the long-term nature of the problems arising from such a large number of redundancies in an area heavily dependent on one industry. He noted the continuing attempts by the local authority and Regional Development Agency to encourage diversification in the local economy, including the possibility of creating a technology park on the Longbridge site, and a vocational centre for 14–19 year olds. However, he felt that it was going to be particularly difficult to get those still unemployed back to work. He suggested that they required more personalised help and that because the ramifications of the collapse extended beyond the immediate workforce, the agencies should bear in mind the need to raise skills and aspirations in the general community. As a result, he welcomed the new intensive personalised Employment Support Package which the Task Force was putting in place.¹⁸² He noted with approval the pilot projects elsewhere in the country, such as the working neighbourhood projects, which targeted funds on areas with long-term employment problems so that agencies had more scope to tailor their support to the need of individuals.¹⁸³

80. As a result of these long-term needs, Richard Burden would have liked to see an extension to the life of the Task Force, which he thought should reconvene to carry out a review of the situation every six months.¹⁸⁴ However, the Task Force decided to evolve into a smaller group of core agencies, a Task Force Executive Sub-Group, meeting approximately every three months to provide co-ordination for continuing inter-agency work relating to MG Rover.¹⁸⁵

81. On specific problems that might limit the effectiveness of future Task Forces, we were told that further measures should be taken to ensure supply chain companies knew about the help available; the Government should look at relaxing the rules limiting employment benefit recipients from undertaking more than 16 hours training a week and the 28 Day Rule¹⁸⁶ (though this was done at Longbridge, it was achieved as a result of the local agreement mentioned by the NAO); the Government should adopt a more systematic approach to the questions of VAT recovery and deferrals; there was a need to address the ‘join’ between benefit regulations and matters such as payment in lieu (workers entitled to payment in lieu had to wait three months until the state paid just in case MG Rover made the payment, and there were difficulties over possible loss of benefits if payment was made

181 NAO Report, pp 13–14

182 Appendix 6, para 31; Appendix 1, para 4.5, 6.2–6.3 and 7.2 (AWM)

183 Qq 46–48 and 57

184 Q 56

185 MG Rover Task Force Final Update Report, page 17

186 Any temporary return to work for a period of more than 28 days bars the redundant worker from receiving a training allowance. As Advantage West Midlands says, “This is a disincentive to take temporary work while waiting for vocational training”: Appendix 1, para 1.11

earlier); and there had been a lack of clarity over whether Rover pensions would be covered by the Pensions Protection Fund (the Government decided that they would be).¹⁸⁷

82. We asked PSA and GM whether the experience of the MG Rover Task Force was contributing to the way in which the job losses that they had announced were being handled. GM said that it had done a lot of work with the North West Development Agency on an appropriate transition programme and other assistance, and that it was receiving good collaboration from local and national public bodies. GM also said that it had been encouraged by the number of local employers contacting the plant because they were interested in recruiting workers from it.¹⁸⁸ PSA had established a resource centre at Ryton to help people look for work. Jobcentre Plus, the Learning and Skills Council, Coventry Partnership and Advantage West Midlands all had representatives on site to give advice. A number of companies were interviewing Ryton employees on site, and the company was finding alternative employment within PSA, in the UK and abroad, for staff who wanted this. PSA was also providing training opportunities for more than 1,000 employees: the Learning and Skills Council was interviewing them all to ascertain their training needs, and by June 2006 the company had already approved training courses for over 700 people.¹⁸⁹

83. Advantage West Midlands said:

“Throughout the last twelve months, we have seen the West Midlands region at its best. Advantage West Midlands, Accelerate and Birmingham Chamber of Commerce, Jobcentre Plus, Learning and Skills Council, Birmingham City Council, other Local Authorities, the Unions, community groups, industry bodies, politicians, and many more organisations and individuals, from both the public and private sector, have come together as the MG Rover Task Force to develop solutions and deal with an industrial collapse exceptional in scale and suddenness.”¹⁹⁰

While recognising the very good work done in many areas, there were difficulties of co-ordination and in providing enough of the right type of support, so we cannot fully endorse Advantage West Midlands’s boast.

84. On balance, the Task Force was a success, though, as with most disaster management, a number of areas—in particular, training provision—could have been improved if more time had been available. Useful lessons have been learned in how to address large-scale redundancies in future, and we detected that the relevant public bodies and PSA and GM appeared to have absorbed some of them in their longer-planned approach to the job losses at Ryton and Ellesmere Port. We look forward to hearing from the Government how it intends to address the specific weaknesses raised by our witnesses, especially those resulting from conflicts between training and benefit policies, such as the 16 hour rule.

187 Qq 53 and 55 and Appendix 6, addendum (Richard Burden)

188 Qq 156–157

189 Qq 266–267 and 271–274

190 Appendix 1, para 4.1

5 Future of the UK car manufacturing industry

85. The SMMT summed up the problem neatly:

“The long-term challenge for the industry in the UK (within the global market) will be to focus on high added-value processes and products and to utilise the UK’s significant strength in automotive design and innovation and its skilled and flexible labour force. Competition on the basis of low cost, semi-skilled workers and low value-added processes will be increasingly challenged and become non-viable...”¹⁹¹

Like our predecessors we see mixed prospects for companies manufacturing passenger cars in this country, and for individual plants. There were particular reasons why Longbridge and Ryton closed and for the loss of the third shift at Ellesmere Port. However, though the combination of problems experienced by these plants may have been especially acute, we heard nothing to make us believe that they were unique to these plants or their parent companies. It is therefore all the more important that both the industry and Government put extra effort into improving skill sets throughout the sector, increasing the commitment to R&D, adopting lean manufacturing techniques and strengthening the local supply chain.

191 Appendix 18, para 2.43

Conclusions and recommendations

Future of the UK car manufacturing industry

1. Like our predecessors we see mixed prospects for companies manufacturing passenger cars in this country, and for individual plants. There were particular reasons why Longbridge and Ryton closed and for the loss of the third shift at Ellesmere Port. However, though the combination of problems experienced by these plants may have been especially acute, we heard nothing to make us believe that they were unique to these plants or their parent companies. It is therefore all the more important that both the industry and Government put extra effort into improving skill sets throughout the sector, increasing the commitment to R&D, adopting lean manufacturing techniques and strengthening the local supply chain. (Paragraph 85)

Worldwide automotive industry

2. At present the automotive industry still seems to be wedded to a regional approach to its markets, expanding or contracting capacity to meet regional demand. Logistical costs and the need to reflect local tastes are important factors in limiting the scope for supplying customers from plants outside the region. While we do not believe that a shift in production from Western Europe to the cheaper Asian economies is imminent, like our predecessors we believe that the closure of car plants in Western Europe and the opening of up-to-date facilities in Eastern Europe, using cheaper labour, will continue. (Paragraph 12)

Factors affecting individual plants

3. Unsurprisingly, the age of plants influences decisions on which factories to run down or close where there is over-production. However, it is not simply the case that if a facility is old, it will close. Some companies have invested large sums of money in developing and upgrading factories—for example, neither BMW's Cowley plant nor Ford's Dagenham one is a new facility on a greenfield site. It is also arguable that, after more than 20 years of operation, Nissan's factory in Sunderland is hardly "new". Of more importance than simple age is the degree to which plants are capable of adaptation to modern manufacturing equipment and practices, and the cost of adapting them relative to building or upgrading facilities elsewhere. (Paragraph 20)
4. It is clear that the logistical models adopted by GM and PSA have contributed to the cost disadvantages faced by Ellesmere Port and Ryton. However, other car companies are also importing significant proportions of their components and exporting most of their finished products, while still managing to manufacture profitably in the UK. (Paragraph 28)
5. We were surprised to learn that PSA considered labour costs higher in the UK than in France. We recommend that the Government study this potentially significant claim to see whether there is such an incentive to cut manufacturing

jobs in the UK, and we would like to be informed of the Government's conclusions. We are also concerned about the more predictable labour cost disadvantage vis-à-vis eastern Europe. We have recently started an inquiry into the impact on UK business of the recent expansion of the EU to Eastern and Central Europe, and intend to consider, amongst other things, the synergies that UK companies could achieve through working better with their equivalents in Eastern Europe. (Paragraph 31)

6. Analysis of international energy costs suggests that the UK is not necessarily disadvantaged by the level of electricity and gas prices faced by large industrial users like automotive companies, although there was understandable concern about the volatility of UK prices. We also note that the European Competition Commissioner seems determined to continue to put pressure on Member State Governments to remove such barriers to competition in the energy market as price caps for industrial consumers. This, and the recent signs of decreases in UK gas and electricity prices, may reduce or eliminate the cost disadvantage recently felt by companies with manufacturing operations in the UK. (Paragraph 38)
7. As our predecessors suggested, skills and training are critical issues "in an industry where processes are increasingly high-tech and innovation and adaptability are crucial and where persistent skills shortages could threaten the UK's continued success". The two and a half years since our predecessors' Report is, perhaps, too short a timeframe to expect much improvement in a longstanding problem like the skills shortages in the automotive industry. The Automotive Academy, opened in 2004, was eagerly anticipated as an innovative approach to the problem, and it seems that it has represented a new commitment from all parties—the individual companies, trade unions and Government—to addressing skills needs. In fact, the Government regards it as being such a success that it has decided to build on this model for a National Manufacturing Skills Academy. The Automotive Academy is being merged into the new body. It is not clear to us what, if any, implications this has for the future of training for the automotive industry. We would welcome an explanation from the Government of the reasons for this surprisingly early change to the structure of training for the industry, with its associated risk of a loss of focus on the needs of the automotive sector. (Paragraph 43)
8. We note that the whole issue of 'low carbon' transport is being addressed again in the context of the Government's Energy Review. We hope that this will lead to a consistent and long-term approach to research funding. We also seek the Government's views on GM's and Ford's suggestions about how to improve the R&D base. These are subjects to which we intend to return in a future inquiry. (Paragraph 46)
9. We are delighted that the industry wishes to build on the highly-regarded research facilities in this country, and note that even companies which have been closing production facilities, such as Ford and GM, are using the UK as a research base for their worldwide operations. We note that the Ford Motor Company claims to account for "some 80% of UK automotive R&D"—whether by staff numbers or value is not specified. While welcoming Ford's commitment to the

UK, this does make the efforts of the rest of the sector appear less impressive. We recommend the Government to review whether the UK is really still at the forefront of innovative design and technology in the automotive sector, or whether research facilities are being used for work to support technological developments elsewhere in the world. Again, this is a subject to which we intend to return. (Paragraph 47)

10. There is a lingering suspicion that companies strongly connected by ownership, management headquarters or production capacity with a particular country will, unless countervailing arguments are overwhelming, choose to err in the direction of axing jobs overseas rather than at home. It is possible that the Japanese companies which have shown such strong commitment to the UK have been, at least in part, motivated by the fact that the UK has been their 'home base' within Europe. (Paragraph 48)

Ryton and Ellesmere Port

11. The job losses at Ryton and Ellesmere Port appear to have resulted from a combination of causes. The fundamental one, for volume car producers, is the excess production capacity in areas of the world (including Western Europe) where demand is stagnant or falling. This does not mean that the UK automotive industry is doomed; but it does indicate that individual plants which are old-fashioned and inflexible, are simple assembly plants, are remote from the company's supply chain, produce only one main model, and have productivity or skills problems will be vulnerable. There may be large-scale job losses, such as those seen at Ryton and Ellesmere Port, in the UK automotive industry in future. It is therefore all the more important that lessons are learned from the experiences of dealing with the mass redundancies arising from the collapse of MG Rover. (Paragraph 52)

Lessons from the MG Rover Task Force

12. We note the differences in estimates of the employment rate of former MG Rover workers. Some former employees never claimed benefit or used any of the Task Force services, 'disappearing' into the general population. Even amongst those who did take advantage of support, advice or training, there was no requirement for them to keep the Task Force, or subsequently Advantage West Midlands, informed of their situation. Leaving aside actual numbers, it seems reasonable to conclude that the majority of those made redundant have found new jobs, but many have had to take a cut in salary, and some are doing less skilled work than they did at Longbridge. However, some of those forced to choose entirely new careers have found greater job satisfaction, even though the pay is lower. (Paragraph 68)
13. The NAO's report made recommendations on a number of issues, including the need for those providing training and employment advice to take into account the experience and requirements of all staff employed (managerial, unskilled, shopfloor, technical, office and support) and not to concentrate on one section (in the case of MG Rover, on manufacturing and engineering staff) rather than

the others; and the need to ensure that the support and information provided on training and employment opportunities is “made available at a time and is delivered in a manner which is most beneficial to the recipients”. We endorse these recommendations. (Paragraph 78)

14. On balance, the Task Force was a success, though, as with most disaster management, a number of areas—in particular, training provision—could have been improved if more time had been available. Useful lessons have been learned in how to address large-scale redundancies in future, and we detected that the relevant public bodies and PSA and GM appeared to have absorbed some of them in their longer-planned approach to the job losses at Ryton and Ellesmere Port. We look forward to hearing from the Government how it intends to address the specific weaknesses raised by our witnesses, especially those resulting from conflicts between training and benefit policies, such as the 16 hour rule. (Paragraph 84)

Formal minutes

Tuesday 13 March 2007

Members present:

Mr Peter Luff, in the Chair

Mr Roger Berry

Mr Brian Binley

Mr Lindsay Hoyle

Miss Julie Kirkbride

Rob Marris

Ann Moffat

Mr Mike Weir

Mr Anthony Wright

The Committee considered this matter.

Draft Report (Success and failure in the UK car manufacturing industry), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 85 read and agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That embargoed copies of the Report be made available in accordance with the provisions of Standing Order No. 134.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Wednesday 14 March at 9.45am]

List of witnesses

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Mr Derek Simpson and Mr Tim Parker, **Amicus**

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Richard Burden MP

Ev 10

Monday 26 June 2006

Mr Dave Osborne, **Transport & General Workers' Union**

Ev 19

Mr Jonathan Browning, **General Motors**

Ev 25

Tuesday 11 July 2006

Mr Jon Goodman and Mr Michael Lynch, **PSA Peugeot-Citroën**

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1A 0PW (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Mr James M. Brown

Mr A. Byford

Mr J H Holloway

Mr Steven Jones

Mr Paul Woodman

Oral evidence

Taken before the Trade and Industry Committee

on Tuesday 23 May 2006

Members present:

Peter Luff, in the Chair

Mr Brian Binley
Mr Peter Bone
Mr Michael Clapham
Mrs Claire Curtis-Thomas

Mr Lindsay Hoyle
Miss Julie Kirkbride
Judy Mallaber
Mr Anthony Wright

Witnesses: **Mr Derek Simpson**, General Secretary and **Mr Tim Parker**, Regional Officer, **Amicus**, gave evidence.

Chairman: Gentlemen, welcome to this first evidence session of the Committee's inquiry into the UK Automotive Industry, born out of its original inquiry into the Rover Group. Before I ask you to do anything I think some Members of my Committee want to make a declaration of interest.

Roger Berry: I am a member of Amicus.

Mr Wright: I am a member of Amicus.

Mr Hoyle: I am also a member of Amicus.

Mrs Curtis-Thomas: And so am I.

Q1 Chairman: More than I thought! I am not a member of any trade union—that will not be a surprise to you, but do not read anything into that! Gentlemen, can I begin by asking you to introduce yourselves, for the record?

Mr Simpson: I am Derek Simpson, General Secretary of Amicus, and I have a couple of membership forms for anybody who feels so inclined!

Mr Parker: My name is Tim Parker; I am Regional Officer in the West Midlands with responsibility for a major slice of the car industry, including what used to be MG Rover.

Q2 Chairman: We are looking now rather more at what we can learn from the Rover experience as a result of the very unhappy developments that have taken place, for example at Coventry. Before we go into the questioning of that area is there anything you would like to tell us about the history of the MG Rover Group to put on the record as a background to that, or do you want to move straight into the questioning?

Mr Simpson: I think the history is perhaps a separate exercise. From our point of view it is what happens in the current situation and the forthcoming situation, and in the wider context than Rover: what is also happening in the rest of the car industry, some four examples of which we have been dealing with in the last week or two. I think in terms of the time—I understand that obviously we have a time constraint—it may be more productive and beneficial to explore what our views are of that situation rather than the historic one.

Chairman: The Committee is entirely happy with that but we thought we should give you the chance first, and indeed your written evidence reflects that priority as well. Brian Binley.

Q3 Mr Binley: I am delighted that you have talked about the future and the need for investment, the retention of jobs, the retention of plant and that sort of area of activity. The latest set of statistics for car production in the UK, produced in March, showed that production rose on a year-on-year basis, although in the first quarter of 2006 it was 5.5% lower, so we did have a fall in the first quarter of this, but generally the figures were up. Commercial vehicle output was up for both the month and the first quarter. Can I ask you what is Amicus' view of the overall health of the UK car and commercial vehicle industries?

Mr Simpson: I think there is some conflict in the statistics because our statistics show that car production is down by some 3.6% overall in the last three years. There is some cushioning of the actual fall in what I call the classic British car industry because it is clear that the Japanese car companies of Nissan, Honda and Toyota have buoyed up actual car production, and they have done that by investment and bringing in new models, which stands in stark contrast to what has happened in the more traditional British car industry, where we have seen decline, lack of investment and very much the lack of new models. We have some further evidence, which I understand would be welcome, and we will submit some statistics that back that up. It is clear that what is happening is that there is a transition from West to East in terms of where there is real car manufacturing growth. Slovakia, Poland and Hungary appear to be, percentage wise, significantly on the increase, whilst generally in Spain, France and the UK the production levels are generally downward, and I think that is not so much a product of the Rover situation, which I think has its distinct business failures in there; I tend to think that Rover is a bit of an exception to that rule, it was a business collapse rather than a car company taking other

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strategic decisions. But what we do about both business collapses and strategic decisions would be the similar sort of measures.

Q4 Mr Binley: Can I pursue that a little, Mr Simpson? Let us take Peugeot, and I recognise that you are in a delicate situation in that respect and if you tell me to get lost I will understand that, but do you feel that there are any factors with regard to the decision about Peugeot that were over and above questions of finance investment, production figures and so forth?

Mr Simpson: I think that there are a number of factors but I do think that they are related, and it really does come back down to financial considerations. I actually think that car companies plan significantly well upfront when it comes to investment and the development of skills and the equipment when it comes to developing new models. But I also think that car companies recognise that there is a natural trend, as there is in all industries where technology is used—and cars are coming out highly technological—to see actual employment numbers fall; in other words, to have more cars produced by fewer people. That is understandable, so part of the planning of a company is also planning for how it reduces its workforce as well as increases its production, and I think that those factors may not necessarily be directly related to finance but ultimately lead to that end. What concerns me—and I have made this clear, and Peugeot is a perfect example—is that it is almost patently obvious that Peugeot is a company that is in profit, and in fact made £12m profit on the Ryton site, and it has taken advantage of cheaper labour rates in Slovakia. It originally planned to build between 300,000 or 400,000 vehicles but still intended at one stage quite recently to build 150,000 vehicles at Ryton. Because of the advantages of the Slovakian position it has latter day switched the 150,000 to Slovakia as well, which is why it has announced the closure of Ryton. It is clearly connected not just with cheap labour rates but there is also the question of how it disposes of labour. The facts are that it is significantly cheaper to shed labour in the UK than anywhere else, in Europe certainly. It is quicker to do so; closures can be accomplished much quicker. Quite frankly, one of our concerns is that it does not seem—

Q5 Chairman: You are being a very helpful witness and very obliging and you are anticipating all kinds of questions that my colleagues will ask later, so you are covering the whole brief!

Mr Simpson: I can repeat the answers!

Q6 Chairman: So if we try and keep the questions and answers a little bit shorter and then we can cover the ground.

Mr Simpson: I think there is a wide range of factors but it does really come down to finance in the end.

Q7 Mr Binley: My colleagues will go on to those questions. So there are no sorts of national concerns here that you see, but that money rules all, is that what you are telling me?

Mr Simpson: I might be reading this wrong but I would suspect that in some cases certainly there is some national consideration from certain . . . I think Peugeot, for example, reflects that the French are very protective of French industry generally. I know that they have designated several industries as strategic industries, and I am not sure whether the car industry is one of those, but certainly it is an attitude that the French have that many of our people in Peugeot in Ryton are saying that what is happening here could not happen in France.

Q8 Mr Binley: I am going to miss out a question and go to my final question. Some automotive companies seem to be coping better than others with competition, both in the UK and worldwide. In your view what are the main reasons why some companies are expanding production in the UK and others are cutting production?

Mr Simpson: I think it is investment, quite frankly. All the companies that have closed or are struggling are invariably companies in which they have been investment starved compared to when they are in groups: investment in other parts of the world, particularly in the cheaper labour markets. But some companies like Nissan, Honda and Toyota have clearly invested not just in modern plant but in new models and that is where the growth has been, and I think that is the distinction. Obviously you have to have a training programme and a skills programme in place to ensure that you have the necessary labour and, up to a point, you have to have a particular set of conditions that allow the flexibilities to take place to take advantage of the new technology and the new methods, all of which, of course, have been successfully negotiated in these plants. But somehow or other, as I say, what I would call the traditional car companies are in some difficulty. I would acknowledge that at one stage General Motors and Ford appeared to have worldwide problems with their finances and they are struggling in all sorts of ways to try and balance the books in what they claim to be a very competitive market. The UK is going to bear more than its fair share of the consequences of that, for the aforesaid reason that it is so much easier to do reductions in the UK.

Q9 Roger Berry: I take your point that some companies are investing in the new models in the UK and some are not, but the real question is why? Why is it that for some companies it is the best thing to do to invest in new models in the UK, which we obviously all welcome, but for other companies it is not? I think this was behind my colleague's question: why is it that some companies say, "Yes, we will invest in new plant, new models in the UK," and other companies are not doing it? What is the fundamental reason behind that?

Mr Simpson: I think it might be an oversimplification, but to try and get to the point of that question it may serve to shed some light on it. It is clear that the Japanese car companies wanted a foothold in Europe and the flexible labour laws in the UK did what the senior politicians suggest it did, it extracted that investment into the UK to take

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advantage of our employment laws. It might have also been that the Germans, French and Italians were a little more cute and were not too keen to support a Japanese expansion into Europe. Clearly the Japanese have used the plants as a gateway into Europe, and less therefore is the relevance of moving from West to East which the rest of the car companies have done because they are already in Europe, and what they seek to do, having already got their established market in Europe, is to produce in Eastern Europe and still import into Western Europe, and therein lies the problem and perhaps the difference. The Japanese were building a European market, the traditional car companies already had one, and are seeking to maximise the profits in there by producing cheaper and selling into that market. The big question mark that should hang over the future is at what point do the Japanese take the same position that General Motors or Ford have taken, that having an established UK-Western European market they can then still move East and take advantage of the cheap labour. In other words, I predict that the Japanese car companies at some point will follow the others.

Q10 Mr Hoyle: That leads me into part of a question that has been touched on. If we take Peugeot at Ryton, and obviously we have TVR at Blackpool, the view is that these are old plants and that is part of the reason that those two have closed. Do you disagree with that point? Or is it something more, that there are planning constraints that stop the changing of these plants? Or is there another reason apart from the fact that you have already told us that it is much cheaper to get rid of jobs in the UK than it is abroad and therefore that is the reason for closure? I just wondered what your view is?

Mr Simpson: We have no evidence that planning permissions or planning criteria are playing much of a part in this, and if it is, it is outside our scope. I have no evidence to suggest that it is not a consideration but I cannot suggest that it is anything like a main consideration; it is not on our radar. Other factors are far more relevant and obvious to us. As regards the state of the plant, it is clearly beneficial if a company establishes a brand new site on a greenfield site and clearly Toyota, Honda and Nissan have done that, and where you lay down a purpose-built new plant it is clearly easier to set up with the modern methods than grappling with an old site. However, I do not think that that is a significant difference; it is clear that the traditional car companies, like Peugeot, have simply not invested in the plant and the equipment. They are still profitable but they clearly seek higher profits somewhere else. If you are going to build a new plant in Slovakia why could you not build a new plant in the UK? The two things go hand in glove.

Q11 Mr Hoyle: The other theory is that if you close the plant the land value is so great that you can actually build your next plant for nothing and still have profit in your back pocket. Is that fair to say as well?

Mr Simpson: I think it is fair to say not just of the car companies but also of a number of companies. I think British Coal, or whatever they are called now, have perhaps the prime example where the real estate is worth more than the business, and speculation on the price of land is a thought in many sectors where many of our members report to us that they fear that the company can see more profit in closure and selling off land for all sorts of purposes than continuing to struggle in what is a declining sector of the economy, i.e. manufacturing.

Q12 Mr Hoyle: There is also a view—and we took evidence in the last Parliament that the view was quite clear—that there was overproduction worldwide and that is part of the reason why we have seen a reduction in capacity. We also have an increase in a market that has come about in China and India, but obviously they also have their own car plants now. What is your view about multinational companies and how can they compete with competition issues and is there any green light for the future of UK car manufacturing as the new plants—and this is what I am told—even all the Japanese new plants are only one model away from closure? Do you accept that?

Mr Simpson: I think I earlier predicted that in this industry it all depends on the next model and inevitably you might argue that every car plant is one model away from closure.

Q13 Mr Hoyle: True.

Mr Simpson: I have predicted that the Japanese at some point will probably follow the traditional car companies in the same tactic. On the question of overproduction, overcapacity worldwide, I take the view that that is not really the case. What the problem is worldwide is that many people who want cars do not live in economies that provide wages that let them afford cars. There is a tremendous market and demand for cars but the ability to buy them and run them is limited by the terms and conditions, and what is very frustrating about this is that I would be delighted to see the conditions in Slovakia or China or elsewhere reach something like Western European standards because that would be a tremendous opportunity for production to be expanded to meet that demand, because the demand would be able to be sustained by better conditions. I have been to China quite recently and the image traditionally of China is that there are absolutely thousands and millions of people pedalling on bikes down the high street going about whatever business they are doing. I have to tell you that the traffic jams in Shanghai and the traffic jams in Beijing make even London's traffic jams pale into insignificance. There are still bikes but there are many, many thousands of vehicles. The position is quite different in the last ten years. I have not been to China ten years ago but I have spoken to people and they make the same comment, that the bikes are disappearing and being replaced by vehicles. In fact actually whilst I was there our own Lord Mayor apparently had gone across to advise them on congestion charging, or some advice he was going to give them on how to

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deal with traffic jams and the pollution that comes from so many vehicles. It is difficult to see in the context of that any argument that there is a lack of demand, and I do not think the picture is appreciably different anywhere in the world, quite frankly. The difficulty is that car companies are not interested in meeting demand, they are interested in making profits, which I understand, and the reality of it is that because they cannot sell cars at the prices that allow them to make profit in China, Slovakia and other places, they do not mind manufacturing there and trying to sell them to us, because at the moment we can afford them. But the flaw in that argument is that if as a result of the impact of losing well paid manufacturing jobs we have a reduced capacity to buy cars somehow or other there is a cycle of events here where it will be difficult sometimes for people who might have historically bought cars to maintain them. One hopes that somewhere in the middle the growth of income in what is now the cheap labour areas will bring some sort of a balance. We talk about a level playing field in employment law for the UK but we also think about—

Chairman: We are going into wider areas again, which we will come back to, I promise, and you will have your chance to make those points.

Q14 Mr Hoyle: If we take at the moment the announcement—and you were there last week—of Ellesmere Port. What role do you think the trade unions should play and, more importantly, what role do you think the DTI should play in the support of, shall we say, Vauxhall workers who are losing their jobs at Ellesmere Port? I do believe it is quite critical. I believe the unions have a role but I do believe the DTI has a role, and what role do you think they should play?

Mr Simpson: First of all I have to say that I was delighted with both Gordon Brown and Alistair Darling's visit and statements that they would provide every assistance that was possible, but trust that when we come down to the practicalities of that that there is more of an impact than has been in the case of Rover, because to link that back to Rover the assistance there, which whilst was welcome and helpful, was largely ineffective. Statistics show that even on the best estimate a third of Rover workers are still without work. I would say a number—it may be many—of those who have been provided with training find themselves unable to complete it as the support runs out and they cannot continue in training.

Q15 Chairman: We are going to get to these areas as well, I promise you. It is a question of what is the role of the trade union?

Mr Simpson: What is the role of the trade union?

Q16 Chairman: Yes and the government.

Mr Simpson: I thought I was being asked about the role of the DTI.

Q17 Mr Hoyle: The role of the DTI and the role of the government.

Mr Simpson: I think the union would first of all have its traditional role of trying to persuade the company not to take the steps it is taking and to try and apply whatever pressure it can, supporting its members in a number of ways. In some instances that may even be about negotiating, where there are inevitable redundancies, the best of packages and then complaining to government that we do so against a legislative framework that leaves us less well off than our European colleagues. For example, in the case of Ellesmere Port I understand that the maximum pay, under what is regarded by UK standards as a very generous redundancy package, amounts to about £50,000. The average redundancy payment in Europe, in France, Germany, Italy and so on, is £150,000—three times the amount—and of course the impact of when these redundancies take place is significantly later in the case of the rest of Europe than it is in the UK. Our job, therefore, is to try to persuade the company not to do it, get the best deal we can for our members and try to persuade government to introduce a level playing field.

Q18 Mr Hoyle: That is an interesting answer because “level playing field” always intrigues me, because I know that the French Post Office use Citroen vehicles, and we know that the French and the Germans, when government procurement is played, will always support their own car industry. Do you believe—and I am a firm believer—that, yes, Ellesmere Port have a very good contract with the Post Office, also most police forces do use cars built at Ellesmere Port, and surely we ought to see a playing field that they recognise the government should actually support British produced cars as a priority, and that ought to be the best way of keeping a car plant open.

Mr Simpson: I have two ways of answering that. I think yes, I agree. I think procurement and certainly the government with its massive spending power across the whole range of sectors can significantly help British manufacturing and obviously cars. We do hear horror stories of orders that are placed that immediately get transferred to production abroad, which I think is something that the government could look at, as well as the investment grants that are given to companies who then relocate, and there should be some sort of penalty, of saying that if the government has given money to these people to produce in the UK and then they do not then there should be some recruitment facility. On the question of buying British, whenever that has happened in the past it has always struck me that it has ended up in a degree of failure, we buy British irrespective. I made this point to Vauxhall directly. Amicus buys—it is not a massive car fleet by some standards—400, 450 vehicles in our car fleet. The people tell me that we have about an £8 million contract. But the vehicles that they buy are Vectras. We have not produced Vectras in the UK for a number of years, Vectras are produced by General Motors, I think in Germany or Holland, and they are imported into this country. In a sense we are not buying British-built vehicles, but Vauxhall build Astras here and employ our members and we take a broader view

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than just buy British; we take the view that if a company is producing in Britain there is a *quid pro quo* here, but if Vauxhall were to decide not just to end the shift but, as may happen, end Ellesmere Port—and I hope that that is not the case but that is the worse case scenario—we will not buy any General Motor vehicle, we will switch our purchase away, and if that is good for us it is good for anybody else who is concerned about British workers and the British economy, which requires a manufacturing base.

Q19 Mr Wright: To turn the clock back a bit in terms of the role that the government and the unions play, what do you consider the role of the RDA should be in these situations, not just in the car industry but manufacturing as a whole?

Mr Simpson: I think the ideal that the RDA is supposed to pursue developing support for business, for training, for coordinating all the factors that go to successful business ought to be pressed fully home and not just be theoretical. It needs the resources to do that but with its resources it should be supporting that. The RDA Chair was involved in the meeting at Ellesmere Port and was saying that there is a package of assistance and financial support that was going to assist not just the 900 jobs that are lost but the more important question of making sure that the other 2,300 do not follow. So I think that there is a role. What I think worries ordinary people and worries those of us who have to represent and deal with it is that very often there is a difference between what is said in the theory of these things and what actually happens. It either happens the wrong way around or it is under-resourced and cannot happen and there are a lot of nice words said but the impact on the people that are supposed to be benefiting from that in terms of jobs and futures and retraining find that there is a big difference between what they end up with and what they are supposed to end up with.

Q20 Mr Wright: Are you saying then that the RDA would probably be under-resourced to try to handle something of this nature?

Mr Simpson: I think that in the course of events they cannot possibly be resourced on the basis of major plant closures so it must be that the RDAs need additional government support when they meet a crisis. If you were drawing up the budget—and the early day RDAs were the councils, and I am trying to struggle to remember their name and I sat on one and I know that we had to draw up a budget and a plan and a business plan—you certainly do not include that, that there is going to be a major plant closure, so that when you do the financing of it it is clear that those things are not factored into the finances of RDAs. So it still comes back to government intervention, whether it is directly from government or whether it is through the RDA into industry. I find that when I talk to the senior politicians, by which I mean Cabinet Ministers—no disrespect to your good selves—when you speak to these people there is a marked reluctance. Let me say that a senior minister said to me in a discussion

about Peugeot when we were trying to urge involvement to help save and preserve Peugeot that the government was not going to “embark on a policy of helping lame ducks”, and he was talking about a plant that is highly efficient and making a profit. I do not know how that matches up. There is an attitude which seems to suggest that government should leave everything to the market, just leave it to the market and if it cannot survive in the market that is fine. I do not know how in a global economy, if we want a manufacturing industry and some sense to prevail and we want to convince British workers that we are doing something about quality jobs and not just interested in part-time temporary and agency jobs, how you can possibly reasonably describe Peugeot to be a lame duck and to pretend that that means that you do not have to do anything about it.

Q21 Chairman: Can I just follow up Tony’s question? Obviously the Peugeot redundancies will occur in the same RDA area as the MG Rover redundancies, but the ones at Vauxhall and at TVR will occur in a different region. Have you seen the evidence that they are able to share intelligence and understanding between regions to make sure that the lessons learnt so painfully in the West Midlands are successfully applied in the northwest?

Mr Simpson: I do not think I can answer that question because I have had not had that close dealing with either of the RDAs. I think that the noises that both make sound the same, whether they actually do the same and whether there is any cross-fertilisation, I could not answer that.

Chairman: We will ask the RDAs that, thank you. Mick Clapham.

Q22 Mr Clapham: Derek, could I look at some of your ideas, Amicus generally, the ideas that you feel are necessary if we are going to be able to ensure that British workers survive and that British workers have a more even chance, shall we say, of survival in an atmosphere or in conditions where global corporations are able to easily shift their plants? I know one of the things is that the government has talked about its Manufacturing Strategy and its Manufacturing Advisory Service, but what else do you feel needs to be done? Do you feel for a start that the Manufacturing Strategy and the Advisory Service are working, and if they are not working what else could we do?

Mr Simpson: I think that the regrettable feature about that is that it is just left to volunteerism and does not deal with some of the real hard factors that companies must consider. It is one thing the government having a Manufacturing Strategy and it is one thing saying that we are supporting training and we are doing a number of other things that are all conducive to the idea, but the real problem lies in this conflict between the ideology that an unregulated labour market leads to investment being attracted easier and therefore creating jobs, and there is some evidence that that at least is partially successful. I do not think it is as successful as the advocates of that policy believe because the truth of the matter is that while it is, in effect, put in

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simple language, easier to set up business in the UK and there are less obstacles, problems and regulation, it is equally easier to disappear because there are less restrictions on disappearing, which goes the opposite way around. While that is a factor then whatever strategy the government has, whatever strategy anybody else has, the truth of the matter is that when it comes to investment decisions and planning for the future, including perhaps necessary redundancies, it will always be a factor that it is cheaper and easier to dismiss UK workers. So standing, if you like, on the hill with the violin watching Rome burn is effectively what we are doing because we have a wonderful strategy, a marvellous strategy, and it becomes like the Emperor's clothes—"What a suit!"—and you can put the song to this because the reality is that companies are not interested in governments' manufacturing strategies, what they are interested in is that they are going to invest billions of pounds in a competitive industry where they want the cheapest product, the best market they can obtain and any rationalisations at the cheapest price as well. That inevitably leads to the decline in the UK because we are the cheapest, easiest and quickest to dismiss, and whatever the strategy is while ever that is the case that will be an overriding factor.

Q23 Mr Clapham: When you have raised these points with the DTI what kind of response have you had?

Mr Simpson: "We do not want to help lame ducks", I think is the response that I got from one minister, which of course is no doubt aimed to guarantee electoral success in the areas that matter.

Q24 Mr Clapham: What about on the issue, for example, of labour relations and the situation that makes it much easier to dismiss workers in the UK than, for example, in France? Have Ministers suggested any things that they might be able to do to make it less easy to be able to dismiss British workers?

Mr Simpson: I think the short answer to that is no. I think what I get in response to the point that I put is, "Do we want the unemployment levels of France, Germany or others here in the UK?" That is the stock response. Of course the answer to that is no, we do not want high unemployment levels. But there is a concern because what that argument ignores is the nature of the jobs we are talking about. I think any job is important but I think that we also have to strategically think about the nature of those jobs, and it is fairly clear that there is a move away from manufacturing into service industries and industries that are based on temporary, part-time contracts with lower rates of pay and the analysis—and we can supply this analysis and will do in our evidence—that demonstrates what the situation is when we monitored the Rover workforce. The problem with that is—and I am not a trained person in financial matters, so certainly economists would probably be able to knock bells out of the argument—that it seems to a simple soul like me that if you are not producing things and you are not adding value to things and

you are merely consuming things eventually the wheels are going to fall off the wagon. In other words, what I am saying is that I believe most economists would share the view that you need a strong manufacturing base as a significant part of any economy. It seems to me that if we continue to exchange manufacturing jobs and lose our manufacturing industry ultimately there is a price to pay in our economy and that is what is happening. We are creating jobs, some of which are quality jobs, some of which are important jobs, and I am not going to decry that at all, but many of the jobs that have been created are not of the calibre that are either in the right sectors or provide the salient—

Chairman: The Committee will be doing something more on the broader issues facing the manufacturing sector later, but I am quite anxious to focus on the specifics of the automotive sector at present, if you do not mind, interesting as that was.

Q25 Mr Clapham: Taking the point that Derek has made there, Chairman, and relating it to, for example, point 4 on paragraph 13 of your submission you say, "A review of the current failure of companies to invest sufficiently in skills and innovation and to identify solutions including, where appropriate, a statutory levy to ensure skills investment from those sectors who continually fail in this vital area of investment," it seems to me that if we had that training levy then when we see a factory move on we retain skills or a skills platform that is versatile and can be adapted to the change. Is that what you are thinking in terms of the training levy?

Mr Simpson: Yes. I think it cannot be taken in isolation from the other factors because at the end of the day if it is without the other factors it just becomes one additional reason for getting shot of UK workers because of cost, so it has to have a balance. But if I take the point in general, training in manufacturing, and particularly industries like engineering, has never been as good as when there was the ITB training levy, the levy system that supported the training of many, many apprentices. The facts are that employers, even with support, even where the government provides, as I know it does in some instances, free training courses, will not even allow some employees to take time off without pay to attend those courses. So there is a marked reluctance, that anybody who has ever worked in the industry would readily recognise, that employers are very reluctant to pay anything other than directly to the bottom line, and the short-term bottom line ignoring the fact that investment in the workforce, training and skills can generally be beneficial for a business. So I have always been a supporter of the view that there needs to be some sort of compulsory system and have been since the end of it; I have argued that across a wide range of sectors, that there should be some training levy to invest in the skills and to ensure that the skills are there that can substantiate an industry, or we are in danger of doing the other thing, which is why I say that these things go hand in glove. We could end up with a very skilled workforce and no jobs, or the other way around: they do have to go hand in glove.

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Chairman: We are going to run on for an extra ten minutes but we have a lot of ground to cover in the remaining quarter of an hour or so.

Q26 Mr Clapham: In terms of the research that has been undertaken by the union are there any examples of good practice in the world where the kind of things that we have just talked about are actually applied, and in their application do we see the kind of improvements that we would like to, or you would like to see in the UK?

Mr Simpson: Tim has just mentioned France and Germany and other parts of Europe, and if you look at some of the statistics you do not have them because I have a piece of paper in front of me asking if these had been submitted, and they have not but they will be in the document. What they actually show on the question of car production, I mentioned that the UK car production had fallen but the car production in Germany has increased, so in spite of the fact that Germany is on the employment record to be held up as a bad example—do you want the employment rates in Germany?—the truth is that in this important industry they have risen by more than what we have fallen, and it has to be down to their investment, the government support and the training that contributes to that. In fact if you take this other point, the fact is that the Germans will probably look after the German industry better than most. If I could widen that a little bit—and I take your point, Chairman—I would make this point in argument. Our trade with China has gone the wrong way, the German trade deficit with China has bettered in favour of the Germans, and the reason is that they are selling machine tools to China and that is shoring their economy; but we gave up our machine tool industry some time ago. That example is a fairly common one: when you support your industries and maintain the industries then you can even get benefit out of what to everybody else apparently is a fearsome thing. Everybody is afraid of China; it is sucking in mountains of manufacturing, mountains of production, its economy is on overdrive, everybody is frightened of losing jobs, losing trade, and there are the Germans actually increasing their trade with China on the back of it.

Q27 Chairman: We will be producing a report quite shortly on our trade relations with India, where very similar issues occur. You have mentioned a document. Is it your intention to submit some additional evidence to the Committee?

Mr Simpson: The answer to that is yes.

Q28 Chairman: Excellent.

Mr Simpson: I have been given as briefing note a lot of statistics and I took the view that I could sit here and read statistics but if anybody did it to me it would drive me daft. It is better to get what you feel and what the flavour and what the picture is. These charts and statistics and matters we will put together in a document and supply it.

Chairman: That is very helpful. Roger Berry.

Q29 Roger Berry: On MG Rover, could I ask what Amicus did to help its members who were obviously made redundant as a result of that, so that I can get a view as to the role of the trade union in this?

Mr Simpson: I have a brief on this but Tim is an officer who dealt directly with the situation and it would be best for Tim to address it.

Mr Parker: There were a number of items that we pursued, not only in terms of trade union sponsored training initiatives and hardship funds but the more practical issues in terms of pursuing employment tribunal cases in regard to protective awards, making sure that the various agencies were there to provide support and to make sure that redundancy payments were processed. But more importantly than that, all of the trade unions attempted to lobby government and the DTI to try and conclude and finalise the discussion with the various Chinese companies that were interested in purchasing MG Rover. We were also in daily contact with the administrators in terms of trying to find out what the expressions of interest were. The trade unions as a whole were trying to produce a business case to encourage people to bid for the company with the assets of the company, the remnants of the company, to try and ensure that large-scale vehicle production would continue at Longbridge. So on a daily basis there is hardly anything that we did not do or attempt to do in terms of every avenue that was pursued. I think that there is a general myth—I am trying to broaden the question and I do apologise—in the UK amongst some economists and, dare I say it, some areas of the political arena, that in some way, shape or form the car industry has run its course in the UK and it is an old industry in effect, a worldwide old industry. Nothing could be further from the truth. If you look at the car industry not only in the UK but globally it is at the cutting edge of technology—in terms of electronics, in terms of emissions, computer aided systems in cars, engine emissions, materials that are used in terms of carbon fibre, et cetera—right at the cutting edge. I suppose if you put it next to the aerospace industry and the defence industry it is on that kind of level. So it is not old hat, it has not run its course and it is a major opportunity for the UK to take a strategic position in terms of where we want to be in terms of the manufacturing world and what we want to do. If we let it go to the wall it is a sad loss and a sad demise and it is something we will never get back.

Q30 Roger Berry: Some of the things that you have mentioned there I would have expected the Task Force to be in the driving seat on, for example training and so on and so forth. Could you say a bit about whether there was any overlap or how closely you work with the Task Force and perhaps, more importantly, how successful you think that the Task Force was? Were there particularly good things they were doing that you welcomed and supported and were there any things they were doing that were unhelpful?

Mr Parker: I think in the National Audit Office Report there are a couple of paragraphs which I think are the basis for the majority of the questions

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that are being asked today. Certainly my view—and our view—is that too often the DTI plan for failure. If you look at the Audit Commission's Report it is quite apparent that from 2000 that the DTI were planning for the demise of MG Rover even when it passed over to the Phoenix Group. So rather than plan for failure we believe that they should take a much more structured approach in terms of using the RDA rather than delivering the band aid to a severed artery in terms of job losses. The RDA should actually be working with the DTI, the trade unions and the company to intervene and to look at what is needed to make the industry a success far earlier on. If we had had those detailed discussions, if MG Rover in effect had been more forthcoming, if the DTI had pressed harder and if the RDA were more involved we could have tried together to look at what the company needed in terms of trying to secure future partners, to secure the manufacturing site, to secure the company on a much earlier date. We actually deal with the repercussions rather than trying to plan for success, and I think if you are being critical of the RDA and critical of the DTI, every time we have the DTI, every time we have met, for want of a better word, the senior bureaucrats that advise ministers, the single advice they seem to give is, "We cannot do that because it takes us out of the European competition rules." I have the greatest respect for rules; I only wish that our competitors in Europe and the rest of the world did as well, because that does not seem to be the case.

Q31 Roger Berry: I absolutely understand the point you make about investing in success and therefore trying to prevent, as it were, failure, but given the situation of the emergency measures that the Task Force were working on, which of those measures were successful in those terms, and which were less successful?

Mr Parker: If you look at the training money that was provided—and I think you have to first take into account that there is a bit of hoo-ha about the amount of government money, taxpayers' money that was put into MG Rover in terms of the repercussions, something in the region of £150 million, £170 million—on training the package that was provided was underspent by £5 million. I think one of the biggest industries that grew out of MG Rover collapsing was the training industry because money was thrown at it, and in certain circumstances the courses that were provided were extensions and short-term courses rather than long term courses—the money was provided for 12 months—and there were significant gaps in the area of training in terms of what people wanted to do and what was provided for them. After the first initial weeks in terms of the Job Centre Plus area at Northfield trying to coordinate training with the RDA, everybody at MG Rover comes from a wide catchment area, it was not just areas of Birmingham it was all around the West Midlands, and when they dispersed back into their own local areas and tried to seek that further assistance from their own Job Centre Pluses they found that there was no coordination whatsoever. What we were trying to do

was to try and fill the holes, to identify holes and actually assist with that process. We even brought back some of the agencies together to meet our members so that our members could raise directly with them the problems that they were experiencing.

Mr Simpson: Just to supplement that and maybe to pick up a point, is that provided positive action is taken early enough it can be helpful, because whilst the Task Force success with the direct MG workforce might have been limited, the statistics we have is that they were better in the supply chain because in the supply chain there were many more thousands of jobs, not directly from Rover. One statistic here I think tells its own story, that of the 150 companies that could have gone down with Rover they limited that loss to 11 and there were a number of measures that followed on that were hopefully sustained as well, more successful. I think that makes the point about the level of support and when you can get in there. Tackling the problem upfront rather than waiting for the companies to close, there was a measure put in place that anticipated what was going to happen and action taken.

Q32 Chairman: Following on from Tony Wright, my impression from my constituency is that my suppliers there have woken up and smelt the coffee and were actually diversifying away from Rover well before, so it was not the Task Force achievement, but actually a commercial decision.

Mr Parker: I think many companies got their fingers burned in 2000 and they took the decision then to try to re-deploy, to reinvest elsewhere, to take away their reliance on MG Rover. There is a great opportunity for the industry in the UK, there is an opportunity for it worldwide. If you take environmental concerns and how to adjust to those and how to meet that challenge that challenge is a massive one for the motor industry in terms of the emissions and the blame that it gets for environmental damage. If the DTI, if this government decided to invest in companies that actually produced and were looking to produce hybrid engines, to produce new models to meet those emissions, to meet the challenges of environmental challenges all across the world then you could actually see an extension of manufacturing in the automotive industry in the UK. How we do that would be by support and investment because it will happen elsewhere if we do not do it, and we should take up the challenge.

Chairman: I am sorry to drag you back and I agree with what you were saying then, personally, but we have some other questions about the aftermath of MG Rover from Tony Wright.

Q33 Mr Wright: Returning to the question of what happened to the workforce and obviously trying to look at lessons that were learnt from that, what statistics do you actually have in terms of what happened to the workforce? I think you mentioned earlier that about a third of the workforce are still unemployed at the present time. How many of them

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found new employment and what sort of employment was it in general? Do you have those statistics, Derek?

Mr Simpson: The detail we will leave to the document, but the broad position is that we have monitored our membership which tended to be amongst the more skilled of the workforce. We reckoned that 50% of the workforce is still unemployed; of the 50% that are employed as many as 80% of those are in temporary, part-time or agency work, and invariably on a significantly lower income. We also have information that as a result of the nature of the employment some of those who gained work have subsequently lost work. That might be matched against a wider survey of the whole workforce, which is suggestive that perhaps two-thirds have gained work, but again substantiates the “at lower income and in temporary, part-time and agency work”. The reason why that is important is because one of the responses in Ellesmere Port was that whilst there are 900 jobs in round figures being lost off that shift we are being told, I think the figure that was given was that there are 4000 skilled vacancies in the area. A similar argument presented around Rover, that there were jobs available, but the truth of the matter is that that very often proves not to be the case and not relevant and does not seem to match up, and I wonder sometimes whether people are looking through rose-tinted spectacles or saying things that sound very nice in difficult circumstances because I am pretty certain that those people out of work are not the sort of people that want to be on the dole, the sort of people who do not want to work, but they are people with commitments, they are people with families and they are used to an income and, quite frankly, they are not going to match that income on benefits and they are going to need employment and reasonable employment. The truth of the matter is that if that were available I am pretty certain they would have got it because they were not a bad workforce; they were not an unskilled workforce. So it seems to suggest to me that there is a slight element of propaganda in the way we portray vacancies because it does not actually match. I am almost at the point of saying let us monitor what happens to those 900 people in Ellesmere Port because I would not be at all surprised if we did not come back a year or so later and say that half of those people do not have jobs and those who have jobs are not in these supposed jobs that were available at the time.

Q34 Mr Wright: We have also touched on the question of the training courses and obviously some of that work was ineffectual in the amount of money that the government tried to retrain. How did they actually meet the needs of the individuals who needed to be retrained, and in terms of numbers what figure would you put on the numbers of people that were actually on training courses and what was the average period of time that they would be on the retraining courses?

Mr Simpson: I will defer to Tim on this, he has more of the on-the-ground knowledge. In fact he is smiling because he can answer the question!

Mr Parker: I think the RDA figures in terms of the number of people that have actually taken part in training courses and what those courses were are obviously the actual source material. I think one of the problems with the way that that was delivered, if you looked at the actual situation and the collapse, which happened very quickly at the end of the day, in something like a week, ten days, when the various agencies, including the various training agencies, Job Centre Plus came in on to the site over a period of about a week people who were leaving in batches and were getting advice on redundancy payments, et cetera, allowances and benefits, were being asked at that time to express preferences in terms of what they wanted to do. The reality of it is that they were still in shellshock and trauma in terms of what they wanted to do, and it should have been on a much more prolonged basis in terms of that help and support, in terms of developing what training courses they wanted to go on. Of course the problem now is that that funding is running out after 12 months and some of those people have only done introductory courses and if they are in work they want to further their career, and that money just is not available any more. So that is one of the major failings. But the source material is the RDA for numbers and what they actually did.

Q35 Mr Wright: In terms of what the government attempted to at the time—and obviously we are faced with Ellesmere Port—what lessons do you think that the government should learn from what happened with MG that they should put into play to do the same or do differently with something such as Ellesmere, or any other event?

Mr Simpson: I think it is always easy to say that more money matters. It is clearly not possible to have an unlimited supply of money but there is an argument that more support would be given. But the big problem is, let us assume that we have large sums of money to put into retraining people, the reality is that we are not actually solving the problems, and the reason why we have to retrain people is that we are failing to support the industry in the first instance. So the answer to this is not how much resource you put in to try and heal the patient—it is a brilliant operation but the patient is still dead—the truth of the matter is that it has to come at the other end. We have to have the frameworks of support into industry, support into training—not training as a result of closure but training for the future—and we have to have legislative measures that mean that employers, as well as being encouraged to stay by support grants, investment grants and all the ways in which you can encourage investment and support business, also have measures that help to mitigate against them going, for example like stopping it being cheaper and easier and quicker to dismiss workers. That would encourage the traditional companies, the ones with the large-scale investment, to ensure that they understood that they were not to benefit in moving manufacturing to elsewhere.

Q36 Mr Wright: Finally, in terms of the proposed closure of Ryton and obviously the reduction of the

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workforce at Ellesmere Port, do you think that we are well prepared or better prepared now than we were before, or is there a lot of work still to be done?

Mr Simpson: I do not think we are any different now than we have been for some time because nothing has changed. All the factors that are leading to the closure at Ryton and the decisions at Ellesmere Port are still the same factors that applied in previous examples of the decline in the industry, so I do not think we are any better prepared at all.

Q37 Mr Wright: So what do you think the government should do now, immediately?

Mr Simpson: I think it should seriously consider the level playing field argument and change its course, and that is a big ask because nobody in the positions of power wants to do that. That leaves us dealing with the aftermath, whether it is trying to train people after the event, support families that have had their income destroyed as a consequence, supporting people with measures that prop up low paid economy because of the temporary and agency part-time work, and it leaves trade unions with a very difficult position because the traditional response, in trying to persuade an employer if negotiation fails, is that you resort to some form of industrial action, and the reality of that is—taking Ryton, for example—what would be the point of advocating the most extreme industrial action when

the plant is faced with closure? One response could well be an extension of the argument that Mr Hoyle made about procurement. The British people procure things when they buy them. It would be very interesting to see what effect it would have on Peugeot if anything like one in ten people decided not to buy a Peugeot. That would be twice the value of the gain that they have got by going to Slovakia. The economic impact on the company's marketshare might have a salutary effect on its decision regarding whether it is going to produce in Britain.

Q38 Chairman: We are going to have to close there, we are well over our time, but you have been very interesting witnesses, can I say, particularly in relation to your analysis, Mr Parker, your passion and commitment to the fact and the idea that there is a future for the whole car sector in the UK. I know our terms of reference to which you responded in writing were drawn up at a different time, as it were, with different purposes so if you want to submit further written evidence about what you see as the prospects of a car manufacturer and component manufacturer, we would welcome that further evidence. Thank you very much for giving us your time.

Mr Simpson: Thank you for your questions and your time.

Witness: **Richard Burden**, a Member of the House, representing Birmingham Northfield, gave evidence.

Q39 Chairman: Well, Richard, this is gamekeeper turned poacher or the other way around. Which is it?

Richard Burden: It is nice to be back.

Q40 Chairman: I think for once I will dispense with the normal duty of asking you to introduce yourself, unless you want to.

Richard Burden: No, that is absolutely fine.

Q41 Chairman: Since you submitted your written evidence to us, the focus of this inquiry has shifted, as you recognise, rather more to the consequences of looking to the future but your written memorandum responded very well to the original terms of reference of the inquiry and we are grateful for that. If there is anything you want to say about the history by way of introduction, we would be delighted to hear that, otherwise, we will crack straight on with the questions.

Richard Burden: I am happy for the evidence to stand. Obviously, if anybody has any questions on that area I am happy to talk about that. Equally, I understand from the Committee's press release that you may be returning to the broader aspects of the MG Rover story at a later date and I repeat my offer that if you do return to that, I am very happy to come back and give evidence at that time.

Chairman: May I say also we had hoped to have this evidence session in Birmingham but, sadly, business on the floor of the House of Commons this afternoon made it a little difficult for some of our

colleagues to absent themselves from the lobbies, so we are in London instead. Sorry we cannot be in Birmingham.

Q42 Mr Hoyle: Richard, obviously you know the Task Force better than most, but in your judgment how successful was the MG Rover Task Force in helping MG Rover employees? Was it swift enough do you believe in its response? When we look at it, which of the emergency measures were pluses and which were minuses? Which were the good parts and which were the bad parts?

Richard Burden: I think overall it was pretty successful. That is not to be complacent, and perhaps we can talk a bit later about some things that could have been done better and could be done better in other situations in the future. I think the first thing I would say is that it would be wrong to look at the experience of this Task Force in isolation, the 2005-06 Task Force, because there was also another one in 2000 and, indeed, many of the initiatives that were brought into effect in 2005 were things that were being thought about in 2000 when the company could have gone under then. There was a tremendous amount of work done between 2000 and 2005 that made the work of the Task Force a lot more effective when it came to 2005, most notably the great work that was done in diversification of the supply chain in the West Midlands and beyond. In terms of the numbers of MG Rover employees who have found other jobs, I think the record there is

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pretty impressive and we think it is around about 69% who are in work. There are 80% who have gone off benefits. There is a mis-match between those two figures but, on the conservative side, about 69%. The training support offered was speedy and has been very useful. The scale of it was a bit like setting up a small college overnight and about 1,900 people have been through training, I think 1,946 is the figure. All of those are plus points. The speed of the response was very impressive. The Task Force was set up virtually as soon as the company went into administration. It had all the relevant partners on it, the trade unions, local politicians—myself and Julie Kirkbride—the local authorities, the private sector and it had the academic institutions. What that allowed was when problems came up, whether it be problems of joins between different government departments, whether it be issues of a car leasing scheme that MG Rover had introduced that when the company collapsed caused all sorts of difficulties for employees, or whether it be sorting out training problems there, you had the right people in a room together to be able to do that. The last thing I would say on this question is I do not think we should consider the Task Force to be purely the people who met together at Advantage West Midlands in the centre of town weekly, and then subsequently biweekly and monthly. Their work would not have worked were it not for the staff of Jobcentre Plus, the Learning and Skills Councils, the colleges on the ground, people in Her Majesty's Customs and Revenue and the trade unions but, equally, the local community as well. There has been a great deal of community support activities that were operated then and continue to this day and some of the most prominent people on that were not members of the Task Force. A name that springs to mind is Gemma Cartwright who has the role of leader as the Rover spouses, their role has been absolutely invaluable.

Chairman: It is helpful that you mentioned the Task Force and your and Julie's membership of it, I do know if it counts as a declaration of interest but it is helpful to remember that you both were members of the Task Force, for the record.

Q43 Mr Hoyle: You have touched on how they all came together and the speed they worked at. Do you think the various agencies were up to speed quickly enough or do you think one or two of them were a bit slow off the mark?

Richard Burden: The agencies themselves clicked into operation very quickly and very successfully. Let me give an example: the Insolvency Service was processing redundancy payment claims in two days and normally that would take a number of weeks. Those sorts of things are impressive. Where there was a problem, and it is something to learn for the future, was sometimes the rules and regulations of particular departments do get in the way of each other. To give you a couple of examples on that, one is the inter-relationship between Jobseekers Allowance, redundancy payments and payments in lieu of notice if a company goes bust without any notice being given to the employees: you could find, without a great deal of creativity, that employees

could be given a benefit with one hand and end up losing it on the other hand. By and large that did not happen but you needed those people in the room to say "My god, if we do this, we are going to hit that over there". The other one, the classic example which we need to learn from for the future, is regulations like the 16-hour rule and the 28-day rule. Again, there was a creative approach in relation to the MG Rover Task Force of ensuring that people were able to access training but the 16-hour rule is a real problem because it can, if applied inflexibly, very much look like we are a society who are saying, "If you are faced with industrial change or even if you are not—you are coming out of school, have done some work and then reach the magic age of 19 and moved beyond that—the future is to get trained, to get educated, to look between different careers, particularly if you are unemployed, but if you do so, we are going to cut your benefits", I think that is a problem. As I said, we found ways around that in the MG Rover Task Force but we need a much more thoroughgoing review of the 16-hour rule.

Q44 Mr Hoyle: The Task Force you set up, and we have seen it all working and there are two people here who can say how successful it was, accepting that it was very successful, is that model easily transferred to another region, if the same happened? It could be aerospace or whatever. Is the model that was set up in the West Midlands easily transferable to another region?

Richard Burden: The essential model is transferable because the essential model was to say (a) you need to react quickly, (b) you need to work out who are the players that need to be on a body like that who can deliver some value to it, and (c) what are they going to do. That approach to it, of what needs to be done and how do we do it, is a model that is transferable but I think the answers to those questions may well vary slightly from situation to situation. The circumstances that led up to the collapse of MG Rover do not raise all the same questions as the situation at Ryton, or the situation at Ellesmere Port, or the situation that pertained at Dagenham a few years ago. The essential model is there. The one other thing I would add in terms of the importance of that kind of model is that we always need to bear in mind the focus of activity and the important thing is the people you are trying to help and that is, of course, the corollary of 69% back in work, that is great but we also have to remember that of those the estimate is over 50% are earning a lot less and that leads to potential problems with debt, with paying the mortgage and so on. There are a large number of people, very much a minority but nevertheless a large number of people, who are still without jobs and, if you are one of those, to be told that the majority of people have got jobs—

Chairman: Let me bring in Tony Wright to ask his question. That leads neatly onto Tony's question.

Q45 Mr Wright: In respect of that we pressed the union in terms of the patterns of employment. In your assessment of the continuing effects of the closure and the patterns of employment—and I

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would assume it would be easier for skilled workers to get employment rather than unskilled or semi-skilled employees—have they found appropriate work and what about the ones who have not got those necessary skills? Generally, is it a fact that they are more likely to be unemployed?

Richard Burden: It is a mixed picture but by and large what you say is right. As I say, we think about 69% are back in work. From a survey that was done by the Task Force a few months ago the indications were that over 50% were saying that if they were back in work they were earning a lot less than at MG Rover. If you look at where there is a persistent problem, or the most serious persistent problem of unemployment now, you are talking about the area immediately around the Longbridge plant. The average age of a former MG Rover worker who is still unemployed is 45. If you look at those still out of work, the figures show that about 535 of those are registered at the Northfield Jobcentre. If you think about it it stands to reason that the people who lived closest to the Longbridge plant were probably going to be the older employees, sometimes were going to be the less skilled employees—it would be wrong to say unskilled, I do not think there were very many people at all at MG Rover who are unskilled but perhaps the less skilled—and very often they will be the least mobile employees as well. I think that is where there is a particular problem and it is why the final report of the Task Force was called *The Work Goes On*, and I think that was the right title because there are now programmes being fashioned under the title of Working For Jobs trying to provide the kind of targeted support and help that is necessary for those people but also there is a broader agenda about regenerating that part of south-west Birmingham and that part of the West Midlands not just for the former MG Rover workers who are still without jobs but for the generations coming through.

Q46 Mr Wright: You mentioned briefly the age profile. Reading some of the profiles of the people who have lost their jobs and gone on to other employment, what I find is that there was a considerable number who had long-term employment at Longbridge itself, for example, 30 or 35 years. Do you know what the percentages were of those people and is the age profile on the basis that the 58 and 59 year olds are a large proportion?

Richard Burden: I have not got those statistics to hand and I am sure that when Advantage West Midlands and other members of the Task Force come before you they can give you those figures. The workforce was getting older. I think the average age was in the 40s, not at the higher end of that. There certainly has been a culture in that part of Birmingham which had a particular view of what employment meant and a particular view of what work meant. It is impossible to overstate the significance of the Longbridge plant for that part of Birmingham. Everybody who lives there did not necessarily work there but they knew someone who did, or dad did, or mum did, or aunty did, or brother did or sister did. It was the way that the area defined

itself in many ways and that has created a culture of aspiration that had a lot of strengths to it. They produced great cars for 100 years at that plant, that culture made a huge contribution to the war effort. It also means that if you are looking at the area of Birmingham that has got one of the worst records of business start-ups, it is that part of South West Birmingham. Shifting that aspiration is going to be important. It is one of the reasons that I am very pleased for the future Longbridge site they are looking at creating a technology park there, something I wish more progress had been made on up until now, and also there is going to be a 14–19 vocational centre established at the Longbridge site to ensure that the generations coming through certainly value their manufacturing heritage and look to the future of engineering in a much more high-tech way in the future and a broader way; that they also understand that does mean different things in the 21st Century from perhaps what it did in the 20th Century. It is not trying to devalue the past, it means the future has got to be a bit different.

Q47 Judy Mallaber: In your evidence you mentioned the new intensive personalised employment support package. Can you tell us how you reckon that differs from the support that was previously on offer and what its advantages are?

Richard Burden: I think the elements of it are similar to the extent that if you go through what is it going to provide support for, it would be one-to-one interviews, it does involve help with CV writing if that is appropriate. There are other elements coming in in terms of how you build up, whether things like childcare is a barrier to employment, but a lot of these things should have been gone through in the period between 2005 and now. I guess the difference really is that it needs to be a lot more personalised. The people it is dealing with, the people it is targeting, are those who have gone through a year and still have not found work and that means it needs to be a lot more flexible to understand why that is and what can be done to help. I think that is probably the main difference. The other thing is the challenge about that support programme. A lot of it, given how the funding package has been secured, does need to be targeted at former MG Rover workers. That is right because if you are looking at the immediate consequences of the collapse of the company in that part of Birmingham, it was people who worked there who lost their jobs. The answer I was giving to Tony indicates that there is also a longer term problem in that area and there are people who are out of work in that area or who have got skills problems in that area who did not work for MG Rover. The family links mean that we need to have a much broader perspective about trying to raise skill levels, aspiration levels, and provide help in that part of Birmingham, and I would say north Worcestershire as well, not simply to those who were MG Rover workers, even though they will be a key part of that.

Q48 Judy Mallaber: That specific support package is really something for the immediate aftermath and it

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is still about the 1,800 who have not got jobs and you are saying the broader package you are talking about is something outwith that immediate support package?

Richard Burden: It resembles that. It is a combination of the kinds of things that were done in the—I was going to say immediate aftermath—period between April 2005 and the ending of the Task Force in the early part of this year. Pilot projects have existed in various parts of the country, like Working Neighbourhoods Projects, where targeted money has been brought into areas with persistent long-term under-employment problems that would allow greater flexibility by the agencies involved to work out the packages of support and tailor those to what the needs of individuals facing the problems are. It would be a combination of those two approaches. The Working For Jobs idea partly came out of a visit that myself and a local councillor of the area made to one of these Working Neighbourhoods Projects in the north of Birmingham and we thought there was a lot we could learn from that in the MG Rover south-west Birmingham scenario.

Q49 Judy Mallaber: On the specific question of training, do you think that the training courses offered immediately by MG Rover were appropriate? I have two comments. One is the NAO report has some anecdotal evidence about people being shoehorned into courses, in other words not necessarily a personalised enough package. We have heard from Amicus the suggestion that maybe because of what was positive, the speed and the immediate setting up of that response, that maybe people were asked too early what they wanted to do and did not have enough time over a period to come to terms with and reflect on where they might want to go. Do you have any comments on the way those training packages were put together?

Richard Burden: Yes. I think I differ a bit from one of the things that Tim Parker said in that the problem is—and I think he indicated—the training is coming to an end. It is not, in fact. If you read the last Task Force report, it talks about training support continuing throughout the 2006-07 financial year. The nature of it is changing for the reasons we have been talking about. It is trying to focus that training where it is needed. I think the situation in the immediate aftermath was difficult and looking at this model for future situations is something we need to think about. The collapse of the company in many ways came out of the blue, certainly for the employees concerned it was a real bolt out of the blue, and it was shattering for anybody who worked for that company. The immediate presence of the Secretary of State there as soon as it happened was really important. The same with the Task Force going into effect straightaway was really important. Processing the claims straight away was really important and also saying “within a week we are going to be there to help you with training packages and support and so on” was really important. Part of that was to try and look at what people’s individual preferences concerned, and I

take Tim’s point in many ways that straight after people are not going to know what they want to do, but if you are going to help them quickly you need to be trying to establish those things early. There was a pattern to the kind of thing a lot of people were saying they wanted to do. An awful lot of people said they wanted to retrain as plumbers. Quite a lot of people said they wanted to retrain as driving instructors. Quite a lot of people said they wanted to move into construction. There was a great deal of work done to either source the right kind of courses or in some cases set up new courses to achieve that which were successful. It would be wrong to say that automatically meant it was a route straight through into work, and if too many people are trained in a particular area there is a danger you will flood the market. There was also a real frustration at that time because the LSC—Learning and Skills Council—was trying to ensure that the training providers were quality and would provide the right kind of courses, of people saying, “you ask me what I want to do, I say I want to be a plumber and then you tell me there are no courses available” and later on, having been through that course, if it does not automatically lead to a job people are frustrated. I understand that, that frustration is real when you have been through something like the loss of your job at MG Rover, I would simply say the answers to these things are not simple.

Q50 Judy Mallaber: Are people who are in that position able to come back later on and get help or have they had their chance if they have been sent off on one training course and then realise it does not suit?

Richard Burden: It is still available. I think there is an issue of communication there about whether people know that and whether the communication networks are as robust as they need to be. That is another reason for things like the Working For Jobs approach. The specific help that may be available to individuals may differ. If somebody has been through and has already had, in a sense, a full entitlement on that, the amount of financial help for training may not be the same. However, in principle, training assistance should still be there in the same way as it should be there for any unemployed person. Let us remember the whole principle of establishing the Jobcentre Plus-type approach to tackling worklessness compared with what was there before was about saying that there should be very few gaps between unemployment support, job search advice and pathways into training and it is moving much more on to that and making it happen in an area which has had a real belt from the loss of 6,000 jobs.

Q51 Mr Bone: Just on that, would you agree there is a lesson to be learned from what you are saying about the driving instructor/plumber syndrome that those are largely self-employed jobs? Is there a risk of somebody who just lost an employed job, having been there for a number of years, feeling, “Gosh, I really do not want to go back and be employed and risk losing my job again”. Is there a lesson there?

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Perhaps more advice might be given that they might be better to retrain in something that would not lead to self-employment.

Richard Burden: That is right, but you have to be sensitive about this. If somebody has lost their job, to sit down and say, “We know this has happened, we know you have got this leased car that you apparently owe a load of money on, you have got a mortgage, you perhaps have just taken out a second mortgage and you have always looked to your future being in manufacturing, now look ahead”, you have got to be pretty sensitive about how you put those things. I think that was what people tried to do to get people to raise their horizons. That did include manufacturing. One of the good things the Task Force did was to set up a thing called “The manufacturing hub”, where there was extra, if you like, targeted support to try to match former MG Rover workers and people in the supply chain with the opportunities that are available in manufacturing. Manufacturing has got a future. I think about 750 people benefited from that where there was some travelling allowance support, there was support for employers to take on former MG Rover workers which had a lot to offer. The other thing is that there are some success stories of people who have gone into entirely new areas of work. One former Rover worker springs immediately to mind who worked in the paint shop but what he always wanted to do was be a youth worker, he never had the opportunity to do it. He is now doing that and training up for that. In terms of quality of life and job satisfaction, he said he would not want to go back, but none of that should blind us to the fact he is not earning anything like what he earned at MG Rover and that creates problems in other areas.

Q52 Miss Kirkbride: Obviously you and I recognise a lot of these stories. A very similar one to the one you just mentioned is someone in my patch who wants to be a teacher and learning to be a teacher is quite expensive, so I very much agree with what Richard has said today. I still find it curious about the missing people who still are not in jobs because, as you rightly say, there is a cluster around the plant—you and I know the area very well, you can see what the problems are there—but there are another thousand people out there somewhere who have not got jobs and I wonder if we have got any more information on who they are and why they have not because they have got mortgages and they have been used to a good standard of living and that is a lot of people the wider area, which is relatively buoyant, has not been able to absorb.

Richard Burden: As you know, Julie, trying to put the statistics together was a matter which was discussed at the Task Force when the election was on. Obviously you were not able to make meetings after May last year. Those discussions did continue on the Task Force about trying to work out where those people were. We know that 80% are now not in the benefit system. The impression is there are some people who moved straight out of MG Rover and went into other jobs who did not pass go, did not do anything else, that would account for some. There

are some who left the country, we know that. The numbers are less significant than they were in those early stages of the Task Force, people have got more idea about where people have gone. It does mean that we still need to keep track and it is one of the reasons that the Rover Community Action Trust that has been established, which is chaired by the person I referred to before, Gemma Cartwright, is placing a lot of store by informal methods of keeping in touch with people, whether it be through the families, whether it be through play schemes, whether it be through newsletters going out, if not to track people directly, that is difficult, but at least to be able to track people who know the people who have gone missing. If there is a problem we need to pick it up.

Q53 Miss Kirkbride: In your earlier evidence you mentioned the 16-hour rule which was certainly one of the obstacles to a seamless transition. Are there any other areas that you would alert the Committee to where we could make some positive changes so that when this kind of thing happens we could either temporarily change the law in certain circumstances or there could be a wider change in the law which would affect everybody all the time where the benefit system makes life very difficult to get retraining and back into work?

Richard Burden: I guess if somebody came to me and said, “Okay Richard, you can do one thing and one alone”, I would have to come out and say it would be the 16-hour rule. That is the biggie because it does not simply apply to situations of industrial change, there is a real issue of youth opportunities there as well. One of the things that was in the Task Force’s report was perhaps a more systematic approach to things like VAT recovery and VAT deferrals. One of the things that was very useful in the Task Force was to have HM Revenue and Customs there and they were pretty creative and pretty helpful to companies, particularly in the supply chain, with those kinds of problems. It would be better if you did not have to be designing the kinds of things that you needed to do there and then if there was already something a bit more systematic in place. The other thing is I do think we need to look at the join, as I said before, between benefit regulations and things like redundancy payments, and particularly the payment of pay in lieu of notice, if a company goes bust without any kind of notice. In that situation people have to wait for three months to receive a payment that would recognise the fact that they did not have any notice because technically MG Rover or Phoenix could have given them notice at any time during those three months. That is nonsense because the company had gone, it was bust, but technically that is the way the rules work. However, if the money had been paid, it then could have come off their benefits. We need to get, as I said, those sorts of joins sorted out. The last thing I would say is there were a number of former MG Rover workers where it was not always entirely clear who they worked for. People who had contracts with the holding company, Phoenix Venture Holdings, but who worked for MG Rover, were they covered or were

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they not, and who was responsible for paying their redundancy payments? That sort of thing needs sorting out. The last thing is the pension protection fund. Thank goodness for the pension protection fund is the first thing I would say. It came in the week the company collapsed. Were it not for that, there would have been very large numbers of people facing very, very severe losses of pension rights. As it is they face losses but an awful lot less than would have been the case. Again, what the MG Rover story showed up was that in a situation of multiple companies, MG Rover, Phoenix Venture Holdings and other subsidiaries, technically if there is one company that is not in administration and another company is, can you benefit from the pension protection fund over there? Phoenix Venture Holdings was not in administration, and still is not, and there was a period where it was not clear whether technically, according to the rules, the pension protection fund would be able to cut in. I have to say credit to ministers, from the word go they said, "They will be protected. Whatever it takes, we will make sure they are" and that is happening. Again, we do not want to be in that situation again with another industry, another company, and those issues do need to be sorted out.

Q54 Mr Clapham: One of the successes, and it was something that we were a little concerned about when we did the report on MG Rover, was the supply chain. It seems that one of the success stories has been the diversification in the supply chain. Why do you think that is? Is it because of the funding and support that was given or was it because of earlier signals that had resulted in the supply chain beginning to diversify?

Richard Burden: Both of those things. I think Peter said when Amicus was here, he was right, a large number of suppliers woke up and smelt the coffee—I think it was coffee, was it not—and did deliberately say "we do need to diversify". The first thing to say about that is thank goodness that they had the time so to do. Let us remember that Longbridge was facing closure in 2000. The five years between 2000 and 2005 were absolutely vital in allowing companies the time to do that. If you are one of those employees who lost your job in 2005, particularly if you are still unemployed, to say "you bought other people the time to keep theirs" is not going to be any great comfort but it is a fact. There are some people who are saying, "It should have gone in 2000, it was all inevitable". If that had been the case the estimates then would have been a conservative estimate of 20,000 to 25,000 jobs going in the West Midlands, other estimates have gone up 30,000, some people even say 50,000 would have gone. That top end is probably a bit of an overestimate but it would have been substantial. Now you talk about total job losses somewhere under 10,000 and the work done in those five years are part of the reason for that. Some did it voluntarily, there was concentrated work done to try to encourage that through the industry forum, the Accelerate Programme. The RDA did a lot of good work, as I say I particularly mention the SMMT Industry Forum, the joint body between

Government and the industry, having done a lot of work to promote that. The other thing is the work that was done when the company collapsed. There was estimated to be 160 companies that were dependent on MG Rover for more than 20% of their work in 2000. By 2005 that was 74, so a lot of work had been done, but it was still important that the Task Force had those procedures in place to be able to help those that still needed help, that were viable. If they were not viable nothing was going to help them, but if they were potentially viable and just needed a breathing space, things like the Wage Replacement Fund that was brought in was really important to that, things like help with VAT issues was going to be important to that and there was a loan fund called the Advantage Transition Fund that could also provide support. A company that springs to mind there that I visited about six months ago is Rimstock plc in West Bromwich, a very prominent manufacturer of performance wheels, and it is in the area of the automotive industry where Britain is still a winner, motor sport technology, performance engineering and so on. They are an international company now, they are doing a lot of good stuff on exports and so on, but they still had an involvement with MG Rover and they needed help from the Wage Replacement Fund just to be able to make that bridge.

Q55 Mr Clapham: That diversification has brought some growth as well?

Richard Burden: I think Rimstock, if you said it was an opportunity to grow, they would say however you plan it, the loss of MG Rover was a problem, it was not an opportunity for them it was a problem, but if in the period 2000-2005 there was a company who was saying "what is the future of us as an automotive supplier, what is available to us in terms of support and then when MG Rover collapses what support is available", they could make the most of the help that was available. That, again is a lesson for the future. For the Rimstocks of this world, it is brilliant. For the other companies that were able to be communicated with or knew these things were there and could access them, that is brilliant. The thing we always have to ask ourselves is what about the company who, for whatever reason, did not know, did not think it applied to them, it applied to someone else or somehow they went to the wrong bit of the system and did not get the information and support they needed, which is why we always need to be thinking are we getting the information to the right place and, if we think we are, let us go back and check because there is still going to be a company that will miss it.

Q56 Roger Berry: I have two or three questions about the lessons that can be learnt from the Task Force. One point you make, and you have referred to it already, is that the Task Force having, as you put it, "reached the end of its allotted lifespan", there is work to be done. To what extent do you think it was somewhat unrealistic to think the Task Force could complete the work in a year? Do you think the

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subsequent work should be, as it is effectively, the responsibility of another organisation? You talk about the Task Force revisiting it every six months.

Richard Burden: That was my suggestion. I have to say that suggestion did not carry the day at the final meeting of the Task Force. There is a consensus on the Task Force and a consensus amongst the agency that there is still a lot to be done and that the issues are not going to go away and they need to continue working and things like the Working For Jobs programme does indicate that they are serious about that, so I do not doubt the sincerity or the seriousness. I think it is also fair to say that the particular structure of the Task Force with that many people, that many agencies and that many individuals meeting every month does not make things happen necessarily of itself and time moves on, circumstances change, you do not necessarily need entirely the same model. There is now an executive group of core agencies that are meant to be taking the outstanding work of the Task Force onwards. My view is that whilst that is probably right for an executive core group, you still need an accountability mechanism, you still need a broader network, to provide occasionally a reality check to make sure that they are still doing the things they need to be doing or if new things need to be done that is flagged up and maybe if there are things that emerge in the coming year that need to be brought to the attention of Government, whether it be locally or whether it be nationally, there are bodies and individuals that are in a position to find out about those things and flag it up when it is necessary. That is why I do think there needs to be a bit more thought put into the framework within which the work goes on.

Q57 Roger Berry: In four or five paragraphs in your memo about the same place, you do list a whole range of things that need to be done, regeneration et cetera. How optimistic are you that this is happening, that this will happen?

Richard Burden: Again, I think the intention is there. I suggest in the evidence, and have said it today, there needs to be a particular focus on the south-west Birmingham area both in terms of the physical regeneration of the Longbridge site and what is going to happen to it. We all hope that Nanjing are successful in bringing a form of car production back to the Longbridge site, we hope they are successful in doing that but it will be hugely different in scale and scope than anything that was there before. You are talking about a small company producing sports cars in the main. There are ideas for having a technology park there, using the expertise of local universities around things like composites and advanced materials production. There are broader ideas for creating a transport hub there. It is close to the motorway network but making sure that the transport links work, are big issues. Creating the skills base in the area which enables it to benefit from opportunities in the future are big tasks and there is a sub-group still existing led by the city council and others on it that is charged with the responsibility of these things. My slight concern is that we do not slip

back into where I think there was a weakness between 2000 and 2005. It was not in the supply chain, it was not in the diversification of the region, some excellent work was done there, but I do not think sufficient work was done in the area around the plant because that is not the supply chain. The people in and around south-west Birmingham did not by and large work for the supply chain, they worked for MG Rover and their needs and the future for them was different from those in the supply chain.

Q58 Roger Berry: You said that in your view the Government responded pretty quickly to this crisis of large scale redundancies and so on. What did they not get right and what lessons do you think Government should have learned from the experience if there were to be, heaven forbid, a similar event with large scale redundancies of skilled workers on this scale in another part of the country? What should the Government do differently?

Richard Burden: I think if you are talking about a decision or an event having happened or an event which is imminent and inevitable, the essential model of what happened was the right one and it would be important issues of detail, but nonetheless issues of detail, of what the response should be. It would be things like making sure that the agencies work more seamlessly together. It would be things like making sure that the boundaries between departments are right. It would be things like being creative around the 16-hour rule. It would be extending some of the things done on the Task Force. I think the bigger issue is what happens if intervention and policy is necessary to try to minimise the chances of getting to that situation in the first place. They are much, much bigger policy questions. As I say, I would defend the period between 2000 and 2005 for all the reasons I have said. Even though MG Rover collapsed at the end of it, those five years were really, really important. I do not think that you will find a repeat of MG Rover as such because it was a fairly specific set of circumstances and a fairly specific historical context but I think it does raise issues about how Government should intervene, I do not think it is a question of if Government should intervene, it has to in a situation like that. When there are that many jobs riding on it and when it is a strategically important industry, Government has to intervene, there is no doubt about that in my mind. By and large I think what was done in 2000 by the Government was very helpful, what was done in 2005 was very helpful. There were various points along that way where Government was asking the right kinds of questions of the company and was offering support, for instance, on things like negotiations between Shanghai Automotive and Phoenix. The question is, was there more that could have been done. My view, and I expressed it back in 2000 and I stand by it today, is that whilst essentially the Government was on the right lines in 2000 perhaps it might have been prepared to go a bit further to get a bit more of a handle over the governance arrangements at the company that

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emerged that would have given it perhaps a little bit more leverage in the period between 2000 and 2005 and maybe would have ensured a bit more transparency but, to get itself into a position of doing that, at the very least it would mean greater communication between the company and Government. I think, if you look at the evidence, both sides have things to say about the other side on that. It might also mean in that situation in 2000 that perhaps a more direct role for Government might have been appropriate. I know this is not a particularly fashionable thing to say but I have to say in 2000 some kind of stake might have been the right thing to do at that time. I do not think it was something that was viable in the same way when you got to 2005, but this was trying to do something that was different. It was trying to say, "Can you find a way of a small to medium company surviving in an increasingly ruthless and global car industry?" It was never going to be inevitable, the chances against it happening were greater than the chances of it happening but let us remember that Shanghai Automotive did see the possibilities of a deal there. They do want to become a global player. Yes, they were able to buy the intellectual property rights back in September 2004 but they carried on negotiating right the way up to March to get hold of it and even after the company collapsed then carried on negotiating to get the assets. The possibility of an international arrangement was there and, let us remember, we were effectively dealing with the Chinese Government and it is right that our Government should be actively involved in that as well.

Q59 Mr Hoyle: Do you believe that when the receiver came in he should not have accepted Nanjing because the question is will anything ever happen? The dates are there for the signing of that kind of arrangement but the reality is do we have a 50/50 chance of seeing jobs there or is it 60/40, I do not know? Should we really have gone with Shanghai Automotive?

Richard Burden: The nature of insolvency law and so on is that the Government does not decide these things. Ultimately, the administrators had to make a judgment about what was in the interests of the people that they had a responsibility to look after. It has to be said that whilst Shanghai wanted the assets of the company, there is no doubt about that—and I think there was possibly a viable plan for them to take it over in conjunction with others—Nanjing were the ones that produced the colour of their money first, so there may not have been at that stage a way around that.

Q60 Mr Hoyle: Can I take you up on that because you said they showed the colour of their money first. I thought it was that they said they would put the money on the table but the truth of the matter is in the end the money was not quite as quick as people expected.

Richard Burden: That is true, but it was pretty clear what they were offering and they were able to provide reassurance for the administrators that was

real. That is why in answering Roger's question before, I was saying the important thing is how you get to that situation rather than what happens at the end of the day and what support you can give to what is still a strategically important industry. On that, perhaps I can add, as well as the lessons of the specifics on MG Rover, which as I say were unique, there are real issues about how we get productivity in the industry up, how we get investment in the industry up and how we play to our strengths in the area of performance engineering, telematics and environmental technology and so on. There is good stuff being done by the Government Manufacturing Advisory Service, the Low Carbon Vehicle Partnership and the Automotive Academy, all of these things are great, but we do need to revisit them and say, "Are they enough and can we develop them in a way that enables us to be as strong as possible in an industry which is global, which is very competitive and which is pretty ruthless?"

Q61 Mr Hoyle: Let me take you on to the point you mentioned, the administrator. What was your judgment of the administrator? Do you think they were good, bad or indifferent? My view was I thought they were damned awful. We had a car showroom, Phoenix, where there was an offer put in of £800,000 that would have kept all the jobs in place, kept the workshops open, they would have carried on selling cars and, yes, there would have been another dealership on there but at least it was a complete takeover. In the end the administrators sacked everybody and moved the cars off overnight, did not tell anybody, 18 months later it was an empty site. I think they finally sold it with no jobs on the site. In my view, I thought they were a total disgrace, I do not know what you thought.

Richard Burden: They are administrators. In terms of their communications I thought that they were better than many. Over the period after it went into administration their liaison with the trade unions, the kind of thing that Amicus was saying, there was a dialogue there. There is little doubt they were very expensive.

Q62 Mr Hoyle: Absolutely.

Richard Burden: I leave that comment hanging in the air, if you like, and it may well be that in some cases that they were overly inflexible. I did not know about your case but that might be an example of that. The contacts I had with PricewaterhouseCooper's indicated to me, and it is also fair to say that a number of potential bidders did express some frustration with what they regarded to be an inflexibility on the part of the administrators. I think the problem is much more to do with the kind of duties we give administrators and what their job is as administrators. They are accountable and have got responsibility in one direction that overrides their responsibilities in other directions. That is a broader issue of policy that maybe we do need to address. I do not think that would ultimately have been solved by having more open-minded administrators, I think it is a more fundamental problem than that.

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Q63 Mr Hoyle: What is the real cost and when will we finally know what the total cost is that PricewaterhouseCooper have charged for this administration? Everybody talks about “Best value for money”, well I think they are a very costly company and, like you say, it seems to be an open cheque book for them.

Richard Burden: You have drawn to my attention a particular problem that was experienced with the dealership in your area and I am sure there are others like that.

Q64 Mr Hoyle: Absolutely.

Richard Burden: In fairness, I do not want to be here as an advocate for PricewaterhouseCoopers, heaven forbid.

Q65 Mr Hoyle: Do you think they are good value for money?

Richard Burden: I am not suggesting they are good value for money but I do think effectively running an operation like the collapsed Longbridge plant and all that goes with it is pretty complicated and it was not entirely bad news about the way they behaved. They did some things right, they did other things wrong. Administrators, not just PWC but administrators generally, cost a great deal of money and there may be issues of policy there about how fees are charged, calculated, levied and where they come from, but that is probably a bit beyond the remit of this inquiry.

Chairman: There are many things I would like to talk to you about but I think we are at the witching hour on this. Richard, we are very grateful to you and you have raised some very interesting thoughts and more conceptual thoughts in our minds which will consume the rest of this inquiry. Thank you very much.

Monday 26 June 2006

Members present:

Peter Luff, in the Chair

Mr Michael Clapham
Mr Lindsay Hoyle
Mark Hunter
Miss Julie Kirkbride

Judy Mallaber
Rob Marris
Mr Mike Weir

Witness: Mr Dave Osborne, National Secretary, Automotive Group, Transport & General Workers' Union, gave evidence.

Q66 Chairman: Mr Osborne, welcome. Can I begin by welcoming you to the Committee, thanking the union, through you, for the evidence that was submitted in writing in advance for this evidence session and asking you to introduce yourself, for the record?

Mr Osborne: Thank you, Chairman. My name is Dave Osborne. I am the National Secretary for the Automotive Group for the Transport and General Workers' Union.

Q67 Chairman: Thank you very much indeed. I want to begin by asking you a very straightforward question indeed. What is your union's view of the overall strength, overall health, of the car and commercial vehicle industries in the United Kingdom?

Mr Osborne: I think Britain has actually borne the brunt of a relentless drive to cut production costs in the industry, as car-makers are shifting output to countries, notably in Eastern Europe, like the Czech Republic and Slovakia, where labour costs are less than a third of what they are in Western Europe. I think it is well documented. We have seen a spate of closures of late. We had the tragic circumstances of MG Rover collapsing just over 12 months ago; just prior to that we had seen the closure of Brown's Lane, the Jaguar plant, and now it has been announced that Peugeot at Ryton, the company are going to end production at Ryton from July 2007. All in all, it has been a bleak period for the industry, and six of the last eight car assembly plants in Europe to shut down or announce that they are going to shut down are in Britain.

Q68 Chairman: The Government, in a memorandum of evidence to us, emphasised the steady car production in the UK and painted a rather more, if optimistic is the wrong word then at least less alarming, picture of the situation than you just have. Can I just invite you to reflect on that?

Mr Osborne: I will quote, if you do not mind, in answer to that question; this is from the SMMT Monthly Statistical Review from May 2006. We have all heard the statements about car production being around 1.6 million vehicles, I think is the figure that is being quoted, which is about what it was 15 or 20 years ago. I think two things have happened since then. First of all, the total industry volume in the UK has grown. Secondly, if I may quote this, which I think gives an insight into where we really are: "Car

manufacturing in the UK has been unsettled by high profile announcements of plant closures and job losses" MG Rover, Jaguar and Peugeot, to which I have referred. UK car output since April 2005 has been significantly affected by the demise of MG Rover, Jaguar and Peugeot. "The performance over the first four months of 2006" means that the "outturn was the lowest since 2001 and over ten per cent down on the level produced on average over the past five years." Output has fallen by 45,000 units, or eight per cent, compared with last year, and it is predicted that will fall further in both 2007 and 2008.

Chairman: Thank you. One or two of colleagues would like to pursue this in a little more detail.

Q69 Mr Hoyle: Obviously, I worry about the future of the car industry in the UK as well, but would it not be fair to say that workers in Portugal, Belgium and Germany also are worried about the future of their car plants, and some would argue that the UK car industry is doing better than most? I do not know what your views are on this, whether you have any feelings about it, that actually it is the components sector which is taking the real hit?

Mr Osborne: I think you just have to look at what has happened in the last 18 months. We lost over 1,000 jobs at Jaguar, we lost 6,500 jobs at MG Rover, we are about to lose another 2,300, if the company have their way, at Peugeot; that is just direct employment, taking no account of the components sector or even the service sector, which depend on the automotive industry for their livelihoods. You may argue that Germany is having a bad time. I do not see that. I am actually a part of the Ford European Works Council, so I do have some involvement at the European level. To be perfectly frank, I think the difference between Germany and the UK is that stricter laws and local ownership make it harder to close plants in Germany or France or Italy. The harsh reality of life is that we do not have a British car industry any more; we have a car industry in Britain.

Q70 Mr Hoyle: As the Chairman started off with, what about the commercial vehicles sector; in fairness, we have actually had an increase this year in commercial vehicles, I just wonder what your views are on that?

Mr Osborne: That is absolutely true. The commercial market has shown some buoyancy this year, and obviously that offsets anything that has

happened in the passenger car sector, but, in terms of direct employment, the labour intensity is in the area of producing volume, and that is in the passenger car sector.

Q71 Mr Weir: We have been told that the growth in car sales is largely in areas such as Eastern Europe, China and India. If that is the case, is it not inevitable that car companies will concentrate on serving these markets rather than ones which could be called more stagnant, like Western Europe?

Mr Osborne: I think we ought to, first of all, try to analyse where the growth areas actually are. One of the arguments that we hear from most companies is that the growth areas are in China, where capacity is being increased, and in Eastern Europe. We are currently in a debate with Peugeot, where they are saying to us that they are putting capacity where the growth is. It so happens that in the Czech Republic and Slovakia, by 2010, there will be capacity to build 800,000, when actually the total sales in Central Europe, in 2004, were just over 109,000. I do not think it takes much to work out that the objective is to relocate where costs are much lower, about less than six euros per hour for a Slovakian worker, as opposed to round about €25 or €26 an hour for a British worker, and to import those vehicles into the UK.

Q72 Mr Weir: You will accept the argument that they are looking to the future by building up production, say, in Slovakia, as Eastern Europe opens up; you see it purely as driving down costs so they can import these cars back into the UK and other Western markets?

Mr Osborne: I think if the argument is around capacity, in terms of the Peugeot case, the Peugeot case is not about cutting capacity, it is actually about increasing capacity. What they are doing is taking a workforce from what is a very profitable plant in the UK, and it made £25 million profit last year, and exporting those jobs to make even more profit in Slovakia, and then to import those cars back into the UK, from a position where the UK is Peugeot's third biggest market. The trade union demand, if I can say that, is that we do not believe it is unreasonable actually to build where you sell your cars.

Q73 Mr Weir: What I am trying to get at is, do you see the Slovakian factory being a good example in Central Europe; is it likely to turn itself, if you like, to export to Eastern Europe, as that is a growing market, where many of these countries are just emerging now in a very low consumer market but are likely to be greater consumer markets in the future?

Mr Osborne: If I say to the Committee that by the end of 2006 there will be 13 new assembly plants in Eastern Europe, and that could be either engines or cars, with the best will in the world, I do not see market growth in Eastern Europe of that proportion, so I would ask you just to work it out for yourself.

Q74 Chairman: Can we just be clear whether or not you think there is overcapacity overall, over the whole global automotive industry?

Mr Osborne: The answer is a clear, unequivocal, yes. I am sure Mr Browning, if you ask him a bit later on, will answer along these lines; the capacity produced is around 60 million vehicles globally, and we have about 40 million customers.

Q75 Chairman: Peugeot, you say, are increasing their capacity; why would they be doing that?

Mr Osborne: They are, indeed. They have an objective of reaching four million global production units. At the moment they have not achieved that. I think it is true to say that when they took that decision four million was a firm objective. I think, in the last four or five years, outside of the UK there has been what I would call a stable market in Western Europe. With the exception of the last 12 months, the UK has probably been an exception to that, in terms of market growth. Since that time, obviously, the UK, which is their third biggest market, that is now likely to fall, and so far this year the market is down just under five per cent over last year. That is obviously having an impact on sales. Having said that, they sold 280,000 units in the UK last year and produced about 100,000 in this country, so there are still major opportunities for the UK.

Q76 Chairman: You admit there is overcapacity internationally. You say also, in your second memorandum¹ to us, numbered ROV 17, I quote: "the enlargement of the EU and the rise of China and India as manufacturing bases have fundamentally altered the economics of the automobile sector." If the economics have fundamentally altered, to what extent can we hold back that tide in the UK?

Mr Osborne: In terms of the UK, we recognise we cannot compete on cost alone. I think, in terms of any decision for where companies locate, labour cost should not be the only consideration. If you focus only on particularly labour cost, which is where most companies are heading, I do not think that is a good, long-term strategy for this reason: that they move to Slovakia and in ten years' time Slovakia develops and they are on a par with the UK, and multinational companies will always find somewhere cheaper to produce motorcars, or any other commodity which is designed to maximise their profit. In that sense, during the period of the emerging markets, we adopt a simple philosophy and that is to try to make our plants—and we have done that in partnership with employers—as efficient as we can. That does not mean necessarily that we have to cut wages and conditions of employment. My union has no intention of joining what we call the race to the bottom. However, we are capable and have indeed, you might recall, last year, that the Dagenham plant won £200 million worth of investment in the new diesel engine at Dagenham, which secured the plant for the long term, created

¹ Appendix 20

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600 jobs and safeguarded the other 1,500. That was done in partnership between the company and the trade unions, who delivered \$16 million worth of savings without impacting on terms and conditions of employment. To be perfectly frank, the answer to your question is simply we are attempting to, quoting my General Secretary, "stay in the game," if you like. I think that is the fairest statement I can make, stay in the game whilst some of these other countries.

Q77 Chairman: You think there are still volume areas where we can stay in the game, or are you saying we are looking at hi-tech, higher-value, knowledge-intensive sectors?

Mr Osborne: Absolutely, there are volume areas where we can stay in the game. Vauxhall, Ellesmere Port, is one of them. They produced 186,000 vehicles last year, if I recall; that is close to a record, if it was not a record. Land Rover itself produced record sales last year. Peugeot is considered to be still a volume car producer and with the right investment, the right product, can be once again.

Q78 Mr Clapham: Mr Osborne, a little earlier you made the comment, which I think fits well, the car industry in Britain rather than a UK car industry, and the two companies which you have just referred to, Vauxhall and Land Rover, we are talking in terms of GM and Ford. Has the union done any research into why it is that, companies in Britain which are producing cars, there are some which are much more able to cope with the changing situation than others? That is true worldwide, but in the UK we have seen particularly that some companies are much better than others, that some companies have got better production rates than others; is there anything in research which has been done by the Union which indicates why that is?

Mr Osborne: I think individual employers would comment on their own circumstances which prevail at the time, but, in terms of how companies cope with change, and it is difficult change, in fact, I can give you an example. Land Rover is successful. I hope, in two years' time, we can turn round and say Jaguar is back to break-even or profitability. Aston Martin is becoming a company which we know will grow. If Ford, for example, took a decision, for whatever reason, that, let us just say, for the exchange rate problem or anything like that, they decided to build where their big market is, in Jaguar and Land Rover it is effectively, outside of Freelander, the US, and you have got this exchange rate. If they did that, it would not be the only consequence, because Ford of Britain, Blue Oval, actually produce engines for Jaguar and Land Rover, so there are consequences. Really it depends on what your business footprint is, where your markets are, what the cost bases are, and I think each company has a different view of that.

Q79 Mr Clapham: Are there other factors as well, do we see changing trends, for example, we saw the SUV come on, and some of the companies here in the UK seem perhaps to come into the SUV market

later? There is the aspect of design, we see designs changing quite rapidly. Is there an aspect here of where some of the companies which operate in the UK probably come to accept changing trends late in the day?

Mr Osborne: No, I do not think so. In reality, the competition that we face, we are talking about the UK now, the threat has been there for some considerable time. Everybody has talked about China and the growth in China, the capacity that is being poured into China. In the short term, I think that the threat is Eastern Europe and not China, simply because of the proximity of Eastern Europe to Western and Central Europe. When you are talking about rates in Slovakia of six euros an hour, I had the privilege of visiting the Ford plant where they do the Transit van, in Turkey, last year, Otosan, which makes an inordinate amount of money for Ford Motor Company in Europe, they pay two euros an hour in that plant. We have a plant in the UK, in Southampton, which produces Transit vans, and, of course, unless we become more and more productive then, the cost of creating the business, it will gradually become irrelevant and you will find more and more sourced elsewhere. I think every multinational company in the industry, with the exception of Toyota, has said, quite clearly, that they intend to increase production in Eastern Europe. I think all major manufacturers are basically looking to take advantage of the low costs which exist not a million miles away.

Q80 Mark Hunter: In your evidence submission, you state that, when faced with closure decisions, multinationals will always opt to close plants in the UK rather than elsewhere, because, as you say, it is cheaper and easier to close a plant in the UK. Is it your contention that this is so regardless of productivity differences and whether or not the company has recently invested capital in the plant, or the age of the models produced by the UK plants, and could you say something more about how you think the UK compares with the rest of Europe in those specific respects?

Mr Osborne: That terminology has long been a phrase of ours, that it is easier, cheaper and quicker to sack people in the UK, and we stand by that. No doubt, Mr Browning, when he gives his evidence, will deny this, but just recently we have been the subject of a reduction in volumes in Ellesmere Port, the most improved car plant in Western Europe, and I think that is well documented. I think the company, if they are honest, will admit that. They might argue there is still a cost differential, but they have just taken off a shift, sacking 900 workers. The Chief Executive Officer of General Motors Europe, when asked why, was quite blatantly open and said, "It's easier to take a shift off in the UK than it is anywhere else." It is a fact of life that Western European countries have stricter legislation. Their labour laws are a lot less liberal than ours. You can go to Germany, where you have to get the agreement of the works council; the procedure takes about 12 months, as opposed to 90 days, in the UK. You have to ask yourself the question, putting Slovakia to one

side for a moment, would Peugeot close a plant in France, if it were easier and cheaper, and I do not think they would. We find that Jaguar, for example, closed Brown's Lane, and that took three months. If that plant had been in Germany or on the continent, within the Constitution of the German nation, they have legal rights to agree or disagree with company decisions.

Q81 Mark Hunter: It would be fair to say that, regardless of productivity and investment in the UK, your view is that there is an inbuilt disadvantage?

Mr Osborne: Yes, absolutely; without question.

Mark Hunter: That is clear enough. Thank you.

Q82 Chairman: You do not buy the argument that although it is easier, cheaper and quicker to sack people here the corollary is that it is easier, quicker and cheaper to employ people here as well?

Mr Osborne: I actually heard that argument, funnily enough it was on the day I visited Vauxhall when they announced the shift off, and the statement was made by the Chancellor of the Exchequer, and, no, I did not agree with the statement, which says the flexible laws that we have mean that there are more people employed now than ever there were. That is true, but I think we have to look at the harsh realities of life and the harsh realities of life are that quality jobs in manufacturing have disappeared throughout the UK, with 800,000 jobs lost in the last nine years in manufacturing, to be replaced by part-time jobs in the service sector. If you count on a one-for-one basis, there are actually more people employed now than there were. That was an expression, by the way, that I heard in the 1980s, first, from a previous Prime Minister; she is still around.

Q83 Chairman: You said that Toyota are planning to expand production in Western Europe?

Mr Osborne: So they say, yes.

Q84 Chairman: Why?

Mr Osborne: What we have seen actually in the last 20 years, whilst we have seen some companies moving out, we have actually seen the Japanese moving in, and I think that begs the question why would they do that, why would they not, like the rest, relocate to Slovakia or elsewhere? They came in during the eighties and early nineties when, for Members here who will recall it, there was an EU quota on Japanese cars sold in the EU and that was ten per cent. Actually, the reason why Toyota and Nissan and Honda came to the UK was to produce in the UK really to get round the legislation which existed at the time. Toyota appears to be on the verge of becoming the number one car maker in the world. If you look at the strategies from the Japanese companies, particularly Toyota, and their successes, and look at the strategies associated with other major companies, Toyota have achieved it all by organic growth. They have not bought companies, as have the likes of Ford and General Motors, and that is the success of the Japanese, in one respect; the success of their relationship with their suppliers is another.

Chairman: We could explore that at some length, but I think we must move on. Mike Weir wants to ask a supplementary question.

Q85 Mr Weir: Does it make a difference in the types of models they are building? I notice that Toyota, for instance, are going into partnership with, I think, Citroën and someone else, to build a small car; does that make a difference as to where they would put their plants?

Mr Osborne: Toyota have gone into partnership with Peugeot/Citroën actually, in Kolín, in the Czech Republic, where they have built a plant. There are actually three models, same platform, one is a Citroën, one is a Peugeot and one is a Toyota. Yes, there is shared technology, shared development, shared design; all of that obviously is done to share costs, if you like. We are not opposed to joint ventures, we encourage joint ventures as a way forward, but certainly the arguments in the Czech Republic, I think, are exactly the same arguments as they are in Slovakia; it is Eastern Europe, it is a low-cost country. Peugeot are already putting investment into there; that was done with a joint venture with Toyota. Of course, those vehicles which are produced there, some of them are finding their way into the UK, increasing the import penetration; round about 84 or 85% of the total market is imported vehicles, not produced in the UK.

Q86 Rob Marris: First of all, Chairman, I should declare an interest. I am a member of the Transport and General Workers Union, which I am proud to be and I have been for many, many years, as Dave and others will know. In terms of imports and exchange rates, and so on, there is the question of the pound/dollar rate, which has changed a lot recently, a question of where the yen is at, or even the Renminbi in China, in terms of the artificial (layer?), but the big question perhaps for us at the moment is the euro, in terms of British manufacturing overall, not just the very important automotive industry. To some extent, employers, the manufacturers can hedge against that, some perhaps more successfully than others. What is the union's view on the euro at the moment?

Mr Osborne: The Union's view on the euro is we do not have one as far as entry is concerned. There are different views; we have not settled on a firm policy at our conference yet. We have been debating it, like everybody else has, I think, for ages and ages. Generally we support the view that the people should decide, if I can say that. In my earlier days, I was an ardent anti-marketeer, if I can call it that, but, like everybody else, we grow up a bit and you have to take more responsibility for your actions. In the role that I have played, I have become more and more of the view—and this is a personal view and not a union view—that we should join the euro. I say that for a couple of reasons really. One is, I have seen some companies, by the way, unfairly, and I include BMW in that, use the euro as an excuse, to sell what was the Longbridge Plant, and that was a big part of their argument, while, at the same time, staying extremely silent about the UK being their third

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biggest market and all the benefits they were getting in reverse from selling 80,000 cars, or whatever it was at the time, in this country. We have seen exchange rates mean that it has been more expensive to produce in the UK, and we have seen, particularly in the components sector, I might add, a substantial number of jobs being exported as companies seek low cost and more profit.

Q87 Rob Marris: I want to move on to skills and innovation and I am reminded, correct me if I am wrong, Dave, I think several years ago you had more than one Rover nicked from outside your house because there was a fault with the alarm, which we will not go into now.

Mr Osborne: I remember that, yes.

Q88 Rob Marris: That suggests to me that there was a bit of a problem with product innovation on that aspect of that market. It is difficult for a government, I think, to do a lot about innovation. What about skills training, and particularly, for example, what has been mooted in some quarters, a statutory training levy?

Mr Osborne: We supported the idea of a levy, I do not think that is any secret.

Q89 Rob Marris: How do you think that would assist the automotive industry in the UK?

Mr Osborne: There are two things. There is the Manufacturing Forum which has been set up, which we welcome. There is obviously the Automotive Academy which has also been set up and which we support. We have developed as well, as a result of legislation by the current Government, the role of the learning reps in the workplace, which has been exceptionally advantageous in getting people involved in expanding their skills. Like I say, we were firm supporters of the levy for this reason, that unfortunately in the UK our belief is that companies take a very short-term view, in terms of profitability, cost to employer, and we have not seen from the employer, although there will be examples which each employer can quote, and the Ford CEME building is one of them, in Dagenham, by and large, the investment in training to enhance the skills required for work, and that is what there should be, in our opinion.

Q90 Rob Marris: What about innovation; is there anything a Western capitalist government, like ours, can do about fostering innovation? We are going to get on to Rover more specifically later, but it is apparent that the Rover models were pretty long in the tooth and that was likely to be one of the explanations why they ran into difficulty. Is there anything, realistically, a government can do to foster innovation in the automotive industry?

Mr Osborne: One of the things that we ought to look at is, you know, this industry has sort of a stigma, to a large degree, it is not a hi-tech industry that appeals to people and it is everything but that and more, and it is a real paradise for introducing new technologies, innovation, and you have to do that in order to compete with the countries that are developing. One

of the disadvantages that we have had in the UK is we have had a well-established car industry for the last century and a lot of the sites are actually brownfield sites rather than greenfield sites, and it is not as easy to re-equip the brownfield sites as it is for a greenfield site. That is one of the consequences. In terms of car plants in the UK, we have seen Burnaston, in Derby, we have seen Nissan in Sunderland and we have seen Honda in Swindon, and outside of that I cannot think of any more new sites we have seen in the last 15 years. We are starting to build Aston Martins at Gaydon rather than the old plant in Newport Pagnall, but that is in its infancy; there has been investment but not at the level that we think is required to bring this industry towards the 21st century.

Q91 Rob Marris: Should we be changing planning laws then? Swindon, Burnaston and Sunderland all seem to have been pretty successful. Longbridge, as an old plant, was not. Should we be looking at changing planning laws?

Mr Osborne: That was more to do with investment versus no investment. The reasons for the demise of Longbridge, both inside and outside the public sector, were years of underinvestment and that goes back to the sixties and the seventies.

Rob Marris: I think we are going to come on to that later so perhaps we will leave that for now.

Chairman: The quality of the product sometimes has something to do with it in the early days as well, but maybe investment also.

Q92 Mr Hoyle: I am not convinced by a single currency, and I think probably the argument ought to be made that it was very easy to use the currency as an excuse, but the reality is, and if we look at the Germans with the mark, and we look at the Japanese with the yen, they had the most successful industry, with the highest possible value of their own currencies, so actually it is about investment in plants rather than worrying about the currency, is that not fair to say?

Mr Osborne: Yes, it is.

Q93 Mark Hunter: I want to ask a question about the closure of individual plants. We have noticed that a feature of some of the recent closures, such as Ryton and the TVR plant in Blackpool, has been that the plants themselves were quite old. How important a factor do you think this is in the closure decision, and, more importantly, which do you think is the more important, the cost of upgrading plants or the constraints of expansion on old manufacturing sites?

Mr Osborne: Let me be the first to give you some good news. The TVR plant in Blackpool is not closing; it is moving, still in Blackpool. My union, after two weeks, or three weeks, of campaigning, with the local authority and with the company, have persuaded the Russian oligarchy to retain its presence in Blackpool, which is pleasing me, as it saves nearly 300 jobs.

Chairman: That does not answer Mr Hunter's question.

Q94 Mark Hunter: I was making the general point that I accept what you say about the TVR plant in Blackpool but do you think that, the closures, where an old plant is in question, is that a significant issue, and what do you think is more important: the cost of upgrading the plant or the constraints on expansion on old sites?

Mr Osborne: We are confronted, in Coventry, and I do not know if this will answer your question particularly, with this argument, it would be cheaper for Peugeot to upgrade Ryton than it would be to investing in opening a second plant in Slovakia on a greenfield site. The cost of opening the plant in Slovakia, a new plant, is actually €100 million more than is required to refurbish Ryton, and some of you might recall that three years ago they submitted an application for grant aid to do exactly that. The grant aid was actually agreed and then Peugeot decided, "Well, thank you, but no, thank you; we're going elsewhere" at a higher cost.

Q95 Mark Hunter: What happened in-between in that period to make them change their mind, in your view?

Mr Osborne: The only conclusion that we can come to is that they believed that the 100 million difference in euros as a result of the investment would be more than offset by the saving in labour costs over a period of time, notwithstanding that they have underestimated the cost of exiting from the UK.

Q96 Mr Weir: Clearly, the union had a significant impact on TVR in Blackpool, as you were saying, but can you tell us what you think should be the role of trade unions in decisions on the future of individual plants in the UK and what should be the role of government?

Mr Osborne: First and foremost, I have tried to explain to you that, in terms of what we try to do, in announcing productivity, we have done a lot, I think we have got some of the most flexible working practices anywhere, whether that is working time corridors or whether that is more flexible working. I think we have got those and those can be pointed to in different locations. In our view, the UK is deemed to be poor in productivity. I do not accept that argument. Nissan actually is the most efficient plant in the world. Jaguar in Brown's Lane was actually the most efficient Ford plant across the globe, but still they closed it, in breach of all the agreements. I think that we are efficient. I think it is fair to say, we cannot compete on cost with the likes of Slovakia.

Q97 Chairman: It is a question on the role of the trade unions?

Mr Osborne: I am just trying to say to Mr Weir that our role then is to understand the issues and try to bring that particular plant to as efficient a point as possible in order to give us a chance, recognising that we will continue to campaign with companies around the reasons why they ought to support that plant. We will be having that debate with Ellesmere Port in not too long a period of time.

Q98 Mr Weir: If a company is determined that pure cost is the determining factor, is there anything a union or government can do to deal with that situation?

Mr Osborne: Obviously, if a company is going to make a decision they will make a decision. We see, as I have already said to the Committee, cost alone is not a real reason for a decision. There is the whole question of logistics, markets, business footprint, all of that, I think, is a long-term strategy that will continue and we will continue to try to persuade companies to look at it. We have done that with Peugeot. At the moment we have not convinced the company. We will be meeting with the company next week to pursue that argument. At the end of the day, employers quite legitimately demand profitability. If we deliver it, which we do, certainly in the case of Peugeot, on the basis that the UK is their third biggest market, we do not think it is unreasonable to argue that they should maintain a footprint in the UK, and we will be saying the same to General Motors, no doubt, if we get to that position a bit later on.

Chairman: Let us try to rattle through some of your specific ideas.

Q99 Mr Clapham: Mr Osborne, one of the things which the union is saying is that where a company has taken a grant of public money that company, if it starts to divest its investment in an EU company or the UK generally, then if that disinvestment takes place within a period of ten years after the grant has been given they should repay that grant. How effective do you think that would be, given, as you have described, the very competitive situation facing the car industry?

Mr Osborne: I think one of the reasons why Peugeot have opted for Slovakia is the very generous amount of aid that they have got vis-à-vis the UK, that is a fact. Jaguar, for example, received £95 million of taxpayers' money between 1995 and the closure of the plant, which turned out to be, in our opinion, you invest, you support that investment through grant aid and then they close the plant. I think, and my union thinks, that is a gross abuse of taxpayers' money, to be honest with you.

Q100 Mr Clapham: We are talking about better embedding the company in the community?

Mr Osborne: We are, and we are talking about penalties. I think we use a phrase, to reward the good investor and penalise the bad.

Q101 Mr Clapham: The next thing that you suggest is that there should be a government-brokered review of every significant closure that involves more than 250 workers. It seems to me that what you are basing that on, and you will be able to put me right, is the colliery review procedure which operated in the 1980s, where when a colliery was coming up for closure then there was a review board to which the case could be taken and, of course, the union could draw on the support of academic exercises that were done to be able to support their position. Do you feel

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that, given that the coal industry was seen to be a strategic industry, every closure involving 250, given the changed circumstances, is a strategic issue?

Mr Osborne: The issue at present is that we cannot get into a review or otherwise with companies. It is common knowledge that Peugeot refused to release information that they are obligated to under the law, the Information and Consultation Directive—they still fail to do that, by the way. All they have submitted is a cost proposal, Slovakia versus Peugeot, which question I could have answered in three sentences: why are you moving, because it is cheaper to do it. The harsh reality of life is we are not getting into a meaningful or constructive debate with employers, and it affords them the opportunity as well to convince us of their case. As yet, we have not been engaged in that dialogue. I would not like the Committee to be under the impression that we oppose every closure, we do not. We have negotiated quite a few closures, which, in the union's terms and in our view, needed to close in the interests of the whole. We have had plants with Ford, the Stamping plant at Croydon, there was a plant at Borehamwood and another plant in the South East of England which we recognised could be closed because there were opportunities for consolidation without impacting on people's terms and conditions of employment, and we do that. We have yet to hear from Peugeot, I know I keep raising Peugeot but it is obvious, the case for closure, apart from it is cheaper to build in Slovakia; well it is cheaper to build in Malaysia, in India. Ford are closing plants in Mexico at the moment because it is too expensive, so there needs to be a proper review, in our view, with proper, expert advice, in order to support the process, and that is really what we are arguing for. The Directive came in last year for Information and Consultation, which we believe should be total disclosure of the information; that has not happened, is it £75,000 fine for non-compliance? I do not think Peugeot are going to stay awake at night worrying about that. Basically, our members are not getting the entitlements that they should get and we think a review would enable us to participate fully, as we have said in the document, in probing the merits or otherwise of the company's arguments.

Q102 Mr Clapham: Have you had any response from the DTI on these proposals?

Mr Osborne: On the proposals that are in the evidence, no, we need to pursue those with them.

Q103 Miss Kirkbride: Just going back, a year ago now, to the Rover demise and the Task Force, what do you think was the overall impact of the Task

Force, what was the best thing it did, what was the worst thing it did, or the least perceptive thing that it did?

Mr Osborne: On the Task Force, we have submitted written evidence, in terms of the role that they played, and the union has spelt out clearly, and we had senior people from the Union involved with the Task Force in order to assist the process. Five years earlier there had been some movement in terms of the supply base, because of what had happened in 2000, so I think the demise in 2005 did not have the same impact in terms of the supply base as it may have done five or six years earlier. As unions, we were involved in pensions and employee car purchase issues. Advantage West Midlands, as I recall, were looking after the interests of the West Midlands and tried to ensure that MG Rover continued in business or that alternative manufacturing activity continued, and I know that they played a role in continuing some of the suppliers by the payment of wages, if I recall, for a short period of time. There was a package of measures which I think, in overall terms, was underspent by about £25 million, if I remember right. In terms of the Task Force, rather than task forces being set up at times like this, we are more interested in a debate about a coherent manufacturing policy which limits closures and the consequences to communities, whether it is in the West Midlands or anywhere else. It did its job that it was appointed to do.

Q104 Miss Kirkbride: I was going to ask you some questions about Ellesmere Port and Ryton, but just one other question which would be pertinent to the union, what about the training which was offered by the Task Force, how do you rate that?

Mr Osborne: There is a perceived view—and I use the word perceived because it is not my view—that the Task Force was successful in terms of moving people into other employment. Our information is simply this, that less than 50 per cent of our people who lost their jobs are employed today, that is 14 months down the road, and of those that are, 90 per cent of those are in jobs which pay much less and their conditions of employment are much worse.

Q105 Chairman: I am sorry, we are going to have to truncate things there, because we are quite badly over time already, but we are very grateful to you for your evidence, Mr Osborne. There was some good news lurking in-between some of the bad news, I think, in your evidence, was there not; it is not all bad, is it?

Mr Osborne: We have not got LDV yet.

Chairman: On that cheerful note, Mr Osborne, we will draw this session to a conclusion. Thank you very much.

Witness: Mr Jonathan Browning, Chairman, Vauxhall Motors Ltd, General Motors, gave evidence.

Q106 Chairman: Mr Browning, welcome. I am sorry to have kept you waiting a little bit, but you were in the room and you heard the first evidence session; we had to truncate it, as it was. I am grateful to you for your patience. Thank you for your written

memorandum, which I have read with great interest; admirably succinct and to the point. Can I ask you, for the record, as I always do, to introduce yourself?

Mr Browning: My name is Jonathan Browning. I am Chairman of Vauxhall Motors.

Q107 Chairman: Thank you. Tell us about the worldwide situation, the same basic question I asked our first witness this afternoon: is the situation, of worldwide overproduction, overcapacity, better or worse than it was a couple of years ago, and what is GM doing about its own part of that problem?

Mr Browning: I think it is very clear and you can look at different statistics from different perspectives around the world, but I think one generally accepted view of the overcapacity within Europe, at least, is that there is in the region of 20 to 25% overcapacity for the industry in Europe, so that is a very substantial margin of overcapacity. The definition of overcapacity is always a little difficult in terms of precise data, but it is, I think it is fair to say, a very substantial overcapacity. One of the key dynamics which are having to be managed today is that the Western European demand is largely stable; as you have already heard, growth is very much a focus within Europe, in Central and Eastern Europe. On the one hand, you have most of the production focused in Western Europe and you have most of growth in demand in Central and Eastern Europe. If you take just the simple fact that you would need demand to be growing in the region of eight to ten per cent per year for the existing installed capacity to be fully utilised, because of ongoing productivity improvement, you can see that is a situation which leads to overcapacity and growing overcapacity over time. There is overcapacity in the industry, focused largely in Western Europe, less so in Central and Eastern Europe.

Q108 Chairman: And America?

Mr Browning: If you look at the global picture then I would say the data becomes less transparent, in terms of really apples for apples comparison. In general terms, you would say, in North America, including Canada and Mexico, you have got overcapacity, in Latin America and Asia Pacific some degree of undersupply versus the potential demand in those markets, although when you come to Asia Pacific individual markets you have very different situations. For example, I think you are all very well aware of the tremendous demand growth in China and the race to install capacity in China.

Q109 Rob Marris: I have to say, being perhaps somewhat simplistic, on this side of the Atlantic, it does look as if GM is losing shovel-loads of money in the USA because it is producing the wrong product at the wrong quality and we are being asked to pay the price in Europe for that. What is the response of GM to that?

Mr Browning: That is a pretty broad question and I will try to keep the answer as short and precise as possible. Let me put the position for General Motors into the North American situation and in Europe. In North America, you are right, last year there were some very substantial losses in GM, in North America specifically, and there has been a range of actions put in place to address those. Those actions are addressing the situation specifically in North America. If you look at General Motors in Europe, our history of financial challenges,

underperformance, actually is somewhat longer than in North America; indeed, for General Motors in Europe, we have lost over \$3 billion over the last six years, so an extended period of financial losses for the company in Europe. As a result, there have been a number of actions taken over a period of time to address the losses specifically within Europe. I am pleased to say, those actions are beginning to show progress and in the first quarter of this year General Motors Europe actually reported positive net income for the first quarter of the year, for the first time since the year 2000. Whilst it is true to say that in North America there are financial performance challenges, it is certainly not true to say that in Europe we do not have our own share of those and do not have our own issues to address, which is exactly what we are doing.

Q110 Rob Marris: We are going to go on to Ellesmere Port, as you might imagine, but just sticking on the European level, you are back in profit for the first quarter of this year, GM Europe; how much more cutting back do you need to do in Europe, if any?

Mr Browning: The answer there is very simple. Until we have a sustainable business in Europe, we need to keep rebalancing both our revenue generation and our cost management. Over the period since late 2004 we have put in place a very wide-ranging restructuring which actually has resulted in a substantial shift to our structural cost base in Europe; that is a programme which is ongoing. At the same time, we are looking to improve the revenue generation across Europe. I would describe the task as partially complete but still a lot to do really to get to what I would call sustainable profitability for the business in Europe.

Q111 Rob Marris: Restructuring is one of those, to me, as a politician, somewhat elastic words. Do you anticipate further cutbacks in Europe, as part of this restructuring which you say is on track, in terms of further lay-off of staff, bailing out of Fiat, or whatever?

Mr Browning: If you talk about the very specific programme that we announced, as I said, in late 2004, at that time we said we needed to shed in the region of 12,000 jobs in Europe; the majority of those were in Germany and to date we have completed around 10,000 of those. It was a programme that ran through 2007 and so about 10,000 of those employment changes have already occurred and we believe, with commitments that we have currently through the course of this year, we are at about 95% completion. Whilst the term may be somewhat vague, the actions that we have been taking since 2004 have been very specific and we are well on track to deliver it.

Q112 Rob Marris: These things sometimes are somewhat dialectical and they can change as they go on. Your aim was, I think you said, 12,000 cuts by 2007. You are most of the way there, both in terms

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of numbers and in terms of the date. Do you think you are going to increase that 12,000; one keeps it constantly under review, I am sure?

Mr Browning: As you know, the world changes, it is a very dynamic place and so the goalposts do not always stay in the same place. I think it is true to say that any business, irrespective of whether it is in the automotive sector or any other sector, has to keep evaluating the state of the business and make the appropriate changes, given the market environment, given its success in that marketplace and depending on where the market is focused, in which part of the world. Whilst there have been some very specific phases of restructuring and change going on for General Motors in Europe, I foresee continuous evolution, continuous change of our operations over time. You will not get to a point where you can say that the job is complete.

Q113 Rob Marris: Does that mean continuous job losses in Western Europe then?

Mr Browning: I think it is too easy simply to say one relates to the other. If you talk about what is happening for General Motors in Europe today, as I say, there was an announcement of a programme to adjust 12,000 jobs in late 2004; that is underway. We continue, obviously, to try to match, as best as possible, our production operations with our demand footprint and we will see how the future develops as we go forward.

Chairman: I should have said, Mr Browning, before I declared the session open, how grateful we are for your willingness to come and talk to us. In other words, you are taking some difficult decisions at present and your willingness is very much appreciated, and I should have put it on the record earlier. We want to turn now specifically to Ellesmere Port.

Mr Hoyle: I am just looking at some of your production figures for Ellesmere Port; very successful. Looking at the UK sales for GM, very successful as well; in fact, would it be right to say there are 415,000 vehicles sold in the UK? If that is the case, and you produced 280,000, GM has got a very good market in the UK. I just wonder, I have got the UK figures, 415,000; can you give me the figures for Belgium, Poland and Germany?

Chairman: Off the top of your head!

Q114 Mr Hoyle: I would expect you to know this, yes?

Mr Browning: I would be very happy to provide those figures for you. I cannot actually do that off the top of my head. I think what it is important to understand is that when you look at the context of General Motors' production operations in the UK, both at Ellesmere Port and in Luton, because we have the two manufacturing operations, those operations account for around 16% of the total car and light commercial vehicle production in the UK. Our sales, as a proportion of the total market, are, in round numbers, 15%; so, in terms of our share of the manufacturing operation in the UK, it is approximately balanced if not slightly above our sales share of the operations in the UK.

Q115 Mr Hoyle: Let me put it another way. Okay; Poland, I do not believe you sell as many GM cars, and without knowing the figures I think we can both agree on that. I would think it is substantially higher in the UK, the number of cars bought, and I think it would be fair to say, for Belgium, that you sell a damn sight more cars in the UK than in Belgium. Germany, the question is out, so I look forward to you supplying the figures. Of course, the other figure which would be interesting is how many cars were actually procured by the UK Government, using taxpayers' money? I think, at the end of the day, the responsibility has got to go both ways. We always come back to this, that you have done very well out of Government in support previously, with the new model which was launched at Ellesmere Port; we have taken a lot of pain already with Luton in the past. It does not seem so long ago that GM was coming before this Committee explaining the rationale behind Luton, "We've got to use Ellesmere Port, this is the future of the car production for GM and its presence in the UK," only to find that you are taking off a shift, and I do not think it is very good. I think the UK public are very responsible in supporting your company. I think the time has come to see a little bit more support coming from GM with the promises which were made four and five years ago. I just wonder what message you have got for those workers who are losing their jobs at Ellesmere Port?

Mr Browning: Let me step back. First of all, 16 per cent share of total production in the UK is, I think, a very credible performance when we sell 15 per cent of the total market in the UK. I think the Committee would recognise that is a substantial and, very importantly, a long-term commitment to the UK. Vauxhall has been present in the UK since the beginning of the 1900s, 1903 is when the company was established, and we have a long history of participation in the UK industry. The UK is the fourth largest market for GM worldwide, so, irrespective of Europe or the rest of the world, the UK is a very important market for GM. That is why we are looking to maintain our manufacturing operations in the country, as long as they can be competitive, and I think that is the real challenge for all of us, how to make sure we sustain competitiveness of this manufacturing base in the UK. That is something that we are working very hard to achieve, working very hard with all of the relevant stakeholders, whether that be local development agencies, national government bodies or our individual partners, whether it be trade unions or our own internal groups, so a lot of effort to maintain the manufacturing base that we do have in the UK.

Q116 Mr Hoyle: Would it be fair to say, and I look at Lancashire Police, that you have a huge volume of Vauxhall cars, they operate Vauxhall cars and I am very pleased to see that? Do you believe that if production of GM cars did not continue in the UK we ought not to be procuring cars that are not produced without a plant in the UK?

Mr Browning: If you look at both the retail and the fleet sectors of the UK market, and what you are talking about here is the fleet sector, Vauxhall has been very successful in the fleet market and, in fact, is market leader in the fleet sector, so our focus on fleet customers is very important to us. We do think, by being present in the UK as a manufacturing organisation, that does show a level of commitment to the economy, a level of commitment to the economic well-being of the country which is positive; that is part of our reason why we would like to maintain, if at all possible, a competitive manufacturing base in this country.

Q117 Mr Hoyle: Those are very hesitant and very carefully crafted and chosen words; what I would say is have you got a long-term commitment to Ellesmere Port and to Luton for the future? Crafted words are very good but the reality is, what we really want to know is, are you 100% behind both plants, or is the writing on the wall, there really is not a future at these two plants?

Mr Browning: My answer is very simple. We are committed to manufacturing operations in the UK, as long as they remain competitive. It is, I think, the duty of all of us to make sure we do everything possible to maintain that competitiveness.

Q118 Mr Hoyle: What are you comparing the competitiveness with, the US, the UK, or some third world site?

Mr Browning: First and foremost, the competitiveness is within the Western European arena, but, at the end of the day, this is a global industry and global choices and decisions have to be made, in terms of manufacturing and sourcing footprint decisions. Ultimately, it is a global industry with global dynamics affecting that industry, but right now our competitiveness has to be, first and foremost, in a European context, and that is the focus of the operations that we have in place.

Q119 Mr Hoyle: Have you reached that in the UK yet?

Mr Browning: No. Maybe coming back to the discussion about Ellesmere Port specifically, Ellesmere Port had the third shift taken off because it is the highest-cost production operation for our Astra plants in Europe. Whilst it is the highest cost, it was always at the greatest risk; therefore, when there had to be a decision to take off a shift at an Astra plant, because Ellesmere Port was the highest-cost plant, it was the plant with the shift to come off.

Q120 Mark Hunter: My question was about the operating costs specifically at Ellesmere Port, and how they compare with other Astra plants, and you have just said they are the highest. Would you say, briefly, what the specific factors are that make production costs at Ellesmere Port the highest, compared with other Astra sites?

Mr Browning: I am not able to go into the specifics of the numbers, as I hope you will recognise they are commercially-sensitive numbers, in terms of going

into a line item detail. Let me say, however, that there are a number of elements that give the UK operation some specific disadvantages.

Q121 Chairman: If I can intervene, just to help. The purpose of this investigation is to find out what Government can do to maintain the competitiveness and to help the UK manufacturing sector, so that may help you shape your reply. We do not want the details of your finances, just what we can do actually to make the environment better for you and your competitors?

Mr Browning: Thank you. I would say there were three areas, in particular. One is in the areas of energy costs, so, for example, the energy costs that Ellesmere Port specifically are facing this year are in the region of 30 to 35% higher than the energy costs for last year, so a tremendous surge in energy prices into UK manufacturing. This is not unique to Ellesmere Port, it is not unique to the automotive sector, but it is something that we are facing more aggressively in the UK than we are in other European markets; so energy costs. Secondly, clearly, by its geographical location, the UK faces some disadvantages from a logistics point of view. We would calculate those on an annual basis to be in the region of €19 million disadvantage for Ellesmere Port versus other similar plants in Europe, so a further impact. Then also, when you look at some local taxation, local rate burdens, we see a heavier burden in the UK than we do in other European locations; so three very specific areas where Government actions can affect the competitiveness, or otherwise, of our facilities.

Q122 Mark Hunter: Right; well, yes and no. Government cannot really do an awful lot about the geographical location of the plant, can they?

Mr Browning: Clearly, that would be truly waving a magic wand. I think what can be done though is in terms of easing the costs of managing those logistics, whether it be in terms of the costs of operating transport activities, the speed of moving goods through the processing, the administrative side, so whilst the physicals cannot be changed, some of the ways in which the logistics are handled could be helped.

Q123 Mr Clapham: Mr Browning, first of all, may I ask, because you were sitting in when Mr Osborne gave his evidence and you heard him refer to a review procedure, do you think, if a review procedure were built into your agreements with the trade unions, that may impact in a way which would result in you thinking differently when it came to closures?

Mr Browning: I think, first of all, I should emphasise, there is a constant dialogue that goes on with our trade union partners, in any case, so that is part of what I would call regular management discussion, review, both at a local and a national level, in terms of the current state of the business and the future plans. Coming back to the specifics of the review, my view would be that anything that makes doing business in the UK more cumbersome, more difficult, whether that be in the sense of starting up

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new business operations or resizing existing business operations, generally would be a negative for the vibrancy of the economy in the UK. I think you have to balance any formal review process with the extra administration and the burden that would place on a vibrant economy.

Q124 Mr Clapham: Turning to your productivity figures, between 2002 and 2005 you indicate in your submission that you increased the productivity of your factories in the European area by 23.5%; implicitly you make a comparison with the UK, but the words you use in the submission refer to challenges in the UK to bring the UK up to world-class standards. You say also that you have achieved these improvements by virtue of better agreements, better agreements with the trade unions and flexible working. Could you say whether the plants in Europe are indeed up to a world-class standard?

Mr Browning: I think it is important, when you look at variances of performance, rates of improvement, to understand the starting-point on which you are basing those rates of improvement. It is true to say that both the operations in Luton and the operations at Ellesmere Port have shown very significant improvement over the recent past, and I think it is a credit to the local teams, all of the people involved, that we have seen that rate of progress. The reality remains, if we talk about Ellesmere Port specifically, that plant is still the highest-cost Astra assembly facility that we have in Europe; so whilst the gap has closed it has not yet closed far enough. As we look forward to future investment, a couple of the areas we have to work on are very specifically in terms of the configuration of the plant, because a brownfield plant is always much more of a challenge in terms of getting to the ideal, 'best in class' status of a plant layout in operation, so both the physical infrastructure of a plant and in terms of the working practices, the terms and conditions operating in that plant at a given point in time. As a general rule of thumb, we would see a brownfield investment generally having between 20 and 25% disadvantage versus a greenfield start, when you can start with the current 'best practice' implementation, whether it be in terms of the physical or in terms of the operating practices in that plant.

Q125 Mr Clapham: You would say that the way of travel is in the right direction?

Mr Browning: Very much so.

Q126 Mr Clapham: In terms of the sticking points that you find, in trying to search for greater labour flexibility, are you able to work with the unions to achieve what you want to achieve, or are there any problems which do seem they are going to be obstacles that are difficult to get hold of?

Mr Browning: If you talk about the recent past, the trade union partners have been a very fundamental piece of the collaboration that has gone on in the plant to make the progress that I just quoted. The discussions are ongoing now, in terms of the proposal we have to put forward for the next generation Astra, and the collaboration, again, with

the trade unions, in terms of putting the right proposal forward, the endorsement of that proposal from all of the employees within the plant, is going to be critical to the success of that proposal going into the broader GM system.

Chairman: We will move on now to perhaps the key question.

Q127 Judy Mallaber: Yes, and the change in the terms of reference of our inquiry since we got going really. From your experience, there have been so many changes, can you tell us what are the main reasons why some companies are expanding production in the UK and others are cutting production, because if we do not know that, we do not know what we can do to encourage the one and discourage the other?

Mr Browning: If you strip it down to its barest bones, the companies which have the longest-established history in the UK are the ones which have had to address some of the issues I have just been talking about, in terms of brownfield sites, in terms of legacy working practice agreements, terms and conditions, and also bearing a large legacy cost in terms of retirees and the benefits to support those retirees. When you have an industry which is mature, in a market which is mature but still with productivity improvements, if you have got mature industries, mature markets, mature companies and a stable demand, then to find ways to generate the productivity you need really you can look in only two places; either by right-sizing the capacity of your operations, or finding new avenues for growth and extra volume in the system. If you look at GM's position, what we have done recently at Ellesmere Port is look to get the employment base at Ellesmere Port to the right size for potential future investment, so an adjustment for future growth, future employment in the area. If you compare that with some of our competitors, who have been more recently established, they have not had to make the changes, the updates, they have been able to come in with a fresh set of facilities, a fresh set of working practices and the ability to start from a clean sheet. I think it is always more difficult to sustain a business than to start one up, and, I would say, in a nutshell, that is the difference.

Q128 Judy Mallaber: That would explain why many of my constituents go to Burnaston, to the Toyota plant, and that would be precisely the advantage you would be saying they had, starting from scratch?

Mr Browning: For example, we have just over 23,000 retirees of Vauxhall Motors in the UK; the costs associated with those clearly are not borne by the companies which have started up more recently. Those companies also have been able to implement state of the art working practices and facilities, which we are looking to do progressively and, for example, in the case of Ellesmere Port as we move towards investment in the new Astra.

Q129 Judy Mallaber: Are you seeking to learn from those experiences of the newer companies then, quite explicitly, or are you setting down a slightly different path from the one that they have gone down?

Mr Browning: I think, around the world, everybody is looking to establish the best practices and the things that make businesses successful, and so when we are approaching the Astra investment at Ellesmere Port we are looking to put in place what we believe are the best practices for quality, productivity and the performance of the operation in case.

Q130 Rob Marris: Leaving aside the question of 23,000 pensioners, or whatever—which is just an indication that GM apparently has cocked up its pension scheme in the US, and in the UK, we find out now—in terms of brownfield/greenfield, Sunderland, for Nissan, is one of if not the most productive car plant in the world, certainly in Europe, I think it is, and it has always been at one or two for the last few years. It has been over 20 years; for how long does a plant count as greenfield?

Mr Browning: When you look at the history, I think the history over 100 years is very different from the history of 20 years. When you look at what is going on, in terms of the steps to improve and bring our operations to the necessary level of competitiveness and productivity, you would find, I think, that when you implement the actions that we are looking to implement for the next generation Astra, the productivity of the Ellesmere Port plant can be at a very competitive level, but it takes agreements from all the parties concerned to implement those and make sure they actually become an operating reality.

Q131 Chairman: How much is it a question of, I cannot think of a better word than, sentiment? The Japanese now, I suppose, see the UK as their base in Western Europe and Europe, and it is almost like their second HQ, whereas companies like yours, which are much more diverse, you have this huge history in the UK but are based in the United States with production all over Europe, have a much less emotional attachment, almost, to the UK?

Mr Browning: As I said earlier, there is a strong desire to see us maintain our manufacturing operations in the UK, not just from an economic point of view, a financial point of view, but also because we do believe the Vauxhall brand is seen as a domestic UK brand, it does have this very large customer base here. We think that it is right to have our footprint here, from a manufacturing point of view, as well as from a sales point of view. Obviously we have to meet certain business criteria to do that, but it is something that we would like to maintain.

Chairman: Back to some of the specifics, Judy.

Q132 Judy Mallaber: Where we have successful companies, like some of the Japanese companies, for the reasons you stated, are they managing to maintain that momentum, in your view, or are there ways in which they then start to become stale and even to refresh themselves?

Mr Browning: I would not claim to be an expert on the internal workings of those competitive companies. I think every competitor, as I say, as they mature, in a maturing market, has those challenges to deal with, and I think the pressures today are such that they have to be dealt with very quickly. Just going back to the basic point that I mentioned at the beginning, if you have got a fixed capacity in place in a market, that market is not growing but normal productivity improvements are running at the rate of between eight and ten per cent, then you have pressure on restructuring literally as you go through the maturing of that company on a year-to-year basis. Every company has to continue to improve their operations to remain competitive in the marketplace.

Q133 Judy Mallaber: Can we just go back to what you referred to a while ago and was in your evidence, about the disadvantage of the UK in comparison with the rest of Western Europe, and you identified earlier particularly energy costs and logistical costs. We have done quite a lot of work on the differences in energy costs and you mentioned those factors as being things for which the Government could give assistance. First of all, what evidence have you got actually of other comparable plants in the EU which do have lower energy costs?

Mr Browning: Again, forgive me if I do not give specific numbers, as they are sensitive, but when we compare Ellesmere Port specifically with its sister plants across Europe, you see higher energy costs for the UK than for other Western European facilities, and so it is a direct comparison between Ellesmere Port and its sister plants in Europe.

Q134 Judy Mallaber: You have not been seeing increases in their energy price rises? We were being led to believe, because of rises in worldwide prices for oil, gas and coal, that we would be seeing substantial increases in prices for the European competitors. You have not been seeing that?

Mr Browning: Our experience is the opposite; we have seen greater increases in the UK than those specific sister plants.

Q135 Judy Mallaber: What would you expect that the Government should be able to do to assist in that; are there specific things that you would be looking for from Government?

Mr Browning: I think the important thing to maintain is a very open, transparent and competitive market for energy in the UK.

Q136 Judy Mallaber: One of the arguments has been about the lack of liberalisation of the energy market in other European countries, so how are you seeing that reflected?

Mr Browning: Clearly, with the EU as a single market, in that sense, it is not just in terms of the UK it is also in terms of across Europe in total.

Q137 Chairman: I wonder, Mr Browning, I know that we are getting into the realms of confidentiality and I do not want to press you too much, but could

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you give us an idea of the order of magnitude for the energy price differentials, because the Committee is on your side here and has expressed this view in writing in previous reports? It would help us if we could have just a little bit more colour on the very helpful picture you have painted?

Mr Browning: What I would like to do is take that request away and look at what we might be able to provide you with, as additional input.

Chairman: That would be very helpful, Mr Browning, thank you very much indeed.

Q138 Mr Hoyle: You have just been going on about the different issues, about plants, but can we look at logistic costs, because, obviously, as you say quite rightly, energy has been a big worry. Presumably, what you worry about is the UK plants which produce actually for export, therefore it is the additional costs; were you trying to bring the plant size down to where they match the UK requirement, in car sales?

Mr Browning: No, because if you look at the numbers, again, in the case of Ellesmere Port, actually we export quite a large proportion of the vehicles assembled there. In fact, when you look at our UK operations in total, between Luton and Ellesmere Port, around slightly less than two-thirds, but around two-thirds, is for export, so there is a lot of movement of components into the UK and finished vehicles out of the UK as well.

Q139 Mr Hoyle: That brings me on to the very important question, so is production costs also the issue of components, because, presumably, you look for continental supplies of components and the factory is a long way from the component production, or are you still using quite a large amount of UK components? I am not quite sure.

Mr Browning: When you look at our purchasing of components and supplies in the UK, we purchase over £500 million worth of components in the UK each year.

Q140 Mr Hoyle: What is that in percentage terms of the car build?

Mr Browning: I do not have that number to hand.

Q141 Mr Hoyle: Would it be possible to have that, because obviously that gives an indication?

Mr Browning: Again, let me take that one away and see what we can provide to you. We have certain items that we purchase in the UK, there are others that we bring in and the sourcing of components is done on a global basis, not just a European basis, so a lot of those components come from literally around the world. Therefore, the logistics differences that we were referring to were simply on a comparable basis between the sister plants of Astra and Ellesmere Port in the UK versus the Western European plants. When I talked about a logistics disadvantage in the region of €19 million it was on a like-for-like basis for the other Astra plants.

Q142 Mr Hoyle: It is not based on the components?

Mr Browning: It is not, because those components are the same for all the Astra plants.

Q143 Mr Hoyle: They are bought in dollars rather than pounds, presumably?

Mr Browning: Again, it depends from where that sourcing comes.

Q144 Mr Hoyle: If it is the world, you use your dollar premium, presumably to ensure that you have got a long-term competitive price?

Mr Browning: Again, it depends, which currency, which market, which supplier and how the contracts are written.

Q145 Mr Hoyle: If it is possible actually to achieve a breakdown, to say, UK supply, so much of components to the Astra market, if you could?

Mr Browning: Let me see what we can do.

Mr Hoyle: That would be very useful. Obviously, part of our worry is not only is it job losses in the car industry but the knock-on effect is where there is an effect on the components industry and, particularly, from our point of view, the UK components sector, as being an important part of manufacturing, we are just wondering where that market is going. Possibly you could be able to help with that. Of course, you did say you would let us know the GM cars sold in Belgium, Poland and Germany as a future figure, and could you break that down a little bit further, I am just wondering what each Government actually procures from GM?

Chairman: Let me explain that Mr Hoyle has a view, which the Committee may or may not share, I think probably I would agree with it, that the British Government is not always good enough on its public procurement policy, in terms of supporting domestic manufacturing industry.

Q146 Mr Hoyle: I would like to see your arm twisted a little; that is it, basically.

Mr Browning: I will certainly provide the data in terms of the total market. Again, I will need to look at the confidentiality of who those customers are.

Mr Hoyle: I will be quite honest with you, I do not think you can hide behind that, because these are Governments which are procuring, using taxpayers' money, so I would not like you to try to use that argument that is not actually standing up, or otherwise we would have to use the powers of the Committee.

Q147 Chairman: I suspect this information is in the public domain, because we know what the Government buys.

Mr Browning: It depends which customers you are talking about; earlier you mentioned some national governments, you have mentioned some other fleet types of customers. In terms of the national governments, no problem.

Q148 Mr Hoyle: Can I just clear this up. I mentioned fleet customers, but only procured using taxpayers' money, so it is as simple as that, which will be in the

public domain, or it should be, and I do not think it is one that you can hide behind and I would not expect you to. I am not asking you to give me the detail of what people pay, it is just the volume and money spent?

Mr Browning: If it is for public procurement, absolutely no problem. You seemed to be indicating earlier fleet customers as well; that was where the confusion was.

Mr Hoyle: I called the Post Office “fleet,” but it is part of the Government.

Chairman: This Committee is looking at doing possibly a later inquiry into public procurement and the way in which it is used in this country to support or not support British manufacturing industry, so we may come back to you for some more detail later. It is a matter of concern to the Committee.

Q149 Rob Marris: I was pondering this logistics question, actually; it is not really what I am going to ask you, just as a comment. The logic of it is it may be, given that the UK, in one sense, is peripheral to Western Europe, that you will be shutting down your production in Michigan because everybody lives in Florida and California, which are considerably further away than Western Europe, which is quite small, but anyway, leave that aside. Our predecessor Committee, in 2004, concluded that the UK industry was basically pretty strong but more was needed to be done to improve skills and investment in automotive R&D as a strength in the UK, I think. Given our previous assessment, from where you are sitting, would you agree with that assessment, and, secondly, if you do not agree with it, should we change it, and in what way?

Mr Browning: I think that the analysis and the focus from that time are still essentially true and correct. I think we need still to continue to develop the right skills in the UK and make sure we nurture the environment in which some of the historical engineering strengths of the UK motor industry continue to be maintained and developed, so I think that is a very important part. I think, when you talk about some of these short-term structural adjustments that you see the industry going through, you have to separate those from the longer-term opportunities for the UK really to take a lead in some key areas of technology or key areas of infrastructure. I think, when you talk about the automotive sector specifically and look further into the future, the whole question of the hydrogen economy and the next levels of technology that the automotive sector will move on to are areas that we should be addressing specifically now, for the UK to keep a capability, to maintain, nurture and grow that research and development and engineering specialist skill set that we do have in the UK. We need to separate, as I say, some of these more tactical, short-term restructuring actions from the longer-term focus of how we continue to ensure the engineering skill set is appropriate for the automotive arena well into the future.

Q150 Rob Marris: Historically, a classic measure of a branch plant economy, if you look at GM

production in Michigan versus GM production in, say, Ontario, is that in the branch plant economy the research and development budget is a far lower proportion of the operations budget. How much R&D is Vauxhall allowed to do by GM in the United Kingdom and how much of it is done, say, either in Germany or in the USA, or whatever?

Mr Browning: I think it is important to understand, when you talk about research and development and product development within General Motors, that is part of a global system of development and research, and so everybody is collaborating in developing global projects, of whichever physical location they happen to be part. In the UK specifically, we have a Vehicle Engineering Centre at Millbrook which focuses on the commercial vehicles and has a particular specialty in that area, but the entire global resource is sharing work on projects around the globe and it is not just focusing on products that are specific to that country or that region, it is a global product development system.

Q151 Rob Marris: Would you anticipate that there will be more or less automotive R&D carried out in the United Kingdom ten years from now? I am not asking just about GMC but generally.

Mr Browning: I do not see that as necessarily a pre-determined direction. I think there are areas of great opportunity, particularly in terms of vehicle propulsion, where the UK could take really a leading edge. As I say, if you talk about long-term opportunities, focus on innovation, particularly innovation around the hydrogen economy, it is a field which is still relatively open within the global automotive industry.

Q152 Rob Marris: Are you putting in a bid for that then, for the UK?

Mr Browning: I think the UK needs to think about where the opportunities are, in terms of developing the skills, having the research capability in place to feed the entire global industry, it is not just about Vauxhall Motors or GM, for that matter.

Q153 Rob Marris: Can I put it this way then, as I see it, you are saying, and this is perhaps putting words in your mouth, and tell me if I am wrong, hydrogen is like one of the next big things, automotive, what would the UK need to have in place to persuade General Motors Corporation to invest a significant amount in something like hydrogen propulsion research in the UK?

Mr Browning: I do not think it is so much a question of GM investing, I think it is the automotive industry globally having a need and how does the UK present itself as a great resource for the development work and ensuring the infrastructure is in place at the right time. Whether it be in terms of technology corridors in some of the heritage we have, in terms of automotive engineering, particularly around the M40 and up through the Midlands, whether it be in terms of specific

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capabilities, at universities, Warwick, for example, whether it be in terms of government policy that looks at helping to see the infrastructure that ultimately a hydrogen economy would need, I think those are all the sorts of things that can be planned well in advance to help create the right environment for the UK taking a leading role in that arena.

Rob Marris: I wonder if you would be prepared to let us have, and you might not be, with commercial confidentiality, or whatever, a brief written assessment of what is in place, in that scenario that you have just outlined, already in the UK and what is lacking? I would find it helpful.

Q154 Chairman: This is an SMMT point as well. This really goes to the heart of our inquiry; what two or three things do we most need to do to ensure, in the broadest sense, there is an automotive industry in this country for the next 30 or 40 years? It would be really interesting to have your perspective on that, now or later, or through the SMMT more generally, because I am still not quite clear, I think I know some of them but what the full list is?

Mr Browning: Yes, certainly we will do that.

Q155 Miss Kirkbride: I hope your prediction was right as that would directly affect my constituents, who sit on the M40, or just about on the M40 anyway. I want to ask you just one thing, to respond to the previous witness, the union representative, in more direct terms than you have been asked so far, which is this view that he has and the union has that we have lost jobs in the United Kingdom because our employment laws are so flexible that companies like yours, and others, cut jobs in the UK because it is easier than doing it in Germany or elsewhere?

Mr Browning: I would like to correct a couple of things that were said. First of all, that we were sacking people at Ellesmere Port, which is not true; we have put in place a voluntary separation programme and we have already received a very significant number of applications for the voluntary programme that we have put in place. I would say, in the specific case that we have been talking about today, Ellesmere Port, the comment about ease of dismissing people in the UK is entirely irrelevant because it is not what we are doing in the UK, it is a voluntary separation programme. Secondly, I do not see that as an issue for the UK in terms of the decisions that are being taken around the automotive industry, at least in the case of General Motors. The decisions are based on the economics, the long-term economics of a particular operation, a particular facility, and it is the underlying competitiveness of that operation which really is at the heart of the decision-making that is taking place. When you look at whether it is the investment in new facility or the adjustment of an existing facility, there are many factors that are taken on board; cost obviously is a very important piece, the local regulatory environment, the degree of support for the automotive industry in that market, in that

environment, is very important as well. It is not, as perhaps has been characterised on occasions, simply an assessment of where it is most simple to dismiss people.

Q156 Miss Kirkbride: I want to finish off on the Rover Task Force and say now what I should have said before, which is, as I sat on it, I declare an interest. In respect of that and the voluntary redundancies that are taking place at Ellesmere Port, has there been any approach to or from Government as to what help might be available to those workers in these circumstances?

Mr Browning: We were fortunate enough to have, as you are probably aware, both the Chancellor and the Secretary of State for Trade and Industry actually to come to the plant on the day that we were making the announcement of the removal of the third shift, and so there was very visible support, in terms of the focus of the local agencies to help, in terms of the transition of those people who did take the voluntary separation programmes. There has been a lot of work going on with the North West Development Agency, in terms of making sure there is as much of a transition programme put in place as possible, as much assistance. Also, we have been encouraged by the number of local employers that have been contacting the plant, interested in the people that were going to be leaving the operations at Ellesmere Port as well. I would say, both from what we have been able to do internally and the local agencies, there has been good collaboration in terms of making what is obviously a painful transition for ourselves, and for the families concerned, as smooth as possible.

Q157 Miss Kirkbride: From the company's point of view, is there anything else which could be done, offered by ministers or quangos, paid for by the taxpayer, which could be offered, which has not been offered so far, which you would like to see put in place?

Mr Browning: I would say the response so far has been very positive. I think both the collaboration at a national and a local level has been encouraging. We are focused very much on working our way through this current transition but then putting a very great degree of focus and energy on the future investment proposals as well. We are working together with those same agencies on the future investment as well as the short-term transition, so nothing that is specifically outstanding, no.

Q158 Miss Kirkbride: Perhaps you would like the taxpayer to be more generous?

Mr Browning: I think it is important not just from a taxpayer's perspective to say how we are competing but also some of the international macroeconomic factors. In the written submission we talked about some of the, let us say, unfair competition in terms of exchange rate manipulation and that is a very significant element, in terms of competitiveness of manufacturers from some parts of the world versus manufacturers in other parts of the world. When you look at a potential competitive disadvantage of the

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magnitude of €3,000 per vehicle versus a vehicle imported from Japan, in that particular case, there are many local competitiveness issues, in terms of how we manage the economy in the North West of England, in the UK generally but also global macroeconomic policy issues as well, which all have to be addressed collaboratively.

Q159 Chairman: Mr Browning, thank you. Is there anything else you would like to say to the Committee?

Mr Browning: No. I appreciate the time that you have taken. I can just reinforce what I said earlier, that we are proud of the heritage of Vauxhall and General Motors in the UK, the length of time we have been operating here and it is our strong desire

to maintain that going forward, but that has to be on the basis of a very competitive operation, and that is what we are looking to deliver.

Chairman: In that case, it is time to apply the brakes to this session. I do want to repeat my gratitude to you for your willingness to come here and give evidence. We particularly look forward to, if you can, some additional evidence on the energy question, which will be very helpful, and, through you, perhaps I can say to your colleagues elsewhere in the industry, although this inquiry is born out of the failure, the difficulties, the challenges facing different parts of the sector, we are very anxious to build a prosperous future for it too, so some policy suggestions to help achieve that would be very welcome from you and your colleagues. Thank you very much indeed.

Tuesday 11 July 2006

Members present:

Peter Luff, in the Chair

Mr Brian Binley
Mr Michael Clapham
Mrs Claire Curtis-Thomas
Mr Lindsay Hoyle

Mark Hunter
Miss Julie Kirkbride
Rob Marris
Mr Mike Weir

Witnesses: **Mr Jon Goodman**, Director, Corporate Communications and External Relations, and **Mr Michael Lynch**, Human Resources Director, PSA Peugeot-Citroën UK, gave evidence.

Q160 Chairman: Gentlemen, welcome to this evidence session on the UK automotive industry. We are very grateful to you for coming. I wonder if I can begin, as I always do, by asking you to introduce yourselves for the record.

Mr Goodman: Thank you, Chairman. My name is Jon Goodman. I am the Director of Corporate Affairs for PSA. PSA is the seventh largest manufacturer in the world and we have been here for 20 years in the UK and I am PSA's senior executive in the UK.

Mr Lynch: Good morning, Chairman. My name is Mike Lynch. I am Human Resources Director, PSA Peugeot-Citroën in the UK.

Q161 Chairman: Can I begin by asking you to bring us up to date? Where exactly are we now at Ryton? What is the update situation?

Mr Goodman: I think the best thing is to ask Mike to do that as he is directly involved with that discussion.

Mr Lynch: The current position at the Ryton plant is that one of the two shifts that were operating ceased in operation on Thursday last week; its last shift was Thursday, and therefore as of Monday of this week the plant is operating on a one-shift basis. The process we are in with the trade unions at the moment is one of consultation. The 90-day consultation process under the HR1 commenced on 5 May and is due to end on 3 August.

Q162 Chairman: So you cannot say anything about that final shift at this stage formally?

Mr Lynch: No.

Chairman: But it is 3 August when the consultation finishes. Thank you very much indeed. That clarifies it adequately for the Committee.

Q163 Miss Kirkbride: I have a few questions on the global car market to begin with. We all know that your competitors, GM and Ford, are in quite a lot of trouble. What is your overall financial position? Where do you make a profit? Do you make a profit in the UK? Do you make a profit in Europe? What is your global position?

Mr Goodman: Most manufacture is now on a global basis and is therefore subject to different global trends. It is very difficult to draw any huge conclusions because it depends on the industrial footprint and the historical sales of companies. As far as PSA are concerned, we are the seventh largest

manufacturer world-wide. We are present in some 150 countries commercially and I believe 15 countries industrially. We are a profitable company. We are from a traditional western European manufacturing base where we are the second manufacturer in Europe. The western European manufacturing base is a hugely competitive market and we are seeing increasingly a requirement, for us to achieve our medium-term objectives, for us to look beyond our traditional boundaries. That has brought the emerging markets into play and I think that is globally true as well, that we have seen China emerging as a key market for many people within the industry. It is certainly true for PSA Peugeot-Citroën. We have seen our sales increase phenomenally in China and our investment is increasing there as well. The other key strategic zone for the group as a whole is Latin America. Latin America is another emerging country where the levels of car ownership are much below those of Western Europe and the potential for growth is considerable. The third key strategic zone for us is central and Eastern Europe, which for the same reasons—low levels of car ownership and the ability and potential for the industry to grow—is a key area for us to achieve the medium term growth objectives that we have. There are some other trends which I think are important. We have been involved in a strategy of profitable growth which we maintain. The other trend which we have also seen is a fragmentation in the traditional markets. We have seen it in the States, we have seen it in Western Europe, a fragmentation of the traditional product demand. The customer is looking for increased levels of choice and that puts greater pressure on all manufacturers to come up with reduced manufacturing costs to enable them to generate the diversity of product which the customer is now demanding. We have also seen another global trend which is in the news at the moment with the discussions between GM and Renault Nissan. We saw a certain amount of consolidation within the industry a number of years ago. PSA has taken a different approach to this in that we have remained independent but have embarked on a strategy of cooperation with other manufacturers. We currently have seven cooperation strategies in existence. The aim of those is much the same as some of the mergers that have gone on, to give us reduction in costs, reduction in investment and enable us to bring diversity of product. The third trend has been a real

focus on production costs. Our response to that has been the installation of a platform strategy within the group which was phased in gradually from 1998 onwards. The aim of this is very simply to reduce our manufacturing costs, to enable us to bring products to market more quickly and to produce a greater diversity of product on the same basic organs with many shared components, which also provides us with the opportunity to reduce our purchasing costs by higher volumes.

Q164 Miss Kirkbride: Some of what you have just said is an indication, but why have you been making a profit when others have not?

Mr Goodman: We have been careful about the way we have gone after growth. We have not gone after growth in a cavalier fashion. It has been a very matter-of-fact, careful approach and what we have seen is the level of profitability come under pressure over the last two to three years. Sales in our traditional markets have been very difficult and sales in Western Europe have certainly come under enormous pressure. Last year, for example, we saw the contribution made by the automotive unit drop by some 39% in one year so, whilst we are in profit, if you equate the profit to the number of cars we sell it is somewhere in the region of 250-300 euros per car.

Q165 Miss Kirkbride: So, given the over-supply of car production facilities in the world today, how are you going to meet those global challenges in the future?

Mr Goodman: The challenge for us is to consolidate our position in Western Europe, to ensure that our heartland stays very much that for us. We have a 14 per cent market share and we need to maintain that position. Where we have tremendous potential for growth and the growth that we have enjoyed is in the emerging markets and it is our industrial implantation in those markets and our growth in sales which will drive forward our profitability and our volumes over the years to come.

Q166 Mrs Curtis-Thomas: You said that you were making a profit in Europe, 200-300 euros per vehicle.

Mr Goodman: Global profit, I said. We do not split out by area. It is one global profit which PSA put in of around 200-300 euros per car.

Q167 Mrs Curtis-Thomas: So you cannot tell us whether or not you are profitable in the UK?

Mr Goodman: We do not split out our profitability by country. We do not have specific elements. We will make a profit in the UK.

Q168 Mrs Curtis-Thomas: And Europe?

Mr Goodman: We will be profitable in Europe for cars that are produced in Europe and produce profit.

Q169 Mr Binley: I find that statement absolutely astounding, and I found your answer, quite frankly, not the most helpful I have heard. Can you re-think

that position about profitability in the UK because it is vital to many people who have worked very hard for you?

Mr Lynch: The group has a number of companies in the UK, notably Peugeot-Citroën Automobiles Ltd, which is the manufacturing function, and central functions like finance, IT, HR, purchasing. It then has two brands, marque Citroën—Citroën UK, and Peugeot Motor Company, and it also has a bank facility, Bank PSA Finance, based in Reading. They are four separate companies that the group operates in the UK. The group will make a profit in the UK overall. Peugeot-Citroën Automobiles, which is the activity that produces cars for the Peugeot brand, for example, in 2005 (and the accounts were filed this week) made a loss. Part of it was due to exceptional costs in the closure of the third shift last year, and part of it was due to other reasons.

Q170 Mr Binley: What are the other reasons?

Mr Lynch: The other reasons were increasing costs and reduction in volumes that the plant made during the course of the year. Volumes declined last year from the previous year quite substantially.

Chairman: We will look at the issues about why that might have happened later on during the questions on Ryton but we are trying to focus at present on the overall outlook, and Mark Hunter has a supplementary before his main question.

Mark Hunter: The supplementary was along the same lines that Claire has already asked and Brian added to but, just for the sake of the record, are we clear that you are telling us that the company is profitable in the UK, in Europe and globally?

Q171 Chairman: In overall terms.

Mr Goodman: In overall terms the cars we make are made to a profit, yes.

Q172 Chairman: That makes a very sharp distinction from Ford and GM.

Mr Goodman: Certainly.

Q173 Mark Hunter: Your first answer to the question that Julie asked was a very full answer but it was a very specific question which probably did not require all the rest of it at that stage. We just want to know is it profitable or not. The question I want to turn to is about the future of Peugeot-Citroën. The company does seem keen at the moment to expand facilities in eastern Europe, which we understand, but even eastern Europe has higher manufacturing costs than, say, India or China. What would you say to those that would put to you that the logical next step for Peugeot-Citroën would be to move its manufacturing base out of Western Europe altogether, perhaps to Asia?

Mr Goodman: We have a policy of regional building of our vehicles, regional manufacture. What we have seen has been PSA develop its manufacturing structure within each of the regions that we are targeting to meet that demand, so we have seen an expansion in China, which is to meet a Chinese demand which went up by 57% last year, for which we have targeted 200,000 for this year and we will

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very shortly be up to 300,000, so we are scaling our industrial facilities there to meet the demand that we expect from the local market. We are taking a very similar approach as far as central Europe and eastern Europe are concerned based on what the potential for the future of those zones is.

Q174 Mark Hunter: Is this policy of regional manufacture, as you put it, being revisited in the light of what is happening at Ryton at the moment or does that remain the company's policy?

Mr Goodman: No. Western Europe represents 70% of PSA's sales. It remains a hugely important part of the business of manufacture and it will continue to do so. It is important we maintain a regional manufacturing base to deal with western European demand.

Q175 Mark Hunter: So it is no part of the company's current plans to reduce any further the current capacity in Western Europe?

Mr Goodman: We have manufacturing capacity that is geared towards the requirements of the market and at the moment there is no future expectation of changing our manufacturing capacity in Western Europe.

Q176 Mark Hunter: Presumably the logic of your argument is that if the demand reduces still further in Western Europe then yes, you could very well alter your regional manufacturing base to reflect that?

Mr Lynch: I think it is important to say that the manufacturing capacity is a function of a number of things and that includes the size of the plants and the overall capacity of the plants but also the number of shifts that are operated in the plants. The group flexes its capacity through increasing or decreasing the number of shifts that work in different plants either by a full shift or a half shift arrangement. There is flexibility amongst the manufacturing sites to increase or decrease volumes according to market demand through flexing the production time and the number of shifts we operate.

Chairman: We will now move more specifically to the situation at Ryton.

Q177 Mr Hoyle: It is obviously a big issue and that is why you are here today. We understand that the UK Government were in discussions and made you an offer of a £14.4 million grant to support the manufacture of the 207 in this country in 2004 but you declined that grant. Is there any reason?

Mr Goodman: We made a request, with the help of the DTI, and 2002 was when we tabled the request. That request was finally confirmed to us in 2004; December 2004 was the confirmation that we had that grant, for which we were very grateful. In the ensuing two years there had been changes to our strategic requirements in Western Europe in terms of volume and it was decided at that stage that there was no requirement to take up that grant as far as Ryton was concerned.

Q178 Mr Hoyle: So that was when you decided to close it?

Mr Goodman: What was decided at the time by the Peugeot brand was a strategic choice that the 206 would remain in the model range because there were very important price points that needed to be filled in the model range, and in view of that decision it was important that we had a manufacturing base for the 206 and it was stated in February 2005 that Ryton would be the main European manufacturing plant for 206.

Q179 Mr Hoyle: But you knew the 206 had not got a long term future? It was a model that was running out, it was ageing. The fact was that if you were serious about Ryton you would have put the investment in and put a new model through. The bottom line was that you wanted to asset-strip, take as much money out as you could at the expense of UK jobs. Fair?

Mr Goodman: The situation at Ryton was that it was hugely important that we had a 206 manufacturing base. The statement made at the time was that it would be a manufacturing base for 206 for many years to come. There was no intention at that stage to sit down and say there was a closure at Ryton.

Q180 Mr Hoyle: But if you had taken the grant and funded it could you have upgraded? You would have had a model to follow the 206, would you not?

Mr Goodman: When the grant was agreed and announced to us the context in Western Europe had changed, the volumes in Western Europe had changed and therefore we were unable to take up the grant to build additional volume of that new car at Ryton. We did have requirements for the 206 on an ongoing basis at Ryton and that was the commercial decision the company took.

Q181 Mr Hoyle: That obviously was a commercial decision to close Ryton. Who owns PSA? Does the French Government have any stake?

Mr Goodman: No, there is no stake.

Q182 Mr Hoyle: So it is a private company?

Mr Goodman: It is privately owned.

Q183 Chairman: PSA—is that Peugeot Société Anonyme?

Mr Goodman: Yes, Peugeot Société Anonyme.

Q184 Rob Marris: Is it not 26% owned by the Peugeot family?

Mr Goodman: Yes, with around 46% of voting rights.

Q185 Mr Hoyle: Thanks for that. That sums up probably one of the other reasons why it was the UK plant, not the French plant. We all admire the way the French support the indigenous car industry and in fairness to France it always backs France and nobody can take that away. Whether it is a French tractor, a French truck or a French car, the French will all rally to buying an indigenous brand. Do you

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think we should use that in the UK? Do you think we should only support the cars produced in this country and follow the French example?

Mr Goodman: It is worth taking a step back, if I may, Chairman, to explain the history of our presence in the UK. PSA Peugeot-Citroën bought out Chrysler's interest in the UK back in 1978. We inherited a failing organisation and a plant that was in a great deal of difficulty. We are very proud of the heritage we have in the UK. We are very proud of the fact that over the ensuing 22–23 years we have built two and a half million vehicles. The fact that some 60–65% of those were exported I think is a contribution to the UK economy which is not to be negated. As a company we have invested at Ryton. We have given the plant a new lease of life and we have been firmly backed by the employees at Ryton and it is only fair to pay tribute to the work that has gone on. When we were faced with a very difficult western European market, when we were faced with a very difficult set of circumstances with a huge increase to the raw material costs and huge pressure on the cost basis of the company, it was a very difficult decision to come to to announce our intention to close Ryton. There must be no misapprehension that that is very much the way in which we have taken it. If I can come back to your question specifically, you talk about the UK industry and backing the UK industry. One needs to bear in mind the context. At the moment 85 per cent of the cars sold in the UK are imported vehicles. Fifty per cent of the cars sold in the UK are sold by companies that have no industrial presence in the UK. I think we have to accept that we are in a global industry and that manufacturing has to be looked at on a global scale and has to respond to global pressures. We are very proud of what we have done. We came into the UK when many other companies had chosen not to, many other eminent companies within Europe, and it is not lightly that we have taken the decision in an industrial sense to have to move away from the UK. However, it is also important to bear in mind that the group continues to employ over 5,000 people in the UK, that we continue to employ over 1,000 people in Coventry after the closure of Ryton and that our commitment to the UK remains very strong indeed.

Mr Hoyle: So it is all right for France to look after itself but not the UK? That is fair enough.

Q186 Chairman: Can I be clear about one thing? You have talked about the grant. It seems to have taken two years for the Government to approve it. Is the implication of that remark that had the Government acted more speedily in offering that grant you would have taken the money and invested in the 207 and we would not be where we are today?

Mr Goodman: There is a degree of supposition there. I think it would be unfair to try and put this at the door of the Government because we were ably assisted right the way through the process by the DTI in this regard. It has taken a lot longer to go through the European level than is the norm. We have experience of public grant procedures which do go through quickly, so it has taken longer. No

responsible company can make a decision without a full position on the facts as far as the economics of production are concerned and without that answer we were unable to make a decision as far as Ryton was concerned until we got confirmation.

Q187 Chairman: But in 2002 you intended to build the 207 at Ryton and in 2004 you no longer intended to?

Mr Goodman: At the end of 2004 we were informed of the grant and we notified them that we would not be taking that up because we would not be building a 207 at Ryton.

Q188 Chairman: In 2002 you clearly had the intention of building a 207 at Ryton; otherwise you would not have wanted the grant?

Mr Goodman: The 207 and/or other products at the time, yes.

Q189 Chairman: And the Government took two years to say yes?

Mr Goodman: Not the Government; the European Union. Yes.

Q190 Chairman: The pace of that approval process is clearly an issue which this Committee should be interested in?

Mr Goodman: Certainly.

Mr Hoyle: Chairman, I think there is a follow-up question to that because you leave that very open-ended. If I follow the Chairman, the question is, if the grant had been more immediate, done within 12 months, would it have changed your decision, but that is how you want to leave it and we cannot leave it like that because it is too open. I think the answer is no because the decision was because of a change in circumstance.

Q191 Chairman: How quickly would that approval process need to have been to have materially affected your decision?

Mr Goodman: It is a hypothesis. I really would not know and I would not like to comment. The grant was starting in 2002 with a clear wish to make that investment at Ryton and restructure the plant.

Q192 Chairman: I accept that hindsight is a very difficult thing to operate with.

Mr Goodman: It is also a very difficult thing as I was not actually in this position at that time.

Q193 Chairman: But it is reasonably clear that a faster approval process could well have changed the decision?

Mr Goodman: It would certainly have been a factor.

Chairman: Are you content with that answer, Lindsay?

Q194 Mr Hoyle: So if it had been quicker do you think the decision today would have been different?

Mr Goodman: I cannot make that supposition.

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Q195 Mr Hoyle: Just so that we are right, the speed is two years to get from start of grant to the end to say yes?

Mr Goodman: Yes.

Q196 Mr Hoyle: The problem there is that you also have to negotiate what you wish to see and what you want it for, so it is not just the Government making the decision; it is also what your interpretation is and how you would use that grant towards a new model to comply with EU rules?

Mr Goodman: Certainly.

Q197 Mrs Curtis-Thomas: When was the decision made to close Ryton?

Mr Goodman: The decision was made after the first quarter review in 2006.

Mr Hoyle: 2004.

Q198 Mrs Curtis-Thomas: When was the intelligence gained upon which that decision was made?

Mr Goodman: In 2005 we announced the intention that Ryton would be the main European plant for the 206 on an ongoing basis. What we then saw through 2005 was a European market that all analysts had expected to grow in the second half of 2005 and we actually saw that market decline. We saw huge competition within the market, incredible price competition and huge pressure on the raw materials which changed the dynamics of the industry on a pan-European basis.

Q199 Mrs Curtis-Thomas: So did your intelligence in 2004 signpost you to the probability of that situation in 2005 and then 2005 came along and confirmed it and upon that you based your decision in 2006?

Mr Goodman: No. Our decision was taken very much with the detailed first quarter strategic review in 2006 where it became clear to us that we had to look at very careful questions about the future of Ryton.

Q200 Mrs Curtis-Thomas: So you can close a plant and it takes you 12 weeks from a standing start, or relatively nothing, to make that decision?

Mr Lynch: The intention is not to close the plant in 12 weeks. The announcement that was made in April—

Q201 Mrs Curtis-Thomas: But the decision for closure can be made in 12 weeks?

Mr Lynch: The decision process took place in the first quarter of this year, as Jon has explained, yes. What was announced by the group in early 2005 was that in response to reasonable questions about what was the next model for Ryton the information that was communicated was that the strategy of the group in the B segment, that range of vehicles, was that it would have four offerings: that it would have the 107, which is a vehicle that is built in the Czech Republic in conjunction with Toyota, that it would have the 1007, which is a niche vehicle that was introduced, a new concept vehicle, that it would introduce the 207 which would succeed but not replace the 206 because it was a larger vehicle, quite

substantially larger and it has recently been launched on the UK market, and that it would continue to make and sell the 206 in order to achieve, as Jon has explained, the pricing positions between the ranges of 107, 206 and 207. In early 2005 the decision was announced to continue to manufacture the 206 at Ryton and to dedicate that as the sole manufacturing site over a period of some years to come, and therefore there was not a decision necessary to be made at that point in time as to what would follow the 206 at Ryton.

Q202 Mrs Curtis-Thomas: Can I put it to you that you turned down the £14.4 million in 2004 because you already knew at that time that the situation was precarious, so you hedged your bets effectively? Is that what happened?

Mr Goodman: That is not what happened at all. If you want to get into the specifics of it, if you compare between 2002 and 2005 the volumes that were sold by PSA in Western Europe, they declined by a figure of 190,000. That 190,000, which is not very dissimilar to that 150,000 we were looking at producing at Ryton, was instrumental in saying we did not need the additional capacity at Ryton to do that sort of volume on 207, but that we did require the capacity at Ryton to produce 206 on an ongoing basis.

Q203 Mark Hunter: My question is linked but is from a slightly different angle. What would you say about the accusation that I am sure you will be familiar with that the company had chosen to deliberately underinvest in the plant at Ryton for quite a few years? You will be aware that that has been said in many areas of the press, including *The Economist*. I would be interested to hear your reaction to that point, that the key part of the decision was underinvestment in the plant quite deliberately because you were always aware that it would be easier to close in the UK than in France.

Mr Lynch: The group's decision was not to underinvest in the Ryton plant. The group's decision was to invest what was necessary in the Ryton plant in order to successfully achieve in the best conditions the production of the 206, and that is what it continued to do.

Q204 Mark Hunter: Those industry experts, as they would style themselves, who said there had been a deliberate policy of underinvestment in Ryton over that time are wrong, quite simply?

Mr Lynch: Yes.

Mr Goodman: Yes.

Q205 Chairman: Looking at the article that claim came from, *The Economist* is not given to economic patriotism and extravagant claims. *The Economist* tends to say things quite carefully and measuredly when it comes to big business, so you frankly deny that claim made in *The Economist* article?

Mr Goodman: To give some figures, because I think sometimes it makes things clearer, we have invested in excess of £500 million at the Ryton plant over the

years. We have also invested 93 million euros between 2002 and 2005. As Mike says, we have invested what is necessary to meet the requirements.

Q206 Mr Clapham: Mr Lynch, there was no deliberate underinvestment at all which took place at the Ryton plant, but we do know from your own admission that a new car could be built at Ryton and could be built profitably at Ryton. Given that within your strategic framework you have been examining the whole of the production plants from 2004, is it not a little odd that, given the need to ensure continued profitability, you decide to continue with just one single model at the Ryton plant, given that it is the only plant in the group where one single model is produced? Did you ever look, for example, at building more than one model which would have given the opportunity to use component parts from the other, as happens at your other manufacturing units? Was it an issue that was examined and, if it was examined, why was it not decided that you could in fact have produced two cars that would have helped to reduce your costs and increase profitability?

Mr Lynch: I think it is important to put the structure of the Ryton plant into context. Ryton is an assembly plant. It takes components in from group manufacturing sources for engines, gearboxes, body panels, suspension assemblies and the like, and it takes components in from suppliers, be they in the UK or overseas, and it assembles them. The Ryton plant does not have a body-pressing facility, we do not manufacture engines in the UK and we do not manufacture other major organs in the UK. The Ryton plant also has a single track. Many of the production facilities that the group has have two or sometimes three tracks. It is clearly much easier to produce more than one vehicle if you have more than one production line. In the past the Ryton plant has produced two vehicles. When the 309 was introduced in the mid eighties that was followed some years later by the 406, but it is very difficult to achieve effective line balance and man assignments when you are producing two very different vehicles on the same track and to produce them efficiently. It was decided when the 206 was introduced that it would be a single track plant. There were thoughts during the development phase of 206 that it would continue to be built alongside 306, which was the previous vehicle to be built in the plant, but because of the evolution of design techniques and assembly techniques there was some 20-30% reduction in assembly time for the 206 in comparison to the 306 and therefore it was simply not practical to continue to manufacture those two vehicles alongside each other. Therefore the efficiency and productivity gains were through manufacturing a single model on a single track.

Q207 Mr Clapham: Nevertheless, at your other plants you do produce more than one model and obviously that is to give complementarity between components that can be used between more than one model and that helps to reduce costs?

Mr Lynch: That is part of the group's platform strategy, which was introduced post the production and development of the 206. The 206 is not built on one of the group's latest platforms. There are plants in France which manufacture two vehicles off the same platform and there is a high degree of commonality of the base components of the vehicles as well as some of the other non-styled components, things like door mechanisms, window regulators and other mechanical components that do not affect the style and appearance of the vehicle.

Q208 Mr Clapham: But, given that the platforms are different and given that the plant at Ryton on your own admission could produce a new car profitably, was it never looked at to invest in that production line to ensure that new and different shaped body plans could be used to keep production here in the UK?

Mr Lynch: As part of the strategic review the group did that and what it concluded was that there was a need to invest some 255 million euros to make platform one, the small vehicle platform, capable. In addition to that there would be the need for specific investment in tooling to assemble the particular vehicle, so a £255 million investment in the plant would be necessary to make it capable of producing a platform one vehicle. Faced with the need to reduce costs across Europe, the group decided, based on the fact that Ryton was the most expensive manufacturing plant in the group, that it could not justify that magnitude of investment and make vehicles, having invested in it, which would be competitively priced.

Q209 Mr Weir: Just leading on from that, you talked about an investment of 200 million in Ryton, but did you ever consider replacing the Ryton factory itself with a new build factory that could take advantage of the latest production techniques of platform one as you have described it?

Mr Lynch: I do not believe the group considered demolishing the Ryton plant and building a completely new facility elsewhere in the UK. No, I do not believe the group considered doing that.

Q210 Mr Weir: Given that you were telling us about your great feeling for and history in the UK, why not?

Mr Lynch: Part of it is related to the cost of manufacture and, as I explained a few minutes ago, Ryton is the most expensive manufacturing plant in the group. Part of it is due to the industrial footprint of the group, which is that Ryton is an assembly plant and the volumes produced in Ryton do not substantiate the investment that would be necessary in order to make body pressings in the UK, to make engines in the UK, and so to eliminate the logistics costs of bringing such components from the group's factories in France across the Channel to the UK.

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Q211 Mr Weir: You mentioned the costs at Ryton. Your Chief Executive is quoted as saying that it costs something like 400 euros more to produce each car in the UK as opposed to producing it in France. Why are the costs higher in the UK in your view?

Mr Lynch: The 415 euros more per car that it costs to make the 206 in the UK on two shifts production versus the average of producing the same car on two shifts of production in France stems from a number of things, partially from the manufacturing costs, from labour costs. The average cost of employing a manual employee in the UK is 3,200 euros a month and that includes employment cost premiums, *et cetera*, compared to 3,000 in France and some 2,300 in Spain, so that is one element. Another element is—

Q212 Chairman: Just can we stop a second? You are saying that labour costs, with all the added on social costs, are now lower in France than in the United Kingdom? That is a very important statement.

Mr Lynch: Yes. Our assessment of it, based on our employment of employees, is that it is 3,200 euros in the UK and 3,000 in France.

Q213 Mr Binley: Chairman, can I ask if the witnesses could send us the breakdown of that statement because I find it a very difficult one to accept?

Mr Lynch: Okay.

Chairman: It is very interesting. If it is true it is a fascinating revelation.

Q214 Mr Binley: Absolutely. We need to understand it. You could help us enormously.

Mr Lynch: Fine.

Miss Kirkbride: Would you have comparable figures for other places where you produce? Could you send us comprehensive figures on the cost of employment throughout Europe?

Q215 Chairman: Particularly the Czech Republic, obviously.

Mr Lynch: We obviously know what the cost is of employing a manual employee in all of the countries where the group builds vehicles.

Q216 Miss Kirkbride: Are we now top of the list?

Mr Lynch: For PSA Peugeot-Citroën? Yes.

Q217 Chairman: So we are now the most expensive manufacturing location for employment costs, including all the add-on costs, in Europe?

Mr Lynch: In PSA Peugeot-Citroën's manufacturing sites. I cannot speak for the whole of Europe but in PSA's manufacturing sites.

Q218 Chairman: You gave labour costs as the first reason.

Mr Lynch: The first reason is labour costs. The other reason is component purchasing costs. Because Ryton manufactures a certain volume the costs of purchasing those components to be uniquely supplied to the UK, as opposed to purchasing

components from overseas suppliers that make them in much bigger volumes for the other plants, is an element as well.

Mr Weir: Are these components manufactured by other manufacturers in the UK or are they imported into the UK?

Q219 Chairman: We are coming on to the component issue in more detail next.

Mr Lynch: The other element is the logistical costs of bringing components in from overseas to the UK. I cited a few minutes ago the body panels, the engines, the gearboxes, the suspension assemblies that are all transported into the UK from the group's facilities as well as the cost of bringing components from mainland European suppliers to Ryton. The fourth point is the distribution costs of the vehicles. Clearly, as Jon explained, a significant percentage of the vehicles that are and have been manufactured at Ryton over the years have been exported to other territories, and clearly there is a cost of getting those vehicles back to mainland Europe. We cannot, unfortunately, manufacture vehicles uniquely at Ryton for sale in the UK.

Q220 Mr Weir: But surely if you are importing vehicles into the UK there must be a cost of doing that? You talk about the importation costs of components in manufacturing vehicles but you must be looking at substantial costs for importing a number of vehicles you are currently selling in the UK from mainland Europe?

Mr Lynch: There is a cost for bringing vehicles to the UK, clearly, but, as I said a few moments ago, the cost of manufacture in the mainland European sites is lower than it is in the UK.

Q221 Chairman: One thing you did not mention in your list of cost reasons was, interestingly enough, energy costs. General Motors in evidence said that energy is now a very major factor in deciding where to locate within Europe. Are these costs a feature of your decision?

Mr Lynch: As part of the trade union business plan, to us the cornerstone of that business plan was that the vehicle that was designated to be built in Slovakia in 2010 should instead be built at Ryton. We have done a detailed analysis of the comparative costs of doing that and a factor in that analysis was energy costs, yes.

Q222 Chairman: I know you cannot quantify it but how significant was it? Modest, quite a lot or a great deal?

Mr Lynch: Modest, not to the degree that was indicated by General Motors, who obviously are in a different position from ourselves.

Q223 Chairman: It was not a deal-breaker?

Mr Lynch: No.

Q224 Mr Binley: I am a capitalist and I hope that reassures you. The fact that I am a capitalist means that I am even more disturbed at some of your answers today, quite frankly. You talk about being

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a profitable company, you talk about real focus on production costs and yet you only source 12.5% of your components for assembly at Ryton, leaving the rest of the stuff to come from elsewhere. Given that GM believes logistical costs are a major disadvantage for the UK car industry, do you think your logistical model was a mistake?

Mr Lynch: I could only really talk about the 206. The 206 was a vehicle that at its peak was manufactured at the rate of something like 800,000 vehicles a year in Europe and at its peak Ryton manufactured 200,000 in one year. Normally the production volumes at Ryton are of the order of 170,000-180,000 on three shifts, which means that some 600,000-plus of the vehicle were manufactured between the two French sites at Poissy and Mulhouse during its production. If you have a component sorting strategy that says part of it is to minimise the logistics costs you are going to choose suppliers that are able to produce them closest to your major centres of production and manufacture, which means that inevitably a significant proportion of components were sourced from French suppliers in order that the total distribution costs of components to all three sites was minimised. There would be little point, for example, in having a set of tools in the UK capable of making 800,000 sets of components a year, delivering 170,000 of them to Ryton and 630,000 across to France.

Q225 Mr Binley: So are you telling me that your decision-making processes put a heavy burden on Ryton almost from the start?

Mr Lynch: Not at all.

Q226 Mr Binley: You cannot have it both ways.

Mr Lynch: The decision-making processes for a particular vehicle optimise the costs of manufacture completely among all of the centres that manufacture it and do not prioritise—

Mr Binley: I understand what you are saying, but it still left the fact that Ryton was at a disadvantage right from early on. You cannot have it both ways. I think Mr Marris wants to come in with a supplementary.

Q227 Rob Marris: In terms of where your supplies of components are based and the 600,000 you get from here to there, I know different companies have different models but I think I am right in saying that Ford does not now produce a single car in the United Kingdom but it produces two million engines in the United Kingdom. That is a similar thing. Those two million engines are going principally into Ford cars which are built in other parts of Western Europe. That is a very different model from yours. Can you tell me why the difference is?

Mr Goodman: We do not know why the difference is and I think you would have to talk to Ford about that. What we do know is that it is important that we talk about our cooperation strategy. One of the reasons that Ford build two million engines a year in the UK is the fact that they are in cooperation with PSA on diesel engines with shared costs that reduce the on-cost of producing those, and now we are

between us the largest diesel engine manufacturer in the world. It is a similar story with BMW who will be producing their petrol engines for the Mini at Hams Hall while we at our engine plant will be producing the same petrol engines which will go into the 207.

Q228 Rob Marris: Is Ford producing diesel engines with PSA which go into 207s?

Mr Goodman: No, which go into the Ford vehicles, but they chose to do that at Dagenham where they have their existing facility in engine production.

Q229 Rob Marris: Are there any Ford diesel engines going into PSA batched vehicles?

Mr Lynch: They manufacture at Dagenham the 2.7 litre V6 diesel engine which is fitted to PSA vehicles as well.

Q230 Mr Binley: Let me move on to this productivity question because it interests me. Ryton at its best was comparable to Mulhouse, 63 vehicles per hour compared with 66 in Mulhouse, and considerably better than Poissy which produced 56 per hour. That is a sizeable contribution to the efficiency and work rate of Coventry's workforce and you praised that enormously. I remember the headlines and the marketing that you used to highlight that triumph and say it was about good management but also about a good workforce. Is productivity not an important consideration for Peugeot in deciding the future of plants? Is there not a view that, "Hey, we have got a good workforce here and we ought to be encouraging them in developing it"? What more could Ryton workers have done to convince your company of the value of the plant, and if Ryton cannot compete with Western Europe what does that mean for Poissy?

Mr Goodman: Be very clear that Ryton has made huge strides over the past two years. It has been a tremendous effort by the people involved at Ryton and it is only right that we do pay tribute to that. We use the Harbour index and, while we cannot give specific figures because for some reason in Europe we are not allowed to, if you take—

Q231 Mr Binley: Apparently what I have given you then? Can you just say that?

Mr Goodman: If you take Ryton as base 100; Mulhouse would be slightly better at 102 and Poissy would actually be slightly worse at 98.

Q232 Mr Binley: Which is what I have said.

Mr Goodman: Productivity has not been the issue with Ryton at all. The issue has been, as we have said from the start, about the cost of production and that cost of production, faced with a requirement to reduce our volumes, faced with a requirement to reduce volumes in the market that Ryton supplies, and that is why the decision was taken to announce our intentions on Ryton.

Q233 Mr Binley: Can I put it to you that for some considerable time historically there was a backstop about favouring French plant as against the British plant so that when the time came, if the time came,

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it would be politically more acceptable to close a British plant than a French plant? Can that be construed from what you have told me?

Mr Goodman: I do not believe it can at all. Ryton has had a crucial role to play for us over the past 20 years. We have worked very hard to build the plant up. We have worked very hard to maintain it and it has always been our intention to maintain it. We are faced with a set of circumstances which we have to react to now, where global influences, global pressure on costs, mean that we have to react and we have a responsibility to our shareholders to do that. It is in no way something that was decided a long time ago. It is something which has come out of the strategic review that we have done in the first quarter of this year. It is a difficult decision but it is unfortunately something which we have to do to protect the wellbeing of the group.

Mr Hoyle: If Ryton was in France would it have closed? The answer is no, is it not?

Q234 Chairman: I want to pursue this at some length if I may. Can we just be clear on the facts? Shifts have been cut, have they not, at the two French factories on the 206?

Mr Goodman: Certainly, yes.

Q235 Chairman: So job losses are happening in France as a result of the problems of the declining sales of the 206?

Mr Goodman: An important point to recognise is that through 2005 when the market started to change halfway through the year we took action at a number of our plants to reduce the production requirement. We did that with shifts coming out at Poissy, shifts coming out at Mulhouse. Generally on the B segment we took shifts out at our other plants, so we put in place the actions necessary to reduce our production. When we got to the first quarter of this year it was clear that we needed to reduce that production still further and the only way to do that, and the only commercial way to do that, was to reduce that production at Ryton, which meant that it did not have a viable future.

Q236 Chairman: So 2,300 jobs go at Ryton and 1,500 in France? Are those the figures roughly?

Mr Lynch: In broad terms, yes. There are 2,000 employees at Ryton.

Q237 Chairman: By the way, you said earlier in answer to a question that there would still be 1,000 workers at Ryton afterwards?

Mr Goodman: No, I said in Coventry. PSA will continue to employ 1,000 people in Coventry.

Q238 Chairman: In distribution and marketing, at that level?

Mr Goodman: Distribution and marketing. Our parts distribution system, which is hugely important,—

Q239 Chairman: Supporting the dealer network and the sales network?

Mr Goodman: Supporting those, and also the training facility.

Q240 Chairman: A question I did want to ask is a question that Lindsay asked you. There are hard economic realities which car manufacturers often have to face but I also think there is a degree of sentimental (if that is the right word) attachment to the base of that company. I think the Japanese car companies now see the UK as their base for Europe, so Nissan, Toyota and Honda seem to invest and do very well in the UK, but you are a French company when push comes to shove, so ultimately your loyalty is to France. It is an emotional thing. You cannot duck it. It is beyond just hard management accounting.

Mr Goodman: Unfortunately, we have to be very pragmatic and very practical in the decision-making processes we go through as a business and those decisions have to be made on economic grounds. The economics of production at Ryton are that it is our most expensive plant so, faced with a requirement to reduce production, that is where you concentrate your efforts.

Q241 Chairman: I would say it is your failure to invest in that plant over the previous period that made it the most expensive plant. It is not an attack, it is not a criticism. It is really important for us in policy terms because the debate about foreign ownership of manufacturing in the UK is very lively at present. We see the Japanese committed to the UK and we see the French not.

Mr Lynch: I think it is important to repeat the aspect of the industrial footprint of the group. We all understand that the Japanese came to the UK some years ago in order to establish a manufacturing base in Europe and that it was not practical long term to shift body panels and engines and gearboxes from Japan. Therefore it invested strategically in Europe as a market in the same way as PSA Peugeot-Citroën has invested strategically in South America and in China. The industrial footprint of the group means that Ryton, as I have explained a few minutes ago, is purely an assembly site. It does not manufacture engines and gearboxes, which puts it inevitably at a disadvantage in comparison to the five major plants that the group has in France, making between 300,000 and 400,000 cars a year when Ryton has a capacity for 170,000-180,000.

Q242 Chairman: So it was at the periphery of your group's concerns and did not get the attention—it is not a criticism; it is an observation, it is a matter of fact—that the French plants got?

Mr Lynch: I would not accept that it was at the periphery of the group's concerns. It was a fundamental part of the group's concerns. There were different investment decisions taken based on need at a point in time.

Q243 Rob Marris: You touched on this before when you were talking to Michael Clapham. The *FT* has reported that the group could have made the 207 at Ryton profitably but would make greater profits on

the 207 producing it elsewhere. Is that your understanding of the PSA group finances on the 207?

Mr Lynch: I have explained that the cost of manufacturing the 206 at Ryton in comparison to manufacturing it in France is higher and therefore it is reasonable to assume that in the case of the 207 that would be a similar situation.

Q244 Rob Marris: That is not quite the question. The *Financial Times* has suggested that the 207 could have been built profitably at Ryton. Do you know whether that suggestion by the *Financial Times* is correct?

Mr Lynch: I do not personally have an economic analysis that shows what the cost of the 207 manufacture at Ryton would be since the decision was taken back in 2004 not to produce it at Ryton.

Q245 Rob Marris: That was in 2004?

Mr Lynch: Yes, 2004.

Q246 Rob Marris: In February 2005 you announced that the 206 was going to become focused on Ryton but the unions are saying that you misled them as to the future of Ryton and you said today that the decision on the closure on Ryton was made following the first quarter strategic review this year. It seems to me that there is some contradiction. PSA made the decision not to build the 207 at Ryton in 2004. You have a model which is stale in 2006 that you have been centralising at Ryton from 2005 because sales for that model are getting stale. Where was the future of the plant to be from 2004 onwards if the 207 was not going in there and the company had made that decision in 2004?

Mr Goodman: The volumes for 206 going forward across Europe were sufficient to justify two shifts at Ryton on an ongoing basis and that was a decision which was taken, to move forward and to put 206 exclusively into Ryton and so Ryton would be the main European manufacturing plant for 206, which was the announcement we made in February. What we saw through 2005 until the end of the year was that it became unfortunately evident, in a far tougher market than had been envisaged, that the requirement for 206 reduced far quicker than anyone had anticipated, far quicker than analysts had anticipated. Remember, in 2004 the 206 was still one of the top two best selling vehicles in Europe, so there was every expectation that volumes in the region of 120,000-130,000 vehicles per year as an ongoing part of the Peugeot range were sustainable over a protracted period. At that stage it was therefore not a moment when we needed to look at what happened post-2006.

Q247 Rob Marris: Can I explore a little bit what you mean by “over a protracted period”?

Mr Goodman: We said “many years to come” at the time.

Q248 Rob Marris: It is your company and your industry, not mine, but my understanding is that the 206 was introduced in something like 1998, that

when you discontinued the 205 you still had the 106 and the 206 and the 205 diesel continued to run. You split your B segment and your A segment—whatever you guys call it—into the 106 and the 206, so from where I am sitting, as somebody who knows a bit about the motor industry, you have got the 206 model, which by 2004 was six years old, which is starting to get a bit long in the tooth in the modern automotive industry, and I mean no criticism of the model, but you are now suggesting that that model might have continued at fairly high volumes for several more years. It would take an extraordinarily good motor car in today’s industry for it to go ten, 11, 12 years with significant volumes, would it not?

Mr Goodman: I have two points to make specifically on that issue. One of the problems that we had as a brand when 205 was replaced by 106 and 306 was that you had an awful lot of people that did not naturally migrate. If you look at the Peugeot brand—and we are getting very specific but I am very happy to go there—it has a 107, which is produced in conjunction with Toyota in the Czech Republic. That is very restricted in terms of volumes. There are 100,000 worldwide for the Peugeot brand. You have a 207 coming in, which is coming in at a price point which is higher than the 206 it replaces. If you look purely in UK industry terms, you have a vehicle in short supply that is below £7,000 and a vehicle that is coming in that is over £9,000, and you have a great tranche of the B segment in the UK which is between those two price ranges. That was why the commercial logic, which we stand by, was that a 206 had a key role to play for the brand to move between those two, not the same as 106 and 306 but very important in today’s market where, as I said earlier, you have got this fragmented market, you have got a 1007, you have got various different models. It is key to have in that price segment a vehicle that is sustainable and can do a job for us and 206 we will always say is that vehicle.

Q249 Rob Marris: Lead times in the motor industry are really quite long, even with modern design techniques and computer-aided design, but the 107 and the 207 have both I think been introduced for retail sale within the last 12 months, have they not, and presumably would have been on the stocks for two or three years before that?

Mr Goodman: The last two months, I think, in terms of the 207.

Q250 Rob Marris: Yes, but I mean the 107, whatever, eight months. Are you saying to the Committee—and you may be and I want to try and be clear on this—that the strategy of PSA was to continue, and may still be to continue, building the 206 in significant volumes beyond the point, or at least up to the point at which that model is ten years old, having been introduced in about 1994?

Mr Goodman: Yes.

Q251 Rob Marris: So that was the aim, and you now find that sales volumes have dipped rather more quickly than you had expected, hence the closure of Ryton?

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Mr Goodman: That is exactly the situation which we are in and that is what we had to decide in the first quarter of this year.

Q252 Rob Marris: You see, if I popped down the road from Ryton to Warwick and spoke to my old friend Nick Matthews in automotive there, or I went down to Cardiff and spoke to Garel Rhys, I suspect they would say, "Well, volumes are likely, good as the 206 may be, to drop off significantly as it gets beyond its seventh year on the market, even with freshening makeovers and so on", and you reached the seventh year in a market, and knew you would, in 2005. The reason I am probing this is that from what you have said today it looks to me that the criticism made by the trade unions, that PSA had decided in 2004 that Ryton was for the chop because it was not getting the 207 and the 206 would be a run-down model frankly, is correct. That worries me, that you appear, and the evidence appears to bolster the suggestion, to have misled the unions as to the future of the plant, which I take quite seriously.

Mr Lynch: The plan and the expectation, which was announced in early 2005 and was communicated to the trade unions, was that from its 800,000 per year peak the 206 volumes would naturally decline but that there would be sufficient demand across all of the European territories where it was sold to support the production of 120,000 to 130,000 a year for some years to come, enabling Ryton to continue manufacturing on a two shift basis for some years to come. That was the plan.

Q253 Rob Marris: As the only Western European manufacturing plant for PSA for the 206?

Mr Lynch: Exactly, that is right.

Q254 Rob Marris: You were, in fact, saying to the unions, "We can keep this model going for another ten years".

Mr Lynch: Yes.

Rob Marris: I am astounded but thank you.

Q255 Mr Hoyle: Rob is absolutely right the 206, if it had not been 2006, it would have been 2007 if the sales had not collapsed. The bottom line is whichever way you try and dress it up, no matter how many times you tell us, nobody will believe that you did not take that decision in 2004 when you refused a grant but we will have to beg to differ because everybody will have a view on that. Can I ask you an important question. The UK market is an important market to you. Is it about your fourth biggest market within Peugeot?

Mr Goodman: Third or fourth, yes.

Mr Lynch: Third, yes.

Q256 Mr Hoyle: So it really is a big market. Obviously those loyal workers from the UK are now going to be made redundant. Have you got a message for them?

Mr Goodman: Yes. I think we have been faced with a difficult decision to announce in what we have had to announce. It was a clear undertaking from the company that once we were moving towards this,

and once we made the decision we needed to announce our intention to close, that we had to put in place all the support that was necessary for us to look after people who had loyally worked for the company. If we had been looking purely at the economics of production the decision to close would have been a decision that was taken to close almost immediately. However, we chose not to do that, we chose to phase out our production over a 12-month period. We chose to move from a two shift to a one shift operation, despite the on-costs that entailed for the company to enable us, recognising the difficulties of the West Midlands, recognising our commitment to the local workforce, to phase out the redundancies, to put in place the procedures necessary to help our people get back to work.

Q257 Mr Hoyle: The unions have got this campaign not to buy Peugeot. How much of an effect will that have on you? Will that cost you more than keeping the plant in the UK open if people in fact decide not to buy Peugeot? I am just asking the question, I am not supporting one way or the other.

Mr Goodman: There are two points which I would like to make. You have mentioned the campaign. I think that, thoroughly opposed to the principle, we have had to make a difficult commercial decision. We are doing that in a way which reflects the requirements of our workforce. We have been in discussion with the unions. The unions oppose it and we quite understand that. The unions asked for a ballot on industrial action. That ballot was defeated, it did not get the vote for industrial action. We are here to look at the factors as far as the UK automotive industry. I am not sure how well received the idea that if someone needs to make a commercial decision in the UK, that they will be faced with this style of approach is going to be in terms of making the UK industry attractive. It is a very difficult thing that they have launched. I am not sure how much it will achieve for the workers at Ryton, we are putting all our emphasis into helping them get back to work. However, we believe that the union boycott will not be effective and that is the basis on which we are proceeding. Our priority has been and will remain to ensure that we put in place the things necessary for the staff to get back into work and the packages to support them.

Mr Lynch: I would say for the other 5,000 people that the group employs in the UK, we hope it does not affect them.

Q258 Chairman: The reason we are asking these tough questions is because we are trying to understand what the policy environment should be to sustain the UK automotive manufacturer, that is the reason we are here. I would love to see you take off your hats and berets as Peugeot-Citroën and instead become people who understand the UK car industry. Why are some companies doing better than others?

Mr Goodman: I think that one of the key things that we have got to bear in mind is a lot of the new investment which has come in over the last ten or 15 years has been effectively relatively new entrants into

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the industry. If you look in Western Europe to the people who are struggling, be it in Germany or be it in the UK, it tends to be traditional manufacturers. The Japanese have come in, they have come in to create their industrial footprint, the key part of it in the UK with all of the scale that goes with that. This is why I think it is important, we have never felt that our example, the Ryton assembly plant, was a reflection on the UK automotive industry as a whole. I believe that the technology is one of the key areas where the UK has an advantage. We have been involved in a number of studies, for example, a recent one that has just finished with Ricardo whose expertise in some of the diesel technology of the future is huge and is something that is a real asset for the UK motor industry. You have people like QinetiQ and their battery technology which is a huge asset for the motor industry. I believe that it has very much got to be at the high-tech level of things that the ancillary part of the industry can attract inside investment. In terms of new investment into the industry, in terms of someone coming in and building a new plant in the UK, we have not seen a new plant built in the UK, nor in Western Europe, for some years.

Q259 Mr Hoyle: What about the BMW and Toyota plants?

Mr Goodman: Toyota in Northern France was the last one.

Chairman: BMW opened in Leipzig last year.

Rob Marris: That is not Western Europe.

Q260 Mr Hoyle: I think Toyota was the last one.

Mr Goodman: It is very much in respect of that that there is an opportunity. We are, as an industry, faced with a need to constantly reinvent ourselves. The cars we drive today are not the cars we drove 15 or 20 years ago. There is another sea change coming with the future technology, such as hybridisation, battery technology and the hydrogen side of things. I believe that is an area which needs to be concentrated on to provide the fund of technical expertise in the UK that all European manufacturers can pool.

Q261 Chairman: The companies which have a very, very long historical commitment in the UK, such as Ford and General Motors, who have had their problems recently can find ways of meeting that commitment. There are companies that come in brand new to the UK like Honda, Nissan and Toyota who set up greenfield factories which are very attractive in producing and there are companies like you who have small freestanding plants which are quite vulnerable to closure.

Mr Goodman: There are not many companies like us in that regard. It is a very specific situation that we are faced with and that is why I think it would be wrong to draw parallels on the UK automotive industry, as a whole, on the situation at Ryton.

Q262 Chairman: I heard very strong rumours that at one stage in the past you were looking to significantly modernise your factory. You had

looked at a massive extension to land nearby, which was green belt land, and you could not do that because the planning application could not be pursued. Are you aware of any truth in that?

Mr Goodman: Personally, I am not aware of that at all. Is that something you are aware of, Michael?

Mr Lynch: Part of the study in 2001-02 included a completely new paint shop because that was what was necessary in order to bring it up to future standards.

Q263 Chairman: That would have been on green belt land?

Mr Lynch: There was some land opposite, I believe there was investigation into the possibility of a supplier park.

Mr Binley: On a cricketing basis, I recognise that you lads have been sent in on a very difficult wicket to face some quite hostile bowling and you have been on the back foot for most of the time. I recognise that is your job and I think you have done it very well. We ought to say to Peugeot what good employers you have been and I think that has been a tremendous effort in difficult circumstances. However, we are still left with a situation whether it was 2006, 2008 or at the very best 2010, the decision made in 2004 meant that Peugeot at Ryton would close. It could have been no other decision. Can you tell me whether that was the case or were you hoping for a change of bowling? What did you expect would come along bearing in mind that there was nothing in your locker quite frankly? What did you expect would come along?

Q264 Rob Marris: SW stands for station wagon, not sticky wicket!

Mr Goodman: I think you relate to 207. There are other projects on the platform, one which would have been potentially for Ryton, and that was why the application for grant aid was written in the way it was, it was very non-specific about the model. I do not accept that the 207 announcement was a decision on Ryton at all. We have been very clear.

Mr Binley: Your elbow is up and you are going back.

Chairman: I think we are going over old territory.

Q265 Rob Marris: I did want to raise one question following on from your question, Chairman. When we were talking more generally about the UK automotive industry and you were giving some very interesting insights, there is—it is not a great parallel—a parallel with the 206 and the Mini. The difference being, of course, Hams Hall makes the engines in this country but the Mini plant in Cowley is a single model plant, part of a large and quite successful family-owned international automotive company. Do you envisage that there may be problems continuing automotive production by BMW in the UK, given what you had with PSA where you ended up with a single model at the light end?

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Mr Goodman: You know what I am going to say because I cannot speak for BMW, I can only speak for the specifics of PSA at Ryton. We have been through the specifics, I think that is a question you are going to have to put to BMW.

Q266 Chairman: I sense a degree of impatience to move on. We have one very important last question and you invited Mr Lynch to start on it earlier on. This is exactly where we began the whole inquiry, about the treatment of employees at MG Rover after the closure of the plant there. I would like you to tell me what you are doing to support employees who are losing their jobs at Ryton and how much support you have had from the various regional and local organisations who might have looked to support you, and indeed national organisations?

Mr Lynch: I am happy to explain that. When the group announced what it proposed to do back in April, we followed that up quite swiftly with some further meetings with the trade unions and in one of those we explained the total package of support which the group intended to make available to employees. One element of it was the financial package as you will assess. The group decided to show its commitment in the circumstances through offering a very strong financial package to its employees and if I can quote a couple of examples. For an employee who has done 18 years' service—and we have a high number of employees who have done 18 years' service—the payment for them is the equivalent of some 23 months, gross pay. When I say gross pay, I mean base pay, plus shift premiums, plus direct workers' allowance, plus attendance bonuses. For somebody who has done 18 years, it is the equivalent of 23 months' pay. In addition to that, they have the facility to buy their company vehicle at a third off the bottom book price. We are making strong efforts to support people financially. We understand and recognise that is only a part of the support that we need to provide and the other part is to help them into new employment, for those who wish to move into employment, others clearly will take the opportunity to retire because people over the age of 55 will receive an immediate non-actuary induced pension. Some may choose to take that and retire, others may choose to take that and seek other employment as well, and they are perfectly at liberty to do that, of course. We have established a resource centre at the Ryton plant which has significant resource devoted to it both in terms of people and money. The group has allocated a £5 million budget to help people move into new employment and it has established an effective working relationship with a number of the local agencies, including Jobcentre Plus, the LSC, Coventry Partnership and Advantage West Midlands. There are people from these organisations working on-site at Ryton and there is a significant amount of effort taking place to help people into new employment. I am happy to say that a significant number of employees have got new employment or are in the process of seeking new employment. We are providing training opportunities. All 2,000 employees have had a one-to-one interview with their manager to identify what

their aspirations and preferences are. Over 1,000 employees have had a 45 minute interview with the LSC to determine what training requirements they need. Some 700 or 800 people have already had training courses approved and are in the process of being delivered and there are another 400 or 500 in the process. There is a very significant amount of effort being put in to help people into new employment. We have a number of other companies on-site this week interviewing employees to help them move into new employment, and there are a number of major employers who are involved in that process now.

Q267 Chairman: Is there any more you feel the public agencies could have done to help you in that process?

Mr Lynch: We have had a lot of support from the public agencies, they have provided people, they have provided resource and they have provided opportunities. We have a very effective relationship with them. There are, as I said, people working on-site at the Ryton plant and there is a weekly coordination meeting of all the agencies in conjunction with people from the plant to make sure that the efforts are properly focused and directed to help people get to where they want to go as quickly as possible.

Q268 Mr Hoyle: On terms and conditions, obviously you are making enhancements on redundancy pay. Are you doing the same in France or is France slightly worse off or slightly better off than the UK or are they the same?

Mr Lynch: The statutory redundancy payments in France are higher than they are in the UK but the payments that are being made, the financial package that has been put together for employees in the UK, are higher than has traditionally been given.

Q269 Mr Hoyle: Have I got that right? You are saying that people in the UK, their redundancy package is greater financially than the ones in France?

Mr Lynch: The ones that PSA is offering its employees in the UK are higher than the ones that have been offered in the past in similar circumstances in France.

Q270 Mr Hoyle: That is not quite what I asked. Are you getting more money if you are being made redundant in France than if you are being made redundant in the UK? A straightforward answer, yes or no?

Mr Goodman: The redundancy pay being given to the employees at Ryton is greater than the redundancy pay that was given to the people that left in shifts at the end of last year in France.

Chairman: You have got your answer. It is not the one that you were expecting but I think you got it.

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Q271 Rob Marris: In terms of the employees who are being made redundant at Ryton, (a) have you offered to any of them and (b) if so, have they accepted, a move to any of your other plants in Western or Eastern Europe?

Mr Lynch: A part of the opportunity for all employees is to re-deploy in the UK. We have sought actively to redeploy people. We have a Tile Hill parts warehouse, that is also located in Coventry, which employs some 300 manual employees.

Q272 Rob Marris: I was wondering about elsewhere in Europe?

Mr Lynch: People are re-deploying to the Tile Hill warehouse, people are leaving the Tile Hill warehouse on the same package as the people from Ryton, the people from Ryton are replacing them. We have also offered the opportunity for people to relocate to other parts of the group and we have put together a financial support package.

Q273 Rob Marris: Such as Mulhouse or Poissy?

Mr Goodman: Yes, such as Mulhouse, Poissy, Paris or wherever. At Ryton some 130 people have expressed an interest in that in total and they have each had a presentation on the packages, and also the implications of that because that is clearly a big change for people to make in their lives. It is not an

expatriation, it is almost an emigration, to work on a local contract in another country where the group is present and those offers have been made.

Q274 Rob Marris: The group is making that available?

Mr Lynch: Absolutely, the group has committed that anybody who wishes to go, suitable equivalent employment will be found for them.

Mr Goodman: One last comment on this, if I may. When we made the announcement it was made very clear that our commitment was to ensure that none of our people was left to face a very difficult time alone and we are continuing to honour that commitment and will continue to do that right the way through to the closure of the plant, and beyond.

Q275 Rob Marris: In theory, some of the Ryton workers could end up building the 107 in the Czech Republic or wherever it was if they chose to?

Mr Lynch: If they chose to they could do something like that. Clearly there are issues associated with language and other matters, but the opportunity exists.

Q276 Chairman: Gentlemen, is there anything else you want to say to us before we conclude this session?

Mr Goodman: Thank you for the opportunity to come in and give evidence.

Mr Lynch: We have enjoyed the game of cricket. Thank you.

Chairman: Gentlemen, thank you very much indeed.

Written evidence

APPENDIX 1

Memorandum by Advantage West Midlands (Regional Development Agency) on behalf of MG Rover Task Force

1. INTRODUCTION

1.1 Advantage West Midlands have no evidence to offer on the roles played by the respective Secretaries of State during the disposal of Rover Group subsidiaries in 2000 and the MG Rover Group negotiations with Shanghai Automotive during 2004–05.

1.2 However, for general information with regard to the Rover Task Force formed in response to the BMW decision to sell Rover Group Ltd in 2000, the committee is referred to the Rover Task Force Final report and recommendations to the Secretary of State for Trade and Industry dated 30 June 2000.

1.3 This memorandum focuses on the third theme of the TISC inquiry stated as:

The effectiveness to date of the recovery package and taskforce for the Rover workforce and the West Midlands more generally after the company went into receivership.

1.4 This response is on behalf the Advantage West Midlands (AWM) which was the lead agency for the MG Rover Task Force. The formation of the MG Rover Task Force was announced on the same day that MG Rover went into administration, and AWM was designated to lead the key organisations and individuals from the public and private sector to deal with the regional and local consequences of the closure. The terms of reference for the Task Force are shown in Annex 3.¹

1.5 There were 70,000 jobs in the automotive sector in the West Midlands in 2003, as defined by the DTI. It accounts for an estimated 4.1% of output and 3.0% of jobs, significantly more than any other region in the UK, and 16% of the manufacturing employment base. This strong presence accounts for around one third of the employment in the sector nationally. In spite of the MG Rover closure, the region will continue to have by far the largest single concentration of automotive activity in the UK with a wide range of firms, global players, a strong supply chain, and major concentrations in design capability.²

1.6 Being operationally embedded in this “automotive cluster”, AWM were best placed to assume the mantle for co-ordinating the response of the Task Force to the MG Rover Closure.

1.7 Short and medium-to-long term plans were developed and acted upon by the Task Force to ameliorate the impact of the closure along the lines of three primary themes:

- Employee Support—Ensure employees were immediately financially supported by rapid processing of benefits, statutory redundancy, and other compensatory payments. Ensure those with the appropriate skills were fast tracked into available jobs, and that those requiring up-skilling or re-training for different careers were given avenues and support to do so. Engage with employers to proactively job match vacancies, and offset travel cost barriers where appropriate.
- Supplier and Vehicle Retailer support—Provide short term rapid response to avoid a domino effect of company closures by access to finance, business consultancy support, and a wage replacement scheme; all to safeguard jobs and the regional economy pending the introduction of business recovery plans. Follow-up with medium to long term consolidation programmes to improve the productivity and competitiveness of key suppliers to the benefit of all, and give a wider business support for new product development for penetration into new markets.
- Community Support—To address the concentration of impact in the SW Birmingham area with short term actions on debt relief, employability schemes, training, and local business support, and ensure that these short term responses match the longer term vision of regeneration for the area being developed by Birmingham City Council.

1.8 As part of its management of the MG Rover Task Force, AWM commissioned two reports to advise Government on the potential Economic Impact of the MG Rover Group closure, and produced three progress reports on the implementation of the £175.6 million MG Rover Support Programme. These and other associated reports are listed in Annex 2 and are available on the media section of the MG Rover Response website:

<http://www.advantagewm.co.uk/rover-response.html>

1.9 Of these reports, the following would give the committee detailed operational information on the initiatives mentioned briefly in this submission:

- The Task Force *One Month On* report which outlines all the emergency actions taken to support the 5,300 employees made immediately redundant, supply chain companies, vehicle retailers, and the local community.

¹ Not printed.

² Regeneris Consulting—Closure of MG Rover: Economic Impact Assessment—An Interim Report—July 2005.

- The *Six Months On* report provides in-depth coverage of the actions taken by the various agencies, the quantitative results at that stage, the lessons learned and recommendations to Government for improvements to deal with this type of event in the future. The *Six Months On* report also draws on the conclusions from the Economic Impact studies and a Review of the Insolvency Framework in the context of MG Rover.
- The Final Update Report—*The Work Goes On*—gives the latest statistics on the employee's return to work and training provisions, and an overview of the new and continuing projects to complete the MG Rover Support Programme over the next two years.

1.10 Furthermore, the National Audit Office study on *The Closure of MG Rover*, published on the 10 March 2006, also provides a commentary and assessment of the effectiveness of the Task Force response in Part 3—"Dealing with the consequences of MG Rover's collapse".

<http://www.nao.org.uk>

1.11 The recommendations in the *Six Months On* report given to Secretary of State for Trade and Industry looked at the lessons learned from the closure, and covered issues such as:

- Adopt a targeted approach for key sectors to enable individuals to undertake intensive vocational training (over 16 hours a week) and still access a training allowance from JobCentre Plus.
- Review the application of the 28 day rule where temporary return to work in excess of this period excludes the redundant worker from a training allowance. This is a disincentive to take temporary work while waiting for vocational training.
- Gather more data on the effects of the insolvency process on the whole economy and particular stakeholders. Compare this evidence with other national regimes and consider how changes in the process options/mechanisms could strengthen the "company rescue culture" rather than focusing on fair shares of the remains.
- More systematic approaches to VAT recovery on bad debts and deferral of VAT, PAYE, and NI for all insolvency situations.
- Establish a permanent transition loan fund to avoid the insolvency of otherwise viable companies.
- Consider the key Task Force operational lessons from the MG Rover case study as the basis for a "model" response to any future major company failures with large scale redundancies and significant supply chains.

A formal response from the DTI on the report recommendations is likely to be available before this committee hearing.

2. CONTENT OF THIS SUBMISSION

2.1 Since there is already a wealth of descriptive content in the above reports for the committee to draw upon in terms of the Task Force role and activities that have and are taking place, this submission will assume some knowledge of this background, and will focus on a summary of the interventions giving the results/outputs where known.

2.2 This submission will follow the Task Force action plan themes as follows:

- Employee Support.
- Supplier Support.
- Community Support—(the local residents).
- Retailer Support—(the MG Rover UK Dealership network).
- Communications.

2.3 The committee should be aware that the MG Rover Support Programme includes funding for independent evaluations to be made of the success or otherwise of the interventions. The first (Phase 1) report on short-term interventions will commence during Q2 2006, with the report on medium to longer term interventions scheduled for Q1 2008.

2.4 While AWM had direct control and in depth knowledge of most of the Task Force support actions, other activities were run independently from AWM and would best be reported by the departments concerned. Eg Direct redundancy payments to employees from the Department for Work and Pensions, regional training programmes support through the Learning and Skills Council; and community support actions through Birmingham City Council.

2.5 The MG Rover Support Programme represents the total collection of projects and initiatives that make up the £156 million Programme announced by Government on 15 April 2004 plus a further £10 million committed each by AWM and Birmingham City Council giving a total of £176 million. A financial summary of the MG Rover Support Programme (MGRSP) is shown for convenience in Annex 1.

2.6 Government, together with contributions from AWM, the European Commission, and Birmingham City, has provided the Task Force with the necessary funding over three years to deliver this response, both in the short-term and also assisting with the long-term modernisation of our regional business base. The response has been carefully costed. Public money—European or otherwise—has not been diverted from economic development activity in other areas of the West Midlands to pay for this response.

3. SPEED OF RESPONSE

- Friday 8 April—MG Rover goes into administration.
- Monday 11 April—(week 1)—DTI decides to pay wages for one week to allow breathing space for a possible deal with SAIC or others under the changed circumstances.
- Monday 18 April—(week 2)—redundancy notices issued.

3.1 Once the crisis had occurred, the key to limiting the damage was to act quickly. Here the Task Force reaped the benefits of the contingency planning that had been in development since the beginning of 2005.

3.2 Throughout this critical period, Government departments, notably the Department of Trade and Industry, the Department for Work and Pensions, and HM Revenue and Customs, provided the speed of service and flexibility to make things happen in the best interests of the affected parties. The following sample of emergency measures in the first weeks illustrates the speed and content of response that was achieved.

3.3 *Employee support*

Week 1

- Task Force website goes live giving advice and contact details mainly to suppliers.
- Jobcentre Plus helpline with advisors to book appointments, 11,000 calls in eight weeks.
- Birmingham City Council announces help for applications for jobs with City Council

Week 2

- Jobcentre Plus “Here to Help” pack issued to every worker with their redundancy notice.
- Jobcentre Plus opens on Saturday and Sunday with extra staff drafted in from other areas (1,000 MGR workers per day being processed for Jobseekers allowance).
- Statutory redundancy payment within two days of claim, compensatory notice four days, and overall 99% of claims paid within 21 days (*NAO report 3.11*).
- Extra skills advisors drafted in by LSC to provide training plans (350 processed).
- Two Job Fairs planned and advertised (Cofton Park and Bournville College).
- Employer hotline launched targeting jobs for MGR workers (1,600 vacancies from 219 employers).

Week 3

- Programme of support launched for placement of 87 MGR apprentices.
- Wives and partners of MGR and Peugeot workers given access to FE courses.
- Manufacturing Skills hub launched with travel and training incentives and skills/job matching service. Employer hotline—2,439 vacancies from 446 employers.
- Hollymoor Centre opened for skills advice and training plans (1,350 processed).
- Cannon Hill Jobs Fair planned and advertised.

Week 4

- Job matching service for manufacturing sector developed by Jobcentre Plus in conjunction with LSC, Engineering Employers Federation, Society of Motor Manufacturers and Traders Industry Forum, etc.
- Task force provides funding to retain MG Rover HR team (10 people) to maintain hot line links for information, establish personal history training records for employee references/CV support, weekly communications packs posted to all redundant employees, assistance to Jobcentre plus on candidates for job matching. (HR team maintained at this level from June until end of December 2005.)

3.4 *Supplier Support*

This first phase of supplier support was reactive—dealing with suppliers needing urgent advice or assistance in the aftermath of the closure.

Week 1

- The Emergency Supplier Support Programme commenced with a Wage Replacement Scheme launched for companies in MG Rover supply chain. (£50 per employee per day (+ training) for up to six weeks). Administered through Accelerate team at Birmingham Chamber. Objective: to avoid knee jerk reaction in making unnecessary redundancies.
- The above Programme also provided free business consultancy support funded to help with redevelopment of business plans and insolvency avoidance. 100 regional and national advisors from DTI, AWM, Business Link, and Manufacturing Advisory Service were mobilised within five days, with visits starting after two days.

Week 2

- £598,000 paid out to 63 companies to safeguard 1,310 jobs through wage replacement scheme.

Week 3

- Task Force and HM Revenue and Customs (HMRC) announce VAT deferrals on bad debt owed by MG Rover and Powertrain.
- HMRC consider case by case supplier situations to allow VAT/PAYE/NI payment deferrals.
- Task Force commits £280,000 to re-instate MG Rover's IT system and allow suppliers to retrieve their parts from the Longbridge Distribution Centre.

Week 4

- Task Force establishes a £20 million Advantage Transition Bridge Fund to make loans of up to £500k available to suppliers and dealerships with a viable recovery plan.
- Specialist vehicle manufacturers reliant on Powertrain engines also eligible for emergency business support.

3.5 *Community Support*

Week 1

- Birmingham City Council hotline goes live for MG Rover workers and their families to provide support, benefits and financial advice. 20 advisors drafted in.
- Birmingham City Council announce £10 million to support access to employment, community support, infrastructure and enterprise.

Week 2

- Northfield Neighborhood Office opened over the weekend to offer advice and support.

Week 3

- Wives and partners of MGR and Peugeot workers given access to FE courses.

3.6 *Retailer/Dealership Support*

- All of the Task Force supplier support initiatives were available to retailers with the exception of conversion training of technicians to new brand vehicles because the training did not meet the Level 2 NVQ criteria.

3.7 *Communication*

Week 1

- As mentioned above, a single dedicated Task Force website with suitable links to other relevant agency websites for all affected was designed, populated, and ready to go within half an hour of any announcement.

- All media enquiries were channelled through the AWM press office with only Nick Paul nominated as spokesperson for the Task Force.

Week 2

- An “Extranet” website provided for the Task Force member for updates on media work, meeting minutes, etc.
- Weekly reporting mechanism established for latest information on achievements on employees back to work, supplier support initiatives, training, and community actions.

By July, a weekly mail out was sent to all MG Rover workers via the HR team retained at Longbridge.

4. TASK FORCE ACHIEVEMENTS AND THEIR EFFECTIVENESS

4.1 *Working Together—Teamwork*

Throughout the last 12 months, we have seen the West Midlands region at its best. Advantage West Midlands, Accelerate and Birmingham Chamber of Commerce, JobCentre Plus, Learning and Skills Council, Birmingham City Council, other Local Authorities, the Unions, community groups, industry bodies, politicians, and many more organisations and individuals, from both the public and private sector, have come together as the MG Rover Task Force to develop solutions and deal with an industrial collapse exceptional in scale and suddenness.

4.2 *Economic Assessment*

From the beginning the Task Force focused on three areas that were identified as crucial for the prospects for individuals and the economy: employees, MG Rover suppliers, and local communities. The economic assessment indicates how successful the Task Force has been in these areas:

Table 1

ESTIMATES OF THE MAIN ECONOMIC IMPACTS TO THE REGION

<i>Impact Phase</i>	<i>Loss of GVA (£m pa)</i>	<i>Loss of Jobs (total jobs)</i>	<i>Loss of Wages (£m pa)</i>
Initial short term base line forecast ³ (six months)	£325–£380	13,000	£220
Current short term estimate ⁴ (six months)	£200	9,000	£230
Medium term ³ (up to two years)	£50–£90	4,500–6,000	£130–£160
Long term ³ (up to five years)	£0	1,000–3,000	£60–£110

- As illustrated in Table 1, the current short term economic impacts are significantly better than the base line position projected in the July interim Economic Impact report. Reflecting well on the contribution of Task Force interventions so far, further improvements forecasted for the medium and long term will be dependent on the rate of re-employment of the former MG Rover and supplier employees into industries held back by skills shortages; and improvements to the competitiveness of the supplier base.
- While the total number of lost jobs in the region due to the closure has been estimated at 9,000, the task force effectiveness on this issue for TISC can only draw on registered statistics from Jobcentre Plus and the results from surveys.

4.3 *Employees—Redundancy and Compensatory payments*

- Redundancy payments were prioritised by the Redundancy Payments Service and fast-tracked through the system as quickly as the awards have been quantified. Payments worth £51.5 million have been made in respect of 4,604 Protective Awards, 5,492 claims of payment in lieu of notice, 5,618 Redundancy claims and 5,561 claims for holiday pay. (Trades Union representatives on the Task Force have been particularly helpful here in ensuring clear explanations have been given on the status and presentation of these payments)
- As revealed in the NAO report: “the Redundancy Payments Directorate reported that on average it was able to make statutory redundancy payments within two days of applications being received from former MG Rover employees, well ahead of the normal targets to pay 70% of claims within three weeks and 92% within six weeks. Likewise, all former MG Rover employees who received

³ Economic Impact of MG Rover Closure—Interim Report—Regeneris Consulting—July 2005.

⁴ Economic Impact of MG Rover Closure—Stage 2 Report—Regeneris Consulting—September 2005.

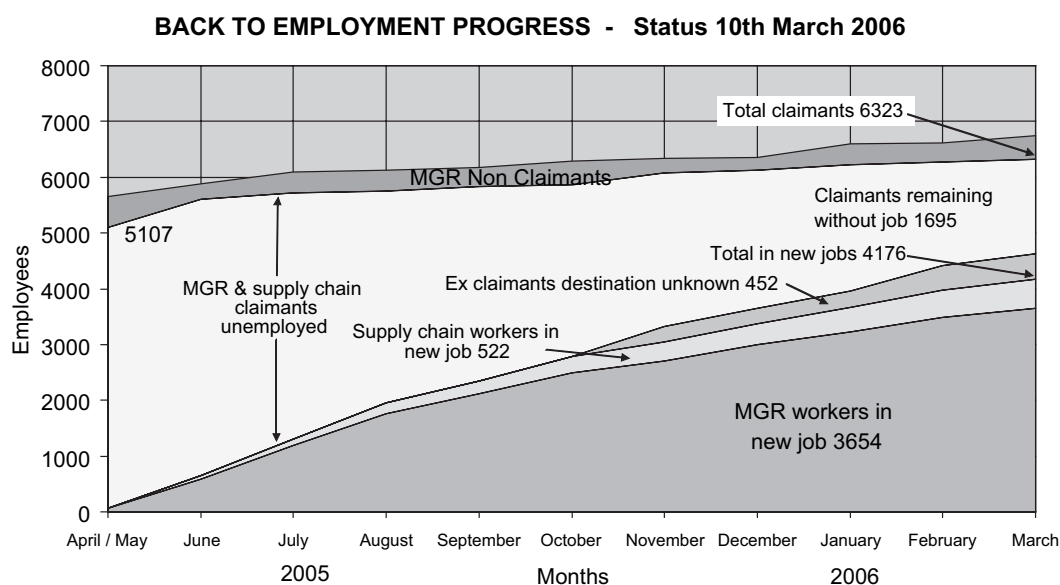
redundancy letters were interviewed and able to claim and receive benefits promptly. Both agencies mobilised a large number of extra staff and took other measures to deal with the extra workload.”

4.4 Employees—“Back to Work” facts

- The prospects of former MG Rover and supplier workers of regaining employment are good. By 10 March 2006, 66% (4,176) of MG Rover and supplier employees were back in employment of the 6,323 who claimed jobseekers allowance following being made redundant. This is on track for previous estimates of around three quarters being re-employed within 18 months of the closure, particularly as supported by the training initiative.
- The speed at which individual employees have returned to work has been influenced greatly by the circumstances surrounding the closure of MG Rover.
 - It is unusual for so many people to lose their jobs with no notice, and thus not have the chance to come to terms with their situation and make plans for the future before becoming unemployed.
 - Many employees, especially older shop floor people, had only worked at Longbridge and would have taken time to consider their options for re-employment.
 - The comparatively high pay at the company may have influenced individuals’ jobsearch and their desire to re-train for a skill offering a similar level of pay.
- Of these back to work individuals 751 have gained new jobs through the Manufacturing Skills Hub with 75% of these receiving training and travel support.

Figure 1

“STACKED” GRAPH OF MG ROVER AND SUPPLY CHAIN “BACK TO WORK” HISTORY



*Employment statistics from Jobcentre Plus as at 14 February 2006.

4.5 Employees—“Back to Work” support effectiveness

- In April 2005, as part of the planned response to the closure, Jobcentre Plus estimated that 75% would no longer be claiming JSA after 12 months.
- Projecting 10 March (47 weeks) achievement, would give a total of 73% no longer unemployed at 12 months—very close to the original estimate.
- In the report, *Closure of MG Rover: Economic Impact Assessment* commissioned by the Task Force, the consultants, Regeneris have estimated that the overall re-employment rate after 18 months is most likely to be “around the higher 70%’s”. Again, we are on course to at least achieve, or more probably exceed that estimate.
- While the rate of re-employment has been running at around 100 per week, it is recognised that it is essential to maintain momentum for the 2,000 or so people yet to be re-employed. Consequently, further JobCentre Plus and Learning and Skills Council services are now being introduced to

facilitate the move from training into jobs, and to engage with those who are having particular difficulties in finding jobs or have not chosen to participate in any of the training or back to work initiatives.

- Over 4,000 people have completed an individual skills advice session to develop their own Training Plan. Not counting one day assessment courses, around 2,000 individuals have received training, of which approximately 500 have had their full vocational training entitlement, and another 300 are scheduled to commence soon. 1,111 (57%) of those who have trained are now working. Over 30 people have started higher education courses at one of the regional universities.
- As expected, many of the management and professional employees and skilled engineers were able to obtain jobs through their own initiative using commercial recruitment agencies, the internet, etc. However, it is estimated that at least 50% of those gaining re-employment have secured jobs as a direct result of the efforts and intervention of Jobcentre Plus, the LSC, and Birmingham City Council through Job Fairs, job search facilities, the manufacturing skills hub, job matching, CV and interview preparation, training, and special training links with guaranteed jobs.
- Support has also been provided for those looking to set up new enterprises by the Chamber of Commerce:
 - Technicians and higher level employees—47 highly skilled individuals have been supported through the Mustard high growth start-ups programme.
 - Training for a trade—138 clients have attended enterprise awareness sessions, and
 - Generic lifestyle entrepreneurs—135 clients have been seen on a one to one basis for pre-start support.

4.6 Suppliers and Retailers—effectiveness in safeguarding jobs

- The direct impact on suppliers has also been less than the baseline estimate. Based on a survey of those suppliers participating in the Wage Replacement Scheme (WRS), evidence suggests there have been fewer than 2,000 supplier redundancies as a result of the MG Rover closure, compared to our earlier July Interim report estimate that almost 2,400 were at immediate risk. (However, only 956 supplier redundancies have been traceable as JobCentre Plus claimants.)
- While the WRS safeguarded 3,034 employees at 170 companies for a period of time, the survey also confirms that ultimately 1,329 jobs were definitely saved/retained as a result of the scheme. For the base scheme cost of £3.4 million paid out to companies this works out at £2,560 per job saved.
- The VAT/PAYE support—was extensively welcomed with almost £12 million of deferrals agreed for 106 companies
- Up to 20 February 2006 The Advantage Transition Bridge Fund (ATBF) had received 21 applications from 20 companies amounting to a total of £6 million of which £5 million have been approved (£2.7 million to Dealerships, £2.3 million to Suppliers) with draw downs totalling £2.8 million.
- Approximately 1,050 jobs have been safeguarded as a result of the ATBF approved loans (accounts for an approximate 150 overlap with the wage replacement scheme).

4.7 Community Support—effectiveness of presence in the community

- In the first six months, 6,922 clients were interviewed and supported by Birmingham Council's Neighbourhood Advice and Information Service—including family members and others affected from other Local Authority areas. Demand is still three times the norm.
- In the same period, the Debt Advice Team has delivered 227 hours of work, averaging 6.1 hours per client. 35% of clients being from outside the Birmingham boundary.
- Besides the formally represented membership of the Task Force there have been informal self-help groups created to network their problems, issues, and job information via e-mail or special websites. Notable amongst these is the Rover Community Action Trust, a support group formed by the partners of MG Rover workers who, through helpful liaison with the relevant agencies, ensured the Task Force were aware of the pressing practical and financial issues and the human aspects of the closure. This group gives particular sympathetic and morale-raising support to those living in the vicinity of the plant where more than one member of the family may have been directly affected.

5. NAO REPORT OVERALL CONCLUSION ON TASK FORCE PERFORMANCE

5.1 The large scale and speed of the Company's collapse in April 2005 created a substantial challenge for public bodies. The contingency planning to mitigate the impact on employees, suppliers and the local economy if the Company were to collapse (co-ordinated by the Department (DTI), involving HM Treasury, Advantage West Midlands, Jobcentre Plus and the Learning and Skills Council) enabled a rapid and effective response when the Company closed on the 15 April.

5.2 The agencies on the ground expanded their capacity quickly to meet the immediate large increase in demand for advice and services from both the 5,300 people who had been made redundant from MG Rover on 15 April and from companies in MG Rover's supply chain. The prompt processing and payment of statutory redundancy pay and social security benefits helped many employees and their families at a particularly stressful time.

5.3 There is evidence that some former employees have been frustrated by the time taken, for example to get on to training programmes, although others have been successful and obtained both training and employment.

5.4 The prompt availability to suppliers of advice, wage support, small loans and VAT deferrals helped mitigate the impact of the sudden loss of liquidity and business.

5.5 Public bodies should draw on the lessons that have been learnt, and documented, by those involved in the MG Rover Task Force as well as the perspectives of those receiving services.

5.6 A key issue for public bodies in such situations will be their ability to respond in a cost-effective manner to the need to increase quickly their capacity to offer relevant training and to ensure that the support and information they provide to employees on training and employment opportunities is made available at a time and in a manner which is most beneficial to the recipients.

6. THE FUTURE

6.1 As we reach the 12 month milestone the MG Rover Task Force entity itself has ceased, and management for implementation of the MG Rover Support Programme has devolved to the operational agencies where the emphasis is changing from addressing immediate problems to building for the future, based on the lessons learned. Some of these responses are being put in place now; others will need to be reflected on in the Review of the West Midlands Economic Strategy which will start early in 2006. A Task Force Executive Sub Group chaired by AWM will continue to monitor the ongoing delivery of the support programme.

6.2 Employee support is focussing on those people who are making a major career change, on finding employment for those coming out of the training programmes, and on developing support packages for those former employees who are still out of work and for some reason have not yet gone through any of the support programmes.

6.3 Community work will emphasise maintaining the confidence of families and individuals in the most affected areas, and notably the area around Longbridge itself. This will include work with young people, as well as debt advice and specific neighbourhood work. Special programmes are in development to undertake these actions and contribute to overall South West Birmingham growth and development proposals being led by Birmingham City Council.

6.4 As part of the longer-term approach, programmes are being developed which focus on increasing the number of businesses which are truly globally competitive. These programmes are focussing on the productivity of complete supply chains as well as capability in new product development and design.

6.5 The work in support of the current West Midlands Economic Strategy will continue to be a major part of activity following the closure of MG Rover. For example Longbridge lies within one of the Region's High Technology Corridors, which has been active for some time in attracting and establishing a focus for innovative industries of the future. The Regional Skills Partnership is working to upskill and reskill employees and leaders for the new economic challenges, and the Automotive Cluster is developing and implementing regional initiatives to support the future success of its sector.

6.6 A more comprehensive description of the activities mentioned above, and of others not mentioned, is to be found in the MG Rover Task Force update report—*The Work Goes On*. While mindful of the size of the task still to be achieved, the Task Force has been impressed by the willingness and ability of the Region's organisations and businesses to work together, and the energy and capability of community groups and prominent individuals, and believes that this start bodes well for the future.

7. CONCLUSION

7.1 Factual indications given in this submission confirm that the Task Force activities have been effective; with back to work expectations being met, supplier or plant closures limited to eleven so far, over 2,000 jobs in the supply industry safeguarded through wage replacement and loan schemes, and projects commenced to give longer term competitiveness to the supply chain.

7.2 However, it is recognised that getting the remaining 2,000 or so employees back to work probably represents the hardest part of the exercise, and new employability initiatives are currently being put in place. This “Working for Jobs” initiative will have more presence and vigour, and in combination with other practical support initiatives targeted at the local community, it is intended to get the atmosphere of the area back to one of optimism and inclusion ready for the longer term major development plans.

28 March 2006

Annex 1

THE MG ROVER SUPPORT PROGRAMME—FINANCE SUMMARY

Shortly after the MG Rover failure the Secretary of State for Trade and Industry announced the allocation of £155.6 million. Subsequently Advantage West Midlands and Birmingham City Council added a further £20 million of public funding to support the response to the situation. The allocation of this funding is set out below. (“Allocated”).

The table is the status as at 10 February 2006 and shows the amount of money “forecast” for expenditure against each programme over the whole three years, as well as the amount already “committed” or approved by the Task Force to each programme.

Forecast and committed figures in some programmes may change as further commitments are made.

<i>Project Description</i>	<i>Allocated</i>	<i>Forecast¹</i>	<i>Committed^{1, 2} or Approved by Task Force</i>
<i>(Three year programme 2005–06–07–08)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Supplier Support:			
Extension to current diversification/accelerate/mustard	18.4	18.4	18.4
Phase 1 Short Term Response			
—Emergency Supplier Support— <i>Wage replacement, etc</i> ³	10.2	6.4	5.9
—Task Force Response Fund ⁴ — <i>Jobs Fair, Business start-ups, etc</i>	3.0	2.7	1.0
Phase 2 Long Term—Competitiveness Improvement ⁵	10.0	9.6	6.2
Sub Total	41.6	37.1	31.5
Employee Support:			
MG Rover Training:			
—Revenue— <i>Manufacturing Skills Hub project</i>	5.0	4.7	4.4
—Capital— <i>HD Academy and 14-19 Vocational Centre</i> (£3 million)	5.0	5.0	5.0
Birmingham City Council Projects	10.0	10.0	3.5
Direct Employee (redundancy/notice/compensation)	40.0	55.0	55.0
Regional Training Programmes: ⁶			
—Training/training support— <i>all spend on MGR companies</i>	10.0	10.5	5.8
—Wage subsidy, work experience— <i>objective 2 project tba</i>	5.0	5.0	0.0
—Employer Training Pilot— <i>MGR draw-down insignificant</i>	25.0	0.0	0.0
Sub Total: Employee Support	100.0	90.2	73.7
Technology and Innovation—Capital—Contribution to Centres of Excellence	9.0	8.0	0.0
Advantage Transition Bridging Fund⁷	25.0	10.0	5.0
Total Programme	175.6	145.3	110.2

¹ Forecast and commitment/approvals as at 10 February 2006.

² Forecast is what the programme expects to spend. Apparent under-commitments are explained by:

³ Fewer MG Rover suppliers than feared needed to claim wage support.

⁴ Includes TF approved proposal for SW Birmingham Community Support (£1.4 million).

⁵ Includes TF Approved proposal for Innovation and Technology Centres of Excellence (£3.2 million).

⁶ This regional training budget was available to, but not exclusive to ex MG Rover /supplier employees.

⁷ Additional applications in pipeline.

ROVER TASK FORCE REPORTS

1. MG Rover Task Force—*One Month On*.
Report to Secretary of State for Trade and Industry—May 2005.
2. Closure of MG Rover: Economic Impact Assessment.
— An interim Report—July 2005.
Commissioned by the MG Rover Task Force.
Author: Regeneris Consulting.
Supplementary Report: Lessons Learnt—July 2005.
Author: MG Rover Task Force.
3. Review of insolvency framework in the light of the MG Rover Collapse.
Commissioned by the MG Rover Task Force—September 2005.
Author: Tim Mcroft FCCA.
4. MG Rover Task Force—*Six Months On*.
Report to Secretary of State for Trade and Industry—November 2005.
5. Closure of MG Rover: Economic Impact Assessment.
— Stage 2 Report—November 2005.
Commissioned by the MG Rover Task Force.
Author: Regeneris Consulting.
6. MG Rover Task Force—Final Update Report—*The Work Goes On*.
Report to Secretary of State for Trade and Industry—March 2006.

APPENDIX 2

Supplementary memorandum by Advantage West Midlands

1. SUMMARY

1.1 The West Midlands' response to the MG Rover collapse is acknowledged as having been highly effective. Over 80% of employees are now back in work, and supplier failure has been at a much lower level than anticipated.

1.2 The next stage of the Region's work targets the long-term development of the automotive industry and also of the aerospace and other high value elements of the manufacturing sector. Together these are key drivers of Regional innovation and productivity. The focus is on exploiting their very significant strengths and potential. These are outlined in the body of the paper.

1.3 To exploit the opportunities of the rapidly changing manufacturing industry presents the Region with several challenges:

- to increase the capability of businesses and employees to innovate, both by focussing on key technologies and markets, and by developing the necessary generic skills;
- to encourage more businesses to be more outward looking, focussing on market needs. One approach is to help them to target leading companies as customers, in order to benefit from these customers' brands and distribution channels, and to help them to take advantage of Regional linkages and collaborations to achieve this;
- to transfer capability from the best businesses into their supply chains and also into other areas of manufacturing; and
- to encourage and increase investment, both in R&D and in capital investment.

1.4 Work on these areas is ongoing in the Region, with a range of targeted public sector initiatives and programmes. This is expected to ramp up in the future as part of the work currently under way in renewing the Regional Economic Strategy.

1.5 To support a sustainable high value automotive and manufacturing sector requires collaboration from both Region and national government. This paper is submitted as a contribution to strengthening this alignment.

2. THE REGIONAL RESPONSE TO THE MG ROVER COLLAPSE HAS BEEN VERY EFFECTIVE

2.1 While recognising the ongoing suffering caused to individuals and communities affected by the MG Rover collapse, the support provided following the collapse has been highly effective. Of the original 6,346 redundancies from MG Rover and known suppliers, 4,960 (78%) are back in work, and only 854 (13%) are still looking for work. There have been only 11 known closures from among 350 suppliers nationwide. Initiatives continue to support the most difficult-to-place unemployed in South West Birmingham. Over 2,000 training assessments and/or courses have been delivered. 170 companies received £3.4 million of immediate support, with long-term loans of £5.6 million saving some 1,400 jobs at a cost of around £1,000 per job. Collaboration between Regional Agencies and with DTI and other parts of national government worked very well.

2.2 Lessons learned in responding to this large-scale failure have been documented in the two MGR reports to the DTI.

3. MANUFACTURING IS IMPORTANT TO THE REGIONAL ECONOMY AND IS A STRONG DRIVER OF PRODUCTIVITY AND INNOVATION

3.1 The Region is now moving on to address longer-term issues and opportunities in relation to the automotive industry and the wider manufacturing sector. The importance of manufacturing and its ability to drive productivity and innovation growth present an important opportunity. The automotive industry is one of the most productive and advanced parts of the manufacturing sector.

Areas of ongoing manufacturing success

3.2 Over recent months as assembly operations have ceased at MG Rover and (imminently) at Peugeot it has become clear that the Region has a major strength in its research, development and systems engineering activity. It has

- a large number of major Research & Technology Organisations (RTOs), both independent and in-house (Jaguar Land Rover, Ricardo, Mira, Denso etc) and has recently seen several major inward investment successes—Airbus, Tata Automotive, Ford's major Regional investment in developing hybrid vehicles.

3.3 In addition the recent BMW announcement of major investment to bring back manufacture of the Mini engine from Brazil to Birmingham underlines the competitiveness of manufacturing backed by high investment.

3.4 Automotive and aerospace are typical of the high value elements we need to retain and grow the crucial high GVA activities needed in the Region. Although we can and should develop into other sectors the scale of these two is such that they must remain key to economic success in the medium term.

Manufacturing is a strong driver of productivity

3.5 Manufacturing is the largest Regional sector accounting for at least 27% of regional GVA—23% directly and at least a further 4% from the multiplier effect of its deep supply chains (Figure 1.) The sector has a disproportionately high level of medium/high GVA jobs. Manufacturing productivity in 2006 is 43% higher than for the whole economy. Its GVA is forecast to grow 50% faster than the average of all sectors over the next three years, with output per worker forecast to rise by 15% between 2006 and 2011.

3.6 Manufacturing also accounts for a disproportionately high share of the Region's externally tradable good and services, (ie those that can be sold outside the Region) and so is more able to access large additional markets. This increases its impact on Regional GVA.

3.7 The sector provides 16% of all jobs in the region, and 23% of full time jobs, in particular providing full-time jobs for males.

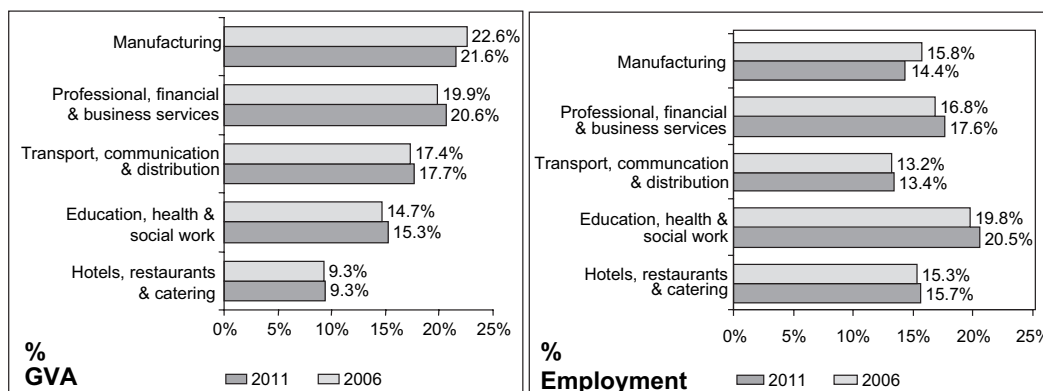
3.8 Therefore because of its size, existing productivity, and growth rate the sector inherently has the potential to be a strong driver of long-term productivity growth.

3.9 In addition manufacturing is a prime source of productivity growth due to its ability to harness process improvement "simply" by investment in production equipment, as well as by the more difficult route of investing in changing people and ideas.

3.10 On the negative side the West Midlands has a long underperforming tail of low value manufacturing businesses, especially in components.

3.11 The West Midlands has a low level of skills at most levels and on most indicators. It is a net exporter of graduates, and a disproportionate number of graduates are in the public sector. There is low demand for skills from businesses in general. They need to learn to use and value graduates.

Figure 1: Share of total West Midlands output and employment by broad sector group (2006 & 2011, excluding groupings with <=6% of total).



Source: Regeneris analysis based on *Future Prospects for the West Midlands Economy* (WMRO/University of Warwick) & UK Input-Output Tables (ONS).

Note: Broad sectors accounting for 6% or less of output & employment excluded from above (including, as % employment, Construction 2%, Agriculture 2%, Public Admin 5%, Other Services 6%). Transport Communications & Distribution includes the ICT sector.

3.12 There are corresponding technical and specialist skills shortages in some key manufacturing areas—from technical apprentices up to undergraduates. One major vehicle manufacturer has highlighted the acute shortage of electronic and electrical engineers. This is not a one-off short-term issue but an ongoing need across much of the sector. Anecdotally, of those engineers who do qualify, many go into other sectors; this suggests an undersupply leading to inflated salaries.

3.13 The relatively poor image nationally of manufacturing is a further handicap to recruiting and retaining key skills. This is a further area for attention.

Manufacturing has the potential to act as a strong driver of innovation

3.14 The manufacturing sector is one of the key drivers of innovation.

3.15 It contributes some 75% of all Regional R&D (business and public) with automotive alone counting for 42% of this.

3.16 The region has a high number of established international manufacturing businesses, and of new inward investors. These bring world-class processes and technologies, acting as a stimulus to Regional innovation. The Region wins around 20% of all manufacturing inward investment in the UK.

3.17 The strong international presence also enables suppliers to link into international brands and distribution networks (eg Ford, Mini at Oxford, JCB, Toyota, Rolls Royce, Goodrich) leveraging both sales volumes and reputation. Many Regional suppliers need to increase their market orientation to understand and seize these opportunities.

3.18 Manufacturing supports a base of research, development, and technology transfer that supports the Regional economy as a whole. Many of the local IT technology giants have spun out from manufacturing and now support other industries.

3.19 Despite the investment by manufacturing, overall investment in R&D is relatively low in the West Midlands and has been falling sharply in recent years. In 1999, total R&D investment was £1.07 billion (1.65% of GVA) falling to £853 million (1.29% of GVA) in 2003. However, the West Midland manufacturing base is much further away from science and pure R&D than those regions where (high investing) pharmaceuticals are important. The emphasis is on customer led innovation rather than science inputs. The continuing manufacturing activity, in some cases of a high value added nature, demonstrates the effectiveness of the Region's industries in exploiting R&D.

3.20 Arguably however there is an emerging gap between publicly funded research, and industry exploitation, which needs attention both regionally and nationally. Perhaps more of the investment needs to go into exploiting the knowledge that has been created. The risk reward ratio for translational research is often too high for middle sized businesses to fill alone.

4. KEY ISSUES

4.1 This paper has identified a number of key Regional issues which need to be addressed:

- The Region's underperforming tail of low value manufacture, particularly in components.
- The need for more strategic attention to high value added and growth industries and markets.

- Need for more innovation and supporting skills.
- Low level of skills in general, and low graduate employment in manufacturing in particular.
- Under-investment in R&D.
- The poor image of manufacturing.

5. CONSIDERABLE WORK IS UNDER WAY TO ADDRESS THESE ISSUES AND TO DIVERSIFY THE ECONOMY

5.1 The West Midlands has general strategies which address Skills, Innovation and Productivity. Examples of specific current projects include:

- A major automotive technology development programme has been running at Warwick University for nearly three years, in collaboration with Jaguar Land Rover.
- The Accelerate programme of business support for the automotive sector.
- The Regional Innovation & Technology Council is actively promoting Regional capability in five technology/market areas: Transport Technologies, Advanced Materials, Digital Content, Medical Technologies, and Energy.
- The Midlands Productivity Alliance will disseminate productivity skills and wider culture change through whole supply networks around major businesses.
- Clusters in each of seven manufacturing sectors are promoting innovation, skills and productivity focussed on key markets.
- Initiatives to help businesses undertake effective New Product Development.
- The Regional Skills Partnership has launched a Leadership & Management course for businesses.
- A specialised Manufacturing Brokerage has been established as part of the new Business Link network.

6. BUT MORE NEEDS TO BE DONE TO ADDRESS THE KEY ISSUES

6.1 The key need is to raise the total GVA of manufacturing, through:

- strategic focus on current and new activity with high GVA potential; and
- a focus on specific sectors, technologies and markets.

A DTI capacity for national co-ordination will be helpful in the development and management of certain key technologies and sectors.

- across the board increased focus on customer-driven value. This focus on markets and customers suggests a strong clustering approach, and
- the strongest possible encouragement of relevant internationally leading companies to stay, to come for the first time, and to invest in the Region and the UK, both for the direct benefit they bring but also as catalysts of innovation, productivity and high GVA. To achieve this suggests the need to retain a strong national (DTI) as well as regional capacity for business relationship management.

6.2 There are significant skills shortages which need to be addressed in both:

- generic innovation skills; and
- technical and market/sector specialist skills.

Current shortages suggest the desirability of a stronger national framework for incentivising or motivating students to take courses which meet industry needs (eg electronic and systems engineering)

6.3 The low investment in R&D, translational development and in innovation needs to be reversed.

6.4 High value manufacturing needs to be seen much more positively by prospective employees and investors. This is a long-standing theme being addressed by current national initiatives. This needs to be reinforced.

7. THE PRIZE

The automotive and other higher value manufacturing industries in the West Midlands, as in other developed countries, are going through great change, but they also offer this Region considerable potential for economic renewal. This potential can only be exploited with real effort regionally and nationally. The MG Rover collapse could have been seen as an invitation to defeatism. The West Midlands has chosen the ambitious course of seizing the opportunities. We trust that national government will continue to work in partnership on this challenge. We are grateful for the opportunity to make this submission to the Trade and Industry Select Committee, and will be happy to provide any further input which the Committee may require.

25 October 2006

APPENDIX 3

Memorandum by Amicus

1. Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including, manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the NHS.

2. Amicus had over 1,700 members employed by MG Rover prior to the collapse in April 2005. Amicus membership across the manufacturing sector is in excess of 430,000 with over 66,000 employed in the automotive industry.

3. Our evidence to the Select Committee will concentrate on the effectiveness of the recovery package for the Rover workforce and the West Midlands in general and the lessons to be learnt regarding the role of government in this and potentially similar situations across the automotive and wider manufacturing sector. *Amicus would be happy and welcome the opportunity to expand more fully on this submission in oral evidence, if invited to do so.*

4. Amicus is currently undertaking further research on data relating to investment in the automotive industry and the comparative records of UK motor assembly plants compared to elsewhere in Europe. The results from this research will enable us to expand more fully on this submission in oral evidence, if we are invited to attend those hearings.

5. Amicus is satisfied that the prospect of a partnership with an international company such as SAIC was essential to the survival of MG Rover. It is therefore our view that the DTI during the early part of 2005 had an obligation to do everything possible to support the potential successful outcome of the SAIC plan. Even after MG Rover went into voluntary administration the government were absolutely right to make available the loan of £6.5 million to buy time to see if a deal could be finalised.

6. In briefly commenting on the effectiveness of the subsequent recovery package and taskforce, Amicus would wish to draw attention to the environment in the UK within which closures and workforce restructuring take place as compared to other competitor sites elsewhere in Europe. This environment places UK workers at a disadvantage both in terms of retraining and redeployment in such circumstances and having access to information and decision making processes at a time when there is still an opportunity to influence decisions. The consequent effectiveness of the work of the Taskforce and RDA is seriously undermined by this lack of employee protection in the UK.

7. Amicus conducted a survey of its own membership in the autumn of 2005 and found only 15% had obtained work in manufacturing and whilst a minority have increased their salary, the majority had taken a substantial reduction in salary. This evidence will be updated later this year.

8. Advantage West Midlands (RDA) took on its role in looking after the wider interests of the West Midlands in a positive and constructive manner. The Taskforce established specifically with the remit to focus on the MG Rover workers has also assisted MG Rover workers in the transition to new work. However, none of the steps taken in the aftermath of the collapse of MG Rover could be adequate compensation for the loss of 6,000 jobs in a highly skilled industry.

LESSONS TO BE LEARNT

9. We believe that the Committee should use this inquiry to look to the future as much as to the past and to draw some conclusions with regard to government's future approach to companies in difficulties in the manufacturing sector and not just relevant to MG Rover and the automotive industry.

10. If government is to be effective in applying a manufacturing strategy in the UK economy there are a number of basic principles which need to be addressed. When comparing the approach of this and previous UK governments to that of competitor nations within the EU, the reliance upon the market in the UK has overseen a catastrophic demise of UK manufacturing jobs since 1997. Over one million jobs lost from manufacturing in that period does not sit well with the frequently voiced commitments of support for manufacturing that emanate from DTI and government ministers generally.

11. What can be seen from the experience at MG Rover and elsewhere is that the absence of a strategic industrial policy for the UK leaves UK industry and workers vulnerable to the ravages of globalisation. Amicus has persistently drawn attention to the impact of an absence of a level playing field when it comes to employee protection in restructuring plans which inevitably make the UK an easier target for global companies to reduce jobs.

12. The increasing absence of major British ownership of manufacturing industry also means that "home" advantage is lost when investment decisions are to be made. (Contrast the French government's plan to ensure that mergers and takeovers which are deemed to undermine its strategic industrial industries are subject to legal restrictions and potential government intervention). Unless and until the UK Government accepts the need for an industrial strategy underpinned by at least a comparable package of state aid similar to that which is available elsewhere in the EU, the UK manufacturing worker will remain vulnerable.

13. Amicus is of the opinion that the outcome of the MG Rover saga presents a number of opportunities for government to address the weaknesses in its manufacturing policy. These would require the following:

- A review of current state aid provision with a view to increasing it to a comparable level within the EU15.
- In conjunction with all stakeholders, to develop an industrial strategy which supports key sectors within UK manufacturing.
- Address the employment protection weaknesses which leave UK workers vulnerable to investment and consequent restructuring decision of global corporations.
- A review of the current failure of companies to invest sufficiently in skills and innovation and to identify solutions including, where appropriate, a statutory levy to ensure skills investment from those sectors who continually fail in this vital area of investment.
- To consider the extension of and support for the concept of MEIRG, the Midlands Engineering Industries Redeployment Group, across the UK as a means of assisting the maintenance of the essential skills base for manufacturing.

5 May 2006

APPENDIX 4

Supplementary memorandum by Amicus

1. Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including, manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the NHS. Amicus membership across the manufacturing sector is in excess of 430,000 with over 66,000 employed in the automotive industry.

2. This supplementary evidence follows on from the oral evidence presented to the Committee on 23 May by Derek Simpson, Amicus General Secretary and Tim Parker, Amicus Regional Officer. This paper will address the issues being considered by the Committee building on our original written evidence submitted on 5 May 2006.

3. The evidence will deal with the questions which the Committee has highlighted. That is:

- The principal reasons for the different records of success.
- How companies arrive at investment and closure decisions in this country and abroad.
- The role played by trade unions in the industry.
- The appropriate response of Government to closure announcements or speculation.
- And what the Government can do to help the workforce and the supply chain if plants close.

4. Before addressing these questions Amicus would wish to draw attention to the position of the automotive industry within the overall UK Manufacturing Sector. Vehicle development and assembly is at the cutting edge of modern manufacturing. The use of technology and computer aided equipment in the construction of vehicles is an essential part of the industry. The development and use of modern and innovative materials in the construction of vehicles and the need for the industry to address the emission issues and climate change agenda, places the industry at the forefront of tomorrow's manufacturing needs. To achieve all this, the industry has and continues to develop a high skilled workforce which requires the support of both the industry and government if UK manufacturing is to remain a core part of the UK economy. In the evidence that follows, Amicus will highlight the problems faced by an industry which is controlled from outside of the UK and which suffers from the absence of a level playing field both in terms of employee protection and government support and corporate investment.

5. PRINCIPAL REASONS FOR THE DIFFERENT RECORDS OF SUCCESS

5.1. It is recognised that the various vehicle building plants in the UK have performed with varying degrees of success in recent years. We would summarise the reasons for these disparities as reflecting investment practices and decisions relating to new models.

5.2. Nissan (Sunderland) is now the UK's biggest producer of cars. Last year the plant produced 315,297 vehicles. It is also considered to be a "model" plant in terms of productivity in Europe. Investment in the plant in the last five years has amounted to £586 million but equally important has been the continued introduction of new models over that same period. At least five new models have been introduced to the plant in the last four years. Government aid has also been made available totalling £48.26 million. During this period the workforce has reduced by 15%.

5.3. Looking across the investment figures in other competitor UK car plants for the same period illustrates the impact that this factor has had, along with the introduction of new models as shown in the chart below.

UK MOTOR VEHICLE PLANTS 2000–04

<i>Company</i>	<i>Capital Expenditure 2000–04</i>	<i>Profit/Loss</i>	<i>New Models</i>	<i>Workforce</i>
Peugeot Motor Company Plc (Ryton)	£107 million	£292.4 million	NO	– 20%
Vauxhall Motors Ltd (Ellesmere Port)	£357.6 million	(£637.4 million)	YES**	– 48%*
Nissan Motor Manufacturing (Sunderland)	£586 million	£97.4 million	YES	– 15%

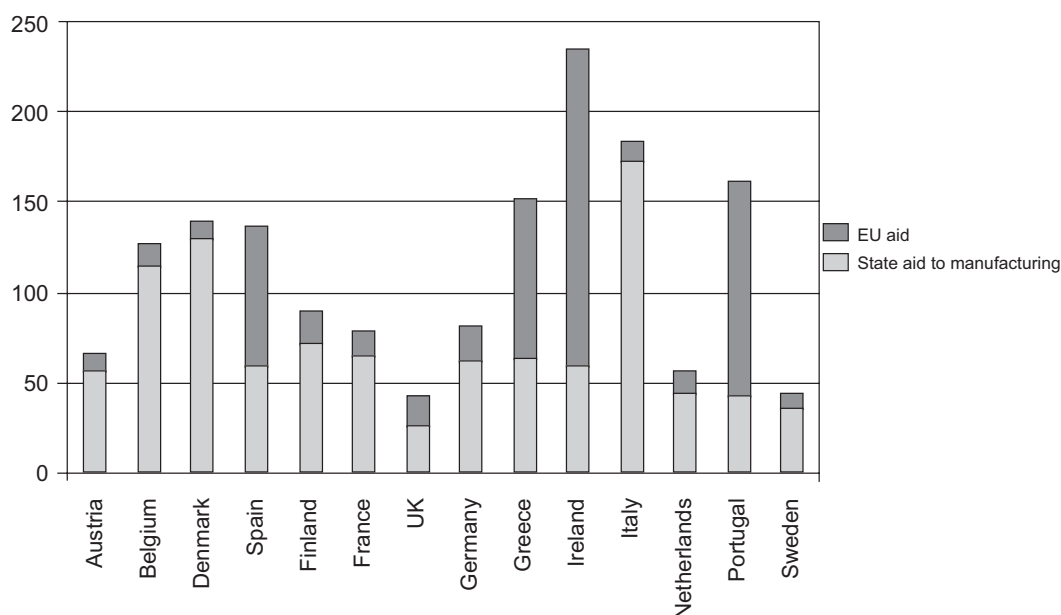
* includes closure of Luton Vehicle plant and transfer of Vectra production to Ellesmere Port.

** New Astra model introduced 2003 and Vectra moved overseas leaving single model plant.

The above picture suggests that it is the continuing commitment to new models which is the key factor to success and retention of capacity. Both Honda and Toyota have invested at a similar level over the same period (£417 million and £479 million respectively) with a model mix being maintained throughout this period at both Swindon and Burnaston.

5.4 Whilst recognising that government has made available grants to Motor Assembly plants over the years, the record of UK state aid for manufacturing generally is significantly less than that applied in our immediate European neighbours. The figures below illustrate the disparity between the UK and Germany, France, Italy and Spain for the Year 2004.

Aid (ECU per capita)



6. INVESTMENT DECISIONS IN UK AND ABROAD

6.1. The decision on where to locate new investment is determined by a number of factors many of which mitigate against the choice of the UK as the prime site for investment in the current global and European market place. Amicus believes that the key investment drivers are:

- Costs.
- Labour flexibility/skills.
- Market penetration.

6.2 There is no doubt that costs are a major consideration in current investment decision. As far as labour costs are concerned the UK compares favourably with its two major competitors France and Germany. However, with the extension of the EU, the competition is tough. Hourly rates in Slovakia and Slovenia are currently around 7.0 Euros compared to 18.0 Euros in the UK, 22.0 Euros in France and 34.0 Euros in Germany.⁵

⁵ Moving up a gear—Centre for Automotive Industry Research, Cardiff Business School 2005.

6.3 But labour forms only 10% of the cost of a car and clearly other factors play an important role in determining investment decisions. The Japanese decisions over the last 10–15 years have been guided very much by the need to establish themselves in the European Market. The decision to elect to come to the UK within Europe may well have been in part influenced by the labour flexibility and skills available. This, of course, Amicus will argue has proven to be a double edged sword with that same flexibility providing an ease of dismissal which ranks the UK fifteenth out of 155 world economies whilst France and Germany are ranked 142 and 131 respectively.⁶

6.4 Amicus is concerned that future investment decisions will be governed by a combination of factors which sees the UK increasingly reliant upon imported cars for its own market and more of the UK production being exported. Professor Garel Rhys of Cardiff University cites this factor alongside the high proportion of imported components as a reason for the decisions currently being taken at both Ellesmere Port and Ryton.⁷

6.5 The most recent vehicle production figures only serve to emphasise the export driven production of UK based car manufacturers with 75.1% of all cars manufactured in the UK this year being exported.⁸ Total car production, seasonally adjusted, in the three months to April 2006 rose by 0.4% compared with the previous three months. Home production increased by 0.7% in this period, while export production rose by 0.4%. In comparison with the same three months a year ago, total production fell by 7.8%. Home production decreased by 21.6%, while export production fell by 2.6%.

An average of around 136,000 cars a month were produced in the three months to April. Of these, around 103,000 cars were for the export market and around 33,000 were for the home market.⁹

6.6 Amicus anticipates that the drive towards vehicle assembly in Central and Eastern Europe as seen in the table in para 6.7 below is promoted by taxation regimes, EU aid, investment costs and low wages together with component suppliers already in place having moved there in previous years. The labour cost advantages which has led to this shift from west to east is shown below:¹⁰

- Western Germany: 25.8 euros per hour (2005).
- Eastern Germany: 16.5.
- Poland: 5.4.
- Hungary: 4.7.
- Czech Republic: 4.2.
- Slovak Republic: 3.3.

6.7 Of the developments shown below, the Toyota/PSA (Peugeot) joint venture at Kolin will see an investment \$1.5 billion with a capacity for 300,000 cars per annum. It is expected that 40% of component suppliers to the plant will be located in the Czech Republic.

<i>Year</i>	<i>Country</i>	<i>Location</i>	<i>Investment</i>
2005	Czech Republic	Kolin	Toyota/PSA car assembly plant
2006–07	Slovakia	Zlina	Hyundai/Kia Assembly plant
2006	Slovenia	Novo Mesto	Refurbished Renault plant
2006	Slovakia	Trnava	PSA Plant
2004	Slovakia	Bratislava	VW (Skoda) expansion

6.8 Amicus remains convinced that the distortions between the UK employment and consultation legislation is a major factor in the decisions of multi national companies when it comes to restructuring, redundancies and closure. We set out below some of the key differences and refer the Committee to the recent comments made by Carl-Peter Foster, president of General Motors Europe, that “... Britain’s more flexible labour market” made job cuts easier in Britain than elsewhere.

6.9 The extent of this weakness in our ability to retain manufacturing jobs is illustrated below in brief terms to show why it is easier and therefore cheaper to sack UK workers than their European counterparts:

⁶ World Bank Group—www.doingbusiness.org

⁷ Garel Rhys—*The Observer* 21 May 2006.

⁸ SMMT Ltd.

⁹ ONS 25 May 2006.

¹⁰ Source: Centre for Automotive Research (Germany).

Information and Consultation

- In the UK, the employer controls the redundancy process. Consultation takes place dependent on how many are due to be made redundant, i.e. once the decision has been made.
- In France and Germany employers and employee reps must agree on how redundancies are handled through real consultation and in France they must even make the case that they are necessary at all.

Social Plan

- French and German employers must provide further help for those facing the sack—in some cases agreeing a "social plan" with further compensation, training and development provisions, and placing employees in new jobs.

Cost

Minimum redundancy pay in some EU countries is almost five times that in others:

- The UK and the Netherlands have the lowest levels at £5,128 and £5,000 respectively.
- Most generous are Spain (£25,464), Belgium (£15,000) and Italy (£18,276).
- Average redundancy pay across the EU after 10 years' service is £11,163, more than twice the level of the UK.

The above figures are based on minimum statutory paid notice and severance pay for a white-collar employee aged 40, made redundant after 10 years on a salary of 30,000 Euros.¹¹

EU Employment Legislation in the UK—How we Compare

- Watered down the provisions of the information and consultation directive.
- Watered down the Working Time Directive.
- Blocked the Agency Workers Directive at Council, Heads of Government level.
- Now trying to prevent the European Constitution from enshrining many basic working rights.

All the evidence suggests that watering down these provisions is also watering down our competitiveness, productivity and economic success:

- In France, where higher standards at work and a maximum working week are enjoyed compared to the UK, productivity is 25 percentage points higher than the UK and manufacturing jobs have increased by 150,000 since 1997.
- In Germany, where workplace legislation is also much tougher than the UK, productivity is 18 percentage points higher than the UK and manufacturing has increased by 120,000 jobs since 1997.

The most recent UK labour market statistics for the three months to March 2006 show that UK workers are working increased hours whilst the unemployment rate is increasing (up 0.5% over the year) and employment in manufacturing continues to fall, (down 3.7% in February 2006.)¹²

The level of redundancies in the UK for the three months to February 2006 remains highest in manufacturing.

Foreign investment

6.10 Amicus has carried out a study of the investment records of the major automotive manufacturers, with UK plants, across Europe. It is from this study that we have detected a significant shift to Eastern and Central Europe over the last 10 years. We do not concur with the view that there is over-capacity in global terms, and this is clearly supported by the expansion of markets in China, India, Russia and the rest of Central and Eastern Europe. In Russia alone, Nissan and Toyota are joining Ford with new plants coming on stream in St Petersburg in 2009 and 2007 respectively. These developments, alongside those already highlighted in para 6.7 of this memorandum in Eastern Europe, demonstrate the anticipated growth of demand in the industry.

6.11 The world market is expected to grow by 25% over the next 10 years from 60 million to 75 million vehicles.¹³

6.12 The measurement and comparison of investment patterns by the global players in the industry also highlights the disparity between investment levels in the UK and the "home" country.

¹¹ Mercer Human Resource Consulting, 2003.

¹² ONS—Labour Market trends May 2006.

¹³ Toyota Annual Report July 2005.

EU COMPARISON OF INVESTMENT LEVELS IN MOTOR INDUSTRY AND IMPACT ON EMPLOYMENT

<i>Company</i>	<i>UK Investment 2000–04</i>	<i>EU Investment 2000–04</i>	<i>Employment Change in EU 2000–04</i>	<i>Employment Change in UK 2000–04</i>
Peugeot	£107 million	£5,910.8 million	8.5%*	– 20%
General Motors	£452.6 million	£3,711.5 million	– 31%	– 37%
Ford	£3,912 million	n/a	– 48%	– 41%**
BMW	£618 million	£11,400 million	22%	52%
Honda	£418 million	n/a	n/a	24%
Nissan	£585 million	n/a	n/a	– 15%
Toyota	£479 million	n/a	26.6%***	53%

* Change in employment in France only.

** Excludes Ford Premium Automotive Group.

*** 2002–04 only.

The Japanese companies and Ford do not publish a breakdown of investment figures for Europe from the overall global figures.

6.13 Particularly striking are the Peugeot figures where lack of UK investment compares with the significant investment by Peugeot both at home in the new accession states of Czech Republic and Slovakia. BMW investment in the EU is predominantly in Germany. Ford investment in the UK has been mainly in the new engine plants.

6.14 Employment levels in Peugeot in France have grown by over 8% and further growth in Europe will occur over the next two years as the new plants in the Czech Republic and Slovakia become fully operational.

6.15 BMW investment, although welcome in the UK Mini plant, represented only 73% of the value per employee in Germany in 2004, whilst GM Motors in the UK were investing only 37% per employee of the equivalent value invested across Europe.

6.16 Whilst the UK has attracted continued investment over the period from Global manufacturers this has been at a lower rate per employee than other parts of the EU.

7. ROLE PLAYED BY TRADE UNIONS IN THE INDUSTRY

7.1 The automotive industry in the UK has a long history of trade union organisation particularly in the vehicle manufacturing part of the industry. As the development of the component industry as a separate part of the sector has evolved the trade unions have developed their organisation similarly. In recent times the trade unions have been involved in the evolution of modern manufacturing processes representing workers whose skills are at the cutting edge of manufacturing.

7.2 At the same time the industry has undergone a major change in its structure and ownership leading to the current position where all major motor vehicle assembly in the UK is carried out by Global companies based overseas. Notwithstanding these changes, trade unions have continued to represent workers across the industry at all levels and have made significant contributions to the retention of the industry in the UK. Amicus believes that the modern vehicle manufacturing industry has, and should continue to play, a central role in the UK's manufacturing industrial strategy.

7.3 The role of trade unions has been sidelined by employers and the lack of legislative support enjoyed by other workers in other EU countries. Decisions affecting UK workers are taken without consultation or union/employee involvement. Unlike our counterparts in Germany, for example, who will have a presence on the Supervisory Board at best worker representatives from the UK who sit on the EWC's are paid lip service at these fora. In the absence of adequate employee protection and consultation provision the UK trade unions are limited to a fire fighting role.

7.4 Given the importance of the industry to the UK manufacturing economy and its globalised nature, Amicus believes that a National Sector Council should be established on which the industry, trade unions and government should be equally represented. Such a body would mirror the intentions of the government's commitment to establish sectoral bodies, with a specific function to monitor the performance of the industry in the UK whilst tracking European and global developments. In addition, the Council would seek to provide an early warning system of changes in the sector which might impact negatively upon the UK sector and examine potential strategies to avoid such impacts or mitigate the effects. Amicus believes that the tri-partite nature of such a body would bring a new dimension to the work of government and create a mechanism through which a more proactive role could be developed to help sustain the sector in the UK.

8. ROLE OF GOVERNMENT

8.1 This evidence looks at the role of government from two perspectives. Firstly it will address what Amicus sees as the need for government intervention on a continuing proactive basis and secondly will comment upon the response needed in the event of plant closure.

8.2 Amicus recognises the horizontal measures which the government has put in place over the past five years including tax credits, research and development assistance and the investment in sector skills councils. However, it is clear that despite these and other horizontal measures together with macro-economic stability, manufacturing as a whole continues to haemorrhage 100,000 jobs a year. In these circumstances Amicus would look for vertical measures from government which include direct intervention in the automotive sector. The proposed National Sector Council above would provide the mechanism for direct involvement of all stakeholders in a strategic look at the industry in the UK over the next five to 10 years with government understanding what needs to be done now and during that period to encourage greater investment in the UK automotive industry.

8.3 Government needs to look at the abysmal record of capital investment in the UK, (manufacturing investment has fallen steadily by almost 40% since 1998),¹⁴ and establish why investment in industry is failing to match that in other EU countries. In terms of the motor industry it is clear from our evidence elsewhere in this document that investment is a key factor in the levels of success experienced by different plants in the UK.

8.4 Amicus suggests that one potential area for greater government intervention is, through partnership with the industry, to pump prime an investment programme for a strategic initiative to provide a long term programme of research and development and manufacture of environmental friendly motor vehicles, here in the UK where it could establish us as world leader in this field. It would secure the existing car manufacturing base and provide a springboard for the resurgence of the rest of UK manufacturing and engineering sector.

8.5 Government should also use its own purchasing power through its procurement policies to support motor vehicles made in the UK and should ensure that appropriate social clauses are included in procurement contracts to achieve this. Amicus would remind the Committee that the Chancellor has previously argued that wherever possible, within the requirements of EU procurement directives, that government procurement should benefit UK industry and UK workers. The UK government should examine what transpires in other EU countries and seek to reflect similar practices in the UK.

8.6 In respect of assistance that government can provide to workers displaced as a result of plant closure, Amicus recognises the support that was provided to the workers at MG Rover last year. However, there are a number of lessons to be learnt from that process.

8.7 For workers to be able to benefit from training provision there has to be adequate earnings during training. The absence of this following the closure of Longbridge led to a number of workers having to take up paid employment whilst foregoing the opportunity of training on purely economic grounds. This led to the large proportion of MG Rover workers identified as having taken work outside of manufacturing with significantly lower earnings. The Amicus survey of its own members has shown that of the 50% that have so far found work, only 15% have secured work in manufacturing. In the worst cases, members are earning less than half of the salary enjoyed at MG Rover.

8.8 The MG Rover Task Force report published in March this year indicated that 63% of all workers (4,000) had found employment. In that report over half are on lesser earnings than at MG Rover. In research carried out by the Work Foundation¹⁵ for a BBC radio programme nearly half of the workers thought their current job was worse than their job at MG Rover, and nearly 40% saw their new job as a stopgap until a better job came along.

8.9 The management of the training and job finding process also created some problems for the workers. Although the system was managed centrally through the MG Rover Task Force, the linkage with local Job Centres did not always provide ex-employees with the information necessary to progress their training needs.

9. CONCLUSION AND SUMMARY

9.1 Amicus through this additional evidence has sought to highlight the issues which need to be addressed if we are to retain a sustainable automotive industry in the UK. Our key points of action are summarised below:

- Level playing field for UK workers to provide equal protection from redundancy and closure (para 6.9).
- Application of government procurement policy in a manner which gives weight to retention of UK manufacturing jobs (para 8.5).

¹⁴ ONS—DTI Review of Government's Manufacturing Strategy.

¹⁵ The Work Foundation—Life after MG Rover.

-
- Establishment of National Sector Council for the industry (para 7.4).
 - A government led strategic investment programme in environmentally friendly vehicles (para 8.4).
 - Improved funding of displaced workers undergoing training (para 8.7).
-

APPENDIX 5

Memorandum by the Association of Colleges—West Midlands Region

INTRODUCTION

1. AoC (the Association of Colleges) is the representative body for colleges of further education, including general FE colleges, sixth form colleges and specialist colleges in England, Wales (through our association with *fforwm*) and Northern Ireland (through our association with ANIC). These colleges are the largest providers of post-16 general and vocational education and training in the UK. They serve over four million of the six million learners participating in post-statutory education and training, offering lifelong learning opportunities for school leavers and adults over a vast range of academic and vocational qualifications. Levels of study range from the basic skills needed to remedy disadvantage, through to professional qualifications and higher education degrees.

2. The key role played by the sector and its 250,000 staff in raising the level of skills and competitiveness of the nation's workforce makes colleges central to the Government's national and regional agenda for economic prosperity and social inclusion. AoC services to member college corporations include information, professional development and support in all aspects of institutional management, governance, curriculum development, quality, employment, business development and funding. AoC also works in close partnership with the Government and all other key national and regional agencies to assist policy development, continuously to improve quality and to secure the best possible provision for post-16 education and training.

3. The Association of Colleges West Midlands region represents 49 colleges with 560,000 students of which 470,000 are adults. Many of these colleges were actively involved in assisting those who lost their jobs when Rover closed. We have restricted our comments to the effectiveness of the recovery package and specifically the role of local further education colleges.

MG ROVER—SUMMARY

4. The closure of the Rover plant was a massive body blow to the economy and community in Birmingham and the whole of the West Midlands. However, local FE colleges responded quickly to the needs of the Rover workers and with the financial help of the Learning and Skills Council, Advantage West Midlands and the regional Government Office.

THE RESPONSE OF LOCAL COLLEGES

5. The response to the closure of Rover was an excellent example of interagency working. The colleges were quick to respond and imaginative in designing solutions to meet the needs of the individuals affected. They worked effectively with the LSC, Advantage West Midlands, the Government Office West Midlands and Jobcentre Plus who supported the joint approach and provided funding to enable the response to develop. Rules about the time an individual is able to study without losing benefit were relaxed so that individuals were able to complete their training quickly and move into employment. For example, individuals were able to complete training programmes in an intensive 13 week period rather than the usual 12 months. The college sector should be congratulated on the way it responded and therefore helping ensure that 4,000 ex-Rover workers have been able to find new employment (DTI media release, 7 March 2006).

6. On the day when the closure of Rover was announced a group of Principals from colleges in Birmingham and the Black Country met to discuss the range of support and re-training that they could offer to those Rover workers who had lost their jobs. The colleges then put a proposal to the Learning and Skills Council (LSC), which included converting the Hollymoor Centre (located in Northfield and owned by Bournville College), situated near the Rover factory, into a skills advice centre. Within 36 hours of financial support being given by the LSC, classes had been relocated, IT equipment installed and staff seconded. It was open from 9 am to 8 pm for the first two weeks and also at weekends. Up to 150 people a day visited the centre during those early days. The centre was staffed by 30 people to cope with demand. The dedication and commitment shown by these FE staff was outstanding. Transport was provided by the colleges from the Longbridge plant to the Hollymoor Centre and to Jobcentre Plus.

7. In addition, staff from colleges were on site at Rover giving information and ensuring workers were able to access support and guidance. Collaboration between colleges, the LSC and Advantage West Midlands provided a platform for the response.

8. The LSC agreed with Jobcentre Plus that after each individual claim clients would be offered a full skills assessment with a skills advisor who would complete an individual training plan. This was in addition to help with CV preparation and job search activity provided by Jobcentre Plus. 120 skills advisers from FE colleges were trained to deal with enquiries and produce Individual Training Plans.

9. A curriculum group was established with representatives from all the colleges. The curriculum offer was complex and needed to deal with a wide range of training needs in high volume. This was an excellent example of cross college collaboration. Private providers were drafted in where colleges could not offer the provision required (eg HGV driving). Individual training plans were prepared with the ex-Rover employees and provision was based on individual need. The situation had impact not only on MG Rover but on companies in the supply chain. The response from FE colleges and other partners recognised this and training was offered for those affected throughout the whole region via various skills hubs.

10. Examples of specific responses include:

- At the time **Matthew Boulton College** had Rover Apprentices on programmes at the college in both Management and Administration. To secure the continuation of their studies the apprentices were paid by the college for one week whilst they investigated ways of continuing their studies. Ten were assigned to various sections of the college. They were given the opportunity to apply for positions as they became vacant and seven were successful in securing jobs at the college. Some are now progressing on to Foundation Degree programmes. During the summer period, an introductory course was delivered for ex-Rover employees who had expressed interest in teaching as a career. Several took up the opportunity to work-shadow a lecturer. One ex-Rover employee is currently employed by Matthew Boulton College as a lecturer in Electrical Installation, whilst studying for a teaching qualification.
- **Burton College** acted as the Skills Hub for referrals for Staffordshire people made redundant by MG Rover or companies in the supply chain. 100 individuals were referred to Burton College. 29 have taken up at least one course. 45 training opportunities have been delivered. Courses include a range of vehicle related courses such as driving instructor training, fork lift truck, LGV courses, construction courses and IT. Early indications are that many of the beneficiaries who took part in training are intending to become self employed. Some of the 100 referrals have indicated that they did not take up training because they have gained alternative employment.
- **South Birmingham College** made an agreement with the construction company Laing O'Rourke that every Rover employee completing a 13 week construction skills training programme would be guaranteed employment with the company. Those taken on by the company will be completing further study at the college.

March 2006

APPENDIX 6

Memorandum by Richard Burden MP

1. I welcome the opportunity to submit evidence to this inquiry. I have served as MP for Birmingham Northfield since 1992 and been a member of the Rover Task Forces in both 2000 and 2005. I was a member of the Trade and Industry Select Committee between 2001 and 2005.

2. The Longbridge car plant has been at the heart of social and economic activity in my constituency since it was established by Henry Austin in 1905. As local MP I have tried to monitor activity at the plant as closely as possible, and in 2000 I was in regular contact with the Secretary of State and his Department, BMW, unions and other interested parties across a range of issues.

THE EVENTS OF 2000

3. The BMW announcement of 16 March 2000 was sudden and came as a shock. In the period directly prior to this statement there had been concerns about the impact of negative press coverage on sales. However, these concerns were offset against a background of considerable BMW investment at Longbridge. The German company were making a large resource investment in plans to build the new Mini at Longbridge and were active in the process of an application for EU aid. These commitments, and what turned out to be false assurances from BMW at the Geneva Motor Show, meant their decision to change strategy and withdraw from Longbridge was a real bolt from the blue.

4. Whether the Secretary of State was at fault to be caught unawares by BMW's withdrawal was a matter for scrutiny by this Committee during an inquiry published in April 2000.¹⁶ Their conclusions were that the change of gear in BMW's consideration of its future commitment to Rover came at the very end of February 2000 and in the first fortnight of March 2000. They concluded "it is hard to see how the Secretary of State could have anticipated the decisions of 16 March".

¹⁶ Trade and Industry Select Committee; *BMW, Rover and Longbridge*; Eighth Report of Session 1999–2000; HC 383.

5. At the time of the announcement BMW had indicated that Land Rover would be sold to Ford and Longbridge taken over by Alchemy Partners. Alchemy held exclusive negotiating rights with BMW and all indications were that their plans would have involved a large and sudden downsizing of the Longbridge workforce.

6. Within 24 hours of the announcement, the Secretary of State visited Longbridge and convened a meeting where the first Rover Task Force was created. During this visit there were initial discussions between Stephen Byers, John Towers and myself about the potential for a viable alternative business plan for Longbridge. These were continued in a private discussion after the meeting at which I was not present. The issue was whether there could be an alternative for Longbridge founded on a sound business-case. If so, it was felt that BMW should take into account such an alternative alongside those plans already under consideration.

7. Efforts to get BMW to consider such an alternative were made both in the local area and at a national level by Trade Unions and Government was supportive of these.

8. However such a scenario never transpired, because Alchemy Partners pulled out of its negotiations with BMW on 28 April. It seems the two parties could not reach agreement on a financial package. From that date the choice was between the closure of the plant or an alternative buyer. In the following fortnight Mr Towers and his Phoenix Consortium commenced negotiations with BMW and a number of potential business models were explored. It is worthy of note that Phoenix had tried but failed to secure production of the new Mini—a product that has become an international success story. An agreement was finally signed between Phoenix and BMW overnight on 8–9 May. The choice had been between Phoenix and closure. The Secretary of State made clear that he wished the negotiations to avoid closure to reach a successful conclusion, and I believe he would have been wrong not to do so.

THE IMPACT OF 2000–05

9. As outlined to me, the Phoenix business strategy for Longbridge fell into two very distinct phases. The initial phase immediately after the takeover set the challenge of bringing stability to the company, buying time for the regional economy and assessing precisely what assets and liabilities had been left by BMW.

10. The second phase of the strategy was to secure the long-term survival of the company by finding a suitable partner. It was very clear there was never any guarantee this would happen and we now know Phoenix failed in this challenge.

11. In this regard there are questions to be asked about whether there was something fundamentally wrong with how Phoenix Venture Holdings structured and managed the business. The Committee will wish to consider whether those issues fall within the remit of this Inquiry. In any event, it is to be hoped that the Inquiry established by the Secretary of State will assist in addressing some of those questions. However, none of that affects the fact that it was reasonable for the Secretary of State to do what he could to help avoid the closure of the plant once Alchemy had pulled out. The fact that no long-term partner for MG Rover was secured does not mean it was not worth trying. Up to 6,000 people at the plant remained in work for five more years than they would otherwise have done and millions of pounds of tax revenues were earned for the Exchequer.

12. In regards to “phase one”, the evidence shows the five years bought for the region allowed it to make preparations that significantly reduced the shock of the collapse when it came in 2005. The potential job losses from closure at Longbridge in 2000 were calculated at around 30,000 and some have estimated even more. By the time of closure last year the worst-case scenario was 13,000 jobs lost. The likely impact now looks to be of the order of 9,000 jobs.¹⁷

13. During this intervening period companies in the supply chain have received important help from programmes like Accelerate, to improve skills and processes as well as to diversify. This and similar work has kept company closures and job losses to a minimum. The recent National Audit Office Report¹⁸ documented that in 2000, 161 companies in the UK had been dependent on MG Rover for over 20% of their sales—by 2005 this had dropped to 74. Analysis by the current Rover Taskforce in March 2006 estimated that 11 supply chain companies have closed in the wake of the 2005 collapse—far fewer than anticipated.

THE EVENTS OF 2005

14. In 2004 it was clear that Phoenix were fully engaged in the search for a suitable partner. In March 2004 Phoenix Directors John Towers and Peter Beale appeared before this Select Committee and outlined their hopes of a joint venture in China. By November 2004 Phoenix were briefing on specific plans for a deal with Shanghai Automotive Industry Corporation (SAIC) and, we now know, had already signed a deal selling intellectual property rights to the Chinese company.

¹⁷ Economic Impact Assessment Final Report by Regeneris Consulting, November 2005.

¹⁸ Report by the Comptroller and Auditor General, HC 961, Session 2005–06, 10 March 2006.

15. According to Phoenix, the SAIC negotiations were progressing well, but as 2005 dawned speculation mounted as to why there had been no conclusion.

16. In the period directly building up to March 2005 discussions took place between Phoenix and the Government about the possibility of financial support. From the discussions I had with Ministers, I am in no doubt that they wanted to assist the Company in taking forward its proposed deal with SAIC. On 1 April 2005 the Government confirmed that it was prepared to make a bridging loan available.

17. The Government offer on the bridging loan was very clear. They would provide a £100 million bridging loan but only if strict conditions were met. The most significant of these being that the loan had something to bridge to, ie that there was a reasonable prospect of a commercial deal with SAIC. Any bridging loan would also need to take account of EU state aid rules. My opinion is that the offer of a bridging loan was consistent with policy objectives.

18. Equally I have no doubt that—as stated in the recent National Audit Office report—the agreement from HM Customs and Excise to defer payments of the majority of the company's VAT payments due from the end of November 2004 reflected a genuine concern to help the company survive whilst negotiations with SAIC were continuing; and buy time to help facilitate a situation whereby the survival of the company could allow tax already owed by the company to be recouped as well as thousand of jobs saved.

19. The Government was right to do what it could to help MG Rover conclude their negotiations with Shanghai successfully. If they had failed to provide that support the probability is that the company, whose fortunes were intertwined with the prospects of the UK manufacturing base, would have collapsed earlier. This would have entailed millions of pounds of tax revenues still being lost and thousands of people thrown out of work without necessarily the immediate assistance that the Taskforce was able to provide by April 2005.

20. There has been criticism of Government's decision to make public its offer of support but I believe this had the objective of reinforcing state commitment to the company at a crucial time in the negotiations.

21. The question then is why did the negotiations stall? From discussions I had with representatives of SAIC, it is my understanding that the deal foundered on doubts in Shanghai about the financial stability of MG Rover. Whether this was the case and if so what precisely these doubts concerned will I hope be provided by the official report of the inspectors following up the work of the Financial Reporting Review Panel.

22. By the first week of April 2005, protracted negotiations in Shanghai had still not reached a conclusion and this provoked an unprecedented level of press and business speculation about the financial difficulties of MG Rover and the Shanghai deal itself. Throughout that week information on the likely conclusion of negotiations was constantly changing. At some points it seemed a successful deal might be reached. However, on Thursday 7 April SAIC indicated that the prospects of the deal being negotiated between Phoenix and SAIC had ended. This removed the possibility of the bridging loan being paid. On the same day a number of suppliers had stopped sending their products to MG Rover and the position became critical.

23. Following a telephone conversation with John Towers in Shanghai, the Secretary of State chaired a press conference with the General Secretary of the TGWU that evening. This provided an update on the situation including the news that an administrator was to be called in by the company and that the Government would both be working with all parties to try to secure the future of car making at Longbridge, and that it would also be creating a Task Force and support package to help deal with the impact of the possible closure of the plant. The announcement that evening ensured employees and their families were kept informed of events that affected their livelihoods as soon as possible. It should be noted that press speculation was already rife.

EVENTS SUBSEQUENT TO 8 APRIL 2005

24. MG Rover went into administration on 8 April and the Secretary of State and her Department acted quickly and decisively. They followed a dual-track response—on the one hand they began work on the recovery package and on the other hand they pursued any possibility of a deal still being made with Shanghai.

25. The Chinese company clearly no longer wished to pursue a deal with Phoenix but they pointedly did not close the door completely on a possible link-up with MG Rover's Longbridge plant—though the prospects of such a deal were remote. In this situation the Government, in my view was entirely justified in making a £6.5 million loan available to keep Longbridge a going concern for one week to explore this possibility. There were thousands of jobs at stake and the Government would have been rightly attacked if the chance of securing such a deal had been lost because it had been unwilling to do what it could to facilitate it.

26. The most ludicrous accusation on this matter has been that Government knew the company could not be saved and used the £6.5 million loan as a political ploy by Labour to win votes at the election. The

loan was made available for one week only from 10 April. The general election was early May and I do not understand how pushing the date of the company's collapse one week closer to polling day could be to Labour's advantage.

27. Regrettably there was no appetite for a purchase and on 15 April SAIC in Shanghai informed the administrators they were not willing to acquire either the whole or parts of the MGR or Powertrain businesses.

THE EFFECTIVENESS TO DATE OF THE RECOVERY PACKAGE AND TASK FORCE FOR THE ROVER WORKFORCE

28. The immediate response to the collapse was swift and used experience from the original Task Force set up in 2000 to maximise the effectiveness of the recovery package.

29. Between 2000 and 2005 I had expressed concerns to Advantage West Midlands about the pace and scale of diversification and regeneration efforts in the area around the Longbridge plant. I am pleased, therefore that the 2005 Task Force Final Report emphasises the need to focus better attention on South West Birmingham where the community impact of the Longbridge failure is most-highly concentrated and the need to develop immediate jobs in the area most challenging. The recent news of Nanjing Automobile Corporation's plans to restart car production at Longbridge is of course welcome—but the wider challenge is about building a local economy no longer reliant on a single company or industry.

30. A full impact analysis can be found in the final report of the Task Force¹⁹ and I will not repeat this here. On the whole the work so far has had a very positive impact in lessening the effect of the closure for the thousands of employees, supply chain companies and other communities connected to Longbridge.

31. Less than one year on though real challenges still remain. Four thousand former MG Rover employees are back in jobs at the time of writing and it is important to ensure that the new intensive personalised Employment Support Package is effective and that we continue to recognise the significance of there still being 1,800 without employment.

32. A high concentration of unemployment and other serious problems must be tackled in the area immediately around the Longbridge plant. An estimated 1,100 ex-Rover workers live within three miles of the plant and between February and October 2005 the unemployment rate in Northfield rose from 5.5% to 7.5%, male unemployment from 7.8% to 10.8%. These workers have been less used to travelling significant distances to work and contain a higher proportion of the less skilled former MG Rover workers. So their ability to find alternative employment is often less than other groups of former employees. Their path back to sustainable employment will depend on the ability of the South West Birmingham area to improve skills and aspirations.

33. To enable this, physical regeneration in the area and developments on the Longbridge site need to be closely-linked to the development of human capital in the area. If the Longbridge area's long-term problems of low skills, low aspirations and low entrepreneurship rates are not tackled in this way then future problems will soon dwarf any achievements made in the last year. Advantage West Midlands and the developers, St Modwens are, making a large investment in the redevelopment of the Longbridge site. AWM must take responsibility for ensuring that they and other agencies take the necessary measures to exploit human capital.

34. With the Task Force itself now having reached the end of its allotted lifespan I believe there remains a role for a body to check how progress is being made by the individual agencies and the Executive Sub Group to take forward out the recommendations of the Task Force. One suggestion could be that the Task Force itself could reconvene after, say, six months and then one year later to review progress. It is also important that there should be clarity in the reporting and accountability arrangements of the agencies and Executive Sub Group as custodian of the Task Force's recommendations. It is also important that the work of the Task Force is reflected in the Regional Economic Strategy and associated strategies such as those on transport.

35. Despite the events at Longbridge, the automotive industry remains an important part of the UK manufacturing sector and a major employer in the West Midlands. UK automotive firms are leaders in global best practice in many areas of high-value manufacturing and the UK is home to a world-leading performance engineering and motorsport industry. It is important that Government remains active in promoting an approach to the automotive industry that is able to meet the challenges of the 21st century. As part of the West Midlands Automotive Strategy, a £9.6 million "Phase 2" longer-term supplier support programme was outlined in the final Taskforce report of March 2006 with the aim of strengthening the automotive sector in the region.

March 2006

¹⁹ *The Work Goes On* published 7 March 2006.

Addendum to memorandum by Richard Burden MP

Following my evidence submitted on 20 March, I wish to add the following submission:

CROSS-DEPARTMENTAL BARRIERS

36. There is one area of note which I would like to highlight for the Committee's attention. It concerns the way in which different departments' regulations can cut across each other and get in the way of effective responses to situations like the collapse of MG Rover. One example is the system of Redundancy Payments rules regarding the timing of pay in lieu of notice and protective awards, and the impact of these rules on the payment of Job Seekers Allowances. Other major examples are the detrimental effects which the 16 Hour Rule and the 28 Day Rule can have on the ability of agencies to offer the training and education packages that people need, and on encouraging people who have lost their jobs to take up retraining opportunities.

37. It is fair to say that the agencies involved in the MG Rover Task Force worked hard to overcome these problems as far as they could, but I believe some longer term solutions are necessary if we are to address these kinds of problem in future situations. Other members of the Task Force may also like to give evidence on these issues and I know they are a matter of concern to the Trade Unions.

38. I raised these issues during the Westminster Hall debate which I secured on MG Rover on 14 June last year. The *Hansard* for debate is already in the public domain and I would be grateful if you could consider that also as part of this submission to the Committee.

9 May 2006

APPENDIX 7

Memorandum by Rt Hon Stephen Byers MP, Secretary of State for Trade and Industry 1998–2001

1. I welcome the decision by the Committee to conduct an inquiry into the Government and MG Rover. This inquiry provides an opportunity to consider what role, if any, the Government should play when faced with the decision of a multi-national company to dispose of a major manufacturing facility. The Committee's Eighth Report, Session 1999–2000 (HC 643) covered the circumstances leading up to BMW's decision to sell Rover. From the terms of reference of this inquiry it is clear that the Committee does not intend to go over this ground again. So, this submission will concentrate on my decisions and actions during the disposal of Longbridge by BMW and its immediate aftermath.

2. Manufacturing is crucial to a strong, stable and balanced economy. Around three million people are employed in the manufacturing sector; it accounts for nearly 70% of our exports; it undertakes most of our business research and development and is responsible for much innovation through the introduction of new products and processes. In order to support manufacturing in the modern world the main role of Government should be to create the conditions for business success which flow from a strong economy grounded in low interest rates with inflation under control and to assist companies in meeting the new challenges that come from globalisation.

3. Faced with the decision by BMW to dispose of MG Rover and to enter into negotiations with Alchemy, a venture capital company, the Government had a clear choice. It could simply stand to one side and do nothing, not even express a view about its preferred outcome. Or it could take an active role to try and maintain as many jobs as possible at Longbridge and to provide a breathing space for companies in the supply chain and in the Rover dealerships so that they had time to diversify into new areas.

4. During the 1980s and early 1990s we saw what happened when Government adopted a *laissez-faire* approach and washed its hands of any responsibility by saying that these were solely matters for the market to determine. Individuals, their families and whole communities were devastated as a result. I was not prepared to allow this to happen at Longbridge. I felt that it was possible for Government to play an active and positive role in order to secure the best possible outcome.

5. When BMW announced their decision the Government took the view that the most desirable outcome would be to have a new owner of Longbridge committed to maintaining volume car manufacturing. We felt this was essential for three main reasons:

- (a) To minimise the number of jobs to be lost amongst those directly employed at Longbridge;
 - (b) To give an opportunity to the manufacturing supply chain (which employed tens of thousands) and the Rover dealerships (which employed 15,000) to diversify into new areas. This would require time and government support; and
 - (c) To minimise the impact more generally on the UK automotive manufacturing sector.
6. The Eighth Report of the Committee in its summary of conclusions and recommendations states:
- (d) *If BMW's assurances of openness to concrete alternative offers is to be taken seriously, it must be prepared to provide potential bidders with at least the minimum information to enable a realistic bid to be put together: Ministerial involvement may be required to bring about this (paragraph 34).*

- (e) *We would be surprised were the DTI not to have explored all realistic possibilities of major car manufacturers taking over the Longbridge site. While it is indeed for the market to decide on the fate of commercial enterprises, the evidently chaotic, incomplete and incoherent way in which BMW sought to disengage from Rover strongly suggests that it may not have devoted as much care and attention as it could and should have done to seeking an appropriate company to take the small cars business off its hands. There remains in the public at large a strong belief that there could be an alternative to the Alchemy option. The Longbridge workforce and the thousands of others dependent on manufacturing operations there are entitled to assurances that the Alchemy option—however that turns out in practice—is indeed the best one available from all perspectives (paragraphs 33 and 35).*

7. In fact the actions I took as Secretary of State were broadly in line with these recommendations and conclusions. The Alchemy proposal was not attractive and would not have delivered the Government's preferred outcome. It would have led to the loss of thousands of jobs at Longbridge but even worse damage would have been caused to the manufacturing supply chain and the network of Rover dealerships. A speedy move to niche sports car manufacture as was proposed would have been a devastating blow. With no time to diversify tens of thousands of jobs would have been at risk with massive damage inflicted on the economy of the West Midlands.

8. But while the Alchemy proposal was unattractive to the Government it was not for us to run the commercial negotiations between interested parties. What we were able to do was to facilitate discussions between BMW and the Phoenix consortium. This meant that there was an alternative option available when the negotiations between Alchemy and BMW broke down.

9. Contrary to reports at the time I provided no financial support to the Phoenix consortium to assist in its acquisition of MG Rover. I did make available £129 million to the Rover Task Force which I set up in March 2000. This funding was to be used to help diversification and to support projects aimed at economic regeneration and job creation.

10. At the time of the acquisition by Phoenix the Government made it clear that in our view the company would need to find a strategic partner to design and develop new models to secure its long-term future as a volume car manufacturer. We knew that under the agreement entered into with BMW there would be enough cash in the company to keep it going for between four to five years. We therefore offered assistance to the company to improve productivity and to help MG Rover identify a suitable strategic partner.

11. As a result of the actions taken by the Government in 2000 the West Midlands economy was in a far stronger position to deal with the impact of closure in 2005. This of course is no comfort to those who were affected by the events in 2005 but the numbers concerned were far lower than would have been the case in 2000 had there been a closure at that time or acquisition by Alchemy. The funding provided to the Rover Task Force was able to support and assist the national and especially the regional economy so that it could reduce its dependency on Longbridge. In 2000 161 companies in the UK were dependent on Rover for over 20% of their sales. By 2005 this had been reduced to 74. In 2005 an estimated 12,000 people in the West Midlands were dependent on Longbridge compared to 22,000 in 2000. Unemployment in the West Midlands has almost been halved from 21,000 in 2000 to 11,000 today.

12. Professor Nick Oliver from Cambridge University's Judge Business School said recently of the 2005 closure of MG Rover, "the landing was relatively soft but only because the glide path was so long". This glide path did not come about by accident but was as a direct result of Government action in 2000. Had we failed to act at that time then there would have been a crash landing with devastating consequences for the West Midlands economy and tens of thousands of workers, their families and the communities in which they live.

APPENDIX 8

Memorandum by the Department of Trade and Industry

INTRODUCTION

1. The DTI welcomes the Committee's inquiry into the Government and MG Rover and recognises the valuable contribution its Eighth Report, Session 1999–2000, (HC 643) made in clarifying the circumstances which led up to BMW's decision to sell Rover. As this report covered in depth the events leading up to, and immediately following BMW's decision in 2000 to sell the Rover Group, we have not covered these events in detail in this memorandum. We have, however, referred to them briefly in order to place into context events leading to, and following the collapse of MG Rover in 2005. This, together with DTI's response to these events, is the main focus of this memorandum.

2. The story of MG Rover Group and DTI's relationship with the company should be seen in the context of the performance of the UK automotive sector as a whole, and the Government's strategy for manufacturing industry and the automotive sector in particular. That is the purpose of the first section of this memorandum.

THE UK AUTOMOTIVE SECTOR AND CO-OPERATION BETWEEN INDUSTRY AND GOVERNMENT

3. The Committee looked at the UK Automotive Industry in its Eighth Report of Session 2003–04 (HC 129). The Report acknowledged that the UK is still a competitive place to make vehicles, but, regardless of this, individual plants may still close. The Government Response agreed with the Committee's objective analysis of a sector that has successfully embraced the challenges and opportunities of globalisation and not only survived but also thrived. This continues to be the case with significant success stories in what is overall a difficult international market.

THE UK AUTOMOTIVE SECTOR

4. Aston Martin, BMW, Land Rover, Toyota and Vauxhall have achieved record car output for 2005. Vauxhall have also reported record output from their van factory in Luton. The UK produces 9% of Europe's output and is fourth in Europe behind Germany, France and Spain. The UK produces 3% of global output.²⁰ Nissan at Sunderland, Toyota (Burnaston) and Honda (Swindon) are all among the 10 most productive car plants in Europe.²¹ The UK continues to attract and retain inward investment—for instance, Honda has recently launched the new Civic which is made in Swindon and BMW is transferring engine production for the next-generation MINI to Hams Hall in the West Midlands, from Brazil. The sector also needs to be adaptable—visible, for instance, in the transformation of Ford's Dagenham facility from vehicle manufacturing to a global centre of diesel engine excellence, with the result that Ford now sources 25% of its global engine requirements from the UK. Against this background, MG Rover's collapse can be seen as the result of a specific set of circumstances to do with that company, rather than reflecting a wider malaise.

5. The challenges the sector faces remain intense. Competition from lower cost economies requires relentless pursuit of quality, cost and delivery improvement, ever leaner manufacturing processes and improved skills levels, and the policy imperative to enhance environmental and safety performance still further must be delivered in ways that do not threaten the UK's competitive position. As the following section explains, Government is working closely with the industry to help it address these challenges and build on its established strengths.

CO-OPERATION BETWEEN INDUSTRY AND GOVERNMENT

6. DTI's purpose is to create the conditions for business success, and help the UK respond to the challenge of globalisation. DTI believes that manufacturing is an integral part of the future UK economy and fundamental to the UK's success as a high technology, high added value economy competing in the global marketplace. However, we are seeing an extraordinary economic shift, with rapid growth and development across the globe, in particular in China and India, and burgeoning competition in the world marketplace. In response to these challenges, DTI published in 2002 the Government's Manufacturing Strategy, which set out an approach for competing on the basis of innovative, high value, high quality products—and less on cost. The Strategy identified seven pillars to help build a vibrant, knowledge-intensive, high-skilled manufacturing base: macroeconomic stability; investment; science and innovation; world-class best practices; skills development; strong infrastructure; and the right market framework.

7. In 2004, DTI reviewed the Strategy with industry stakeholders and drew up a Manufacturing Action Plan setting out priority areas for action by Government, industry, trade unions, Regional Development Agencies and others to ensure the future success of UK Manufacturing. It established a Manufacturing Forum, which is putting in place a range of activities across skills, public procurement, and the image of manufacturing, that will help the sector to compete more effectively.

8. DTI's Automotive Unit is responsible for managing Government's relationship with the automotive industry and working with the sector to enhance its competitiveness. Relationship managers are assigned to the major firms in the industry and the Unit regularly engages stakeholders collectively on policy and regulation issues via its VIPER (Vehicle Industry Policy and European Regulation) group and on issues affecting the retail motor trade in particular via the Retail Motor Strategy Group. MG Rover was one of the companies to which a relationship manager was assigned and in addition to company-specific matters, MG Rover staff were engaged in discussions on a number of regulatory issues, such as the End of Life Vehicles Directive, and on environmental projects.

9. The recommendations of the Automotive Innovation and Growth Team (AIGT) have been a particular focus of the Unit's recent work. The AIGT brought together industry, government and other stakeholders to assess the competitiveness of the sector and recommend actions to help it face future challenges.²² The Government committed £45 million to the AIGT's principal initiatives, all of which have now been implemented.

²⁰ Source OICA.

²¹ Source WMRC European Automotive Productivity Index 2003: productivity measured in terms of vehicles per person.

²² The AIGT was covered in Trade and Industry Committee Eighth Report Session 2003–04; see also <http://www.autoindustry.co.uk/automotive—unit/aigt>

10. Automotive businesses are, of course, also able to access assistance that DTI makes available to industry more generally in line with its objectives to improve business performance and strengthen regional economies. The principal financial scheme in England is Selective Financial Investment in England (SFIE) which is designed specifically to increase productivity, sustainable growth and skills and to safeguard employment. Its application is limited to Assisted Areas of Great Britain where regional aid may be granted under Community Law. Much of the UK automotive industry is located in such areas and since 1990 Ministers have approved some £330 million of grants for the automotive sector.

11. The importance of the automotive sector in particular parts of the country has also led to the establishment of some major regionally based support programmes notably the Accelerate programmes in the West Midlands and Wales. DTI works with regional bodies to ensure that regional and national initiatives complement one another so that companies know where to go for support.

12. In the period from May 2000 to April 2005 the MG Rover received a limited amount of direct public support—in total some £5 million—as part of wider schemes for the automotive sector and West Midlands region.

GOVERNMENT AND MG ROVER

2000–04

13. BMW's decision to sell to the Phoenix Consortium on 9 May 2000 was welcomed by Ministers and all parts of the House during the debate on the day as well as by Rover workers as it was the best and only solution available at the time that would result in a large number of jobs and in volume car production being maintained to the benefit of the West Midlands economy. Negotiations with Alchemy had broken down and the alternative was closure of the plant. However, we were aware that MG Rover had limited cash reserves and would need a partner to fund investment in new models and thus secure the business's long-term future.

14. As is the case with all other UK vehicle manufacturers, immediately following the sale of Rover to the Phoenix Consortium in 2000 we appointed a Relationship Manager to build relationships with the company and ensure an effective flow of information with DTI. The company did initially engage at senior level, although the directors were reluctant to share detailed information on their business plans and status of negotiations with potential partners. During 2002 and 2003 the relationship was led by the company's head of PR and communications rather than senior management, although individual directors did maintain contact. From 2004 onwards contact with senior management once again became more frequent.

15. During this period we were made aware of discussions between MG Rover and a number of potential partners and closely monitored progress of ultimately unsuccessful attempts to conclude deals with the Chinese company China Brilliance Automotive (2001–03) and the Malaysian company Proton (2002–04). Discussions with the Indian company TATA resulted in a limited agreement rather than a full partnership. Support was offered to the company's pursuit of all partnerships, but their willingness to accept varied from case to case—for instance, MG Rover received extensive assistance from UK Trade and Investment for the ultimately unsuccessful attempt to acquire a former Daewoo plant in Poland (2000–04), but offers of assistance regarding the TATA deal were declined. Reasonably regular dialogue at working level also led to some specific issues being taken up on the company's behalf, for example, MG Rover's concerns regarding the implications of the End of Life Vehicles Directive and their desire for a higher profile for their products in public sector purchasing decisions.

April 2004—April 2005

16. At the beginning of 2004, then Secretary of State, Patricia Hewitt commissioned a joint report from DTI's Industrial Development and Automotive Units on MG Rover and its prospects. The resulting report concluded, correctly as it was to prove, that the company's need to conclude a commercial partnership was becoming urgent, with a risk that it might run out of cash as early as Autumn 2004. The Secretary of State concluded, however, that low-key contingency planning should be commenced on how to mitigate the impact of a possible closure of Longbridge on the local economy and community. It was also seen as important to convince the senior management of MG Rover that they should engage more closely with the objective of providing practical assistance in finding a strategic partner.

SUPPORT FOR THE SAIC DEAL

17. On 16 June 2004, MG Rover contacted DTI to say that they had signed an agreement with SAIC to fund the development of new models for the MG and Rover brands. The company initially told us that it had learnt a great deal about dealing with the Chinese from its earlier attempts to partner with China Brilliance and declined offers of assistance from DTI (for instance, that the Secretary of State might raise the issue in a planned visit to China). However, following the announcement of further details of the SAIC agreement in October 2004, the company concluded that there might be benefit in accepting diplomatic

support for its negotiations, and the Secretary of State duly wrote to China's NDRC (National Development and Reform Commission who evaluate applications for approval by the Chinese Government) on 23 November 2004 expressing support for the deal.

18. In December 2004 a further review of MG Rover's financial position concluded MG Rover would run out of cash in Spring 2005 unless the deal with SAIC could be completed. In response, a more detailed influencing plan in support of the deal was put into effect, the main focus of which was on stepping up the intensity of supportive Ministerial contacts. As a result, the Prime Minister wrote on 30 November 2004 to the Chinese Premier Wen Jiabao supporting the collaboration and requesting early approval of the deal, the Deputy Prime Minister raised the deal with Premier Wen Jiabao during his December 2004 visit to China, Lord Sainsbury raised the matter in a meeting with the SAIC President, Hu Maoyuan, on a visit to China on 19 January 2005, the Foreign Secretary requested Premier Wen Jiabao's support during his meeting with Foreign Minister Li on 21 January 2005, the Chancellor of the Exchequer stressed the Government's support for the deal in a meeting with NDRC Minister Ma Kai in February 2005 and the Secretary of State wrote again on 18 and 30 March 2005 to the NDRC and to the Shanghai Local Government on 1 April 2005.

19. Throughout these negotiations, we naturally sought evidence of SAIC's position and the progress of their due diligence. On 14 January 2005, officials met representatives of the substantial SAIC delegation which was on site throughout December 2004 and part of January 2005. Their clear assumption was that the deal would proceed and the main topic of discussion was the UK Government's reaction to the likely need for restructuring at Longbridge and the shift of component purchasing to China. The SAIC delegation appeared familiar with MG Rover's cash position and explained that they had sought to ease this by making cash payments in advance of the deal. Accordingly, £30 million had been paid the previous day in respect of IPR on the Rover 25 model. A payment of £37 million the previous year had secured the rights to other Rover models and the K-series engine. Additional amounts would be payable on completion of the deal, expected to be at the end of March.

CONTINGENCY PLANNING FOR REQUEST FOR BRIDGING LOAN

20. The seriousness of MG Rover's cash position was compounded in early 2005 by increasing signals that the conclusion of the SAIC deal may be delayed. Negotiations with SAIC were taking longer than anticipated, and the complexity of the proposed transaction was increased by the Chinese Government's desire to see Nanjing Automobile Corporation included in part of the deal. The company initially revised its target for the conclusion and approval of the deal to end-March 2005, but there were increasing indications that even this might be optimistic.

21. Given the extreme tightness of the company's cash position, the risk of its running out of funds before the SAIC deal could be completed was clearly increasing. As a result, the Secretary of State and other Ministers ensured that contingency planning for the possibility of the company's failure now proceeded to a more detailed level (paragraphs 30 – 32 below). From the end of January 2005 the Department began to make detailed plans for the handling of a request from the company for exceptional financial assistance. Ministers decided that there could be no question of providing funds to prop up the company in the absence of a deal with SAIC, but there could in principle be a policy case and legal grounds (under EU rules on Rescue Aid) for a bridging loan should the tie-up with SAIC be agreed between the parties but its consummation delayed pending Chinese Government approval. In collaboration with other Government Departments, DTI therefore prepared, in early February 2005, detailed criteria that would have to be fulfilled in order for a bridging loan to be satisfied. In addition to the requirement that the deal should be completed subject only to Chinese Government approval, key features of the criteria (attached at annex A)²³ included a requirement that the loan be repaid on completion of the transaction, that it would attract a commercial rate of interest, and that the PVH Directors would make a substantial personal contribution to it. External legal and accounting advisers (Slaughter & May and KPMG) were put on notice to advise on the legal and commercial aspects of a potential loan agreement.

22. The company formally requested a bridging loan facility, with a ceiling of £125 million, at a meeting with DTI officials on 21 February 2005. The company said that although they still hoped to conclude the deal before the end of March 2005, they required a facility to allow for the contingency of further delay. Conscious of the need to ensure MG Rover did not consider a Government bridging loan as anything other than a very last resort, and aware of the possibility of a further pre-payment for intellectual property rights (for the MG Brand), the Department's initial response was that MG Rover and SAIC should look to finance any short-fall from within their own resources. DTI maintained its position for the following few weeks that additional finance should be sought from sources other than Government.

23. In early March 2005, it became clear, however, that further SAIC prepayments were not going to be forthcoming, and the company submitted a written request for a loan facility on 14 March 2005. Given the company's increasingly parlous cash position, and the need for time, if a loan were to be given, to carry out necessary prior due diligence, the Department's response was to write on 17 March 2005 setting out the

²³ Not printed here. Printed as Appendix 6 to the NAO Report.

prepared criteria in full. On the same day, KPMG were sent into Longbridge to look at the financial position in detail. This was the first occasion that it was possible for the Department to see the reality of the company's financial position, despite previous efforts to get the company to provide more information.

24. A key focus of the Department's efforts from this point onwards was the need to obtain satisfaction as to whether the criteria it had set out would be met. On 23 March 2005 the Department wrote to SAIC and PVH in an attempt to get further clarity on the status of the negotiations between them and to signal that the Department would try and reach a decision on the loan by 1 April 2005. In response, on 29 March 2005, SAIC set out what they considered were the obstacles to the completion of the deal, particularly the risk that an insolvency within two years of those elements of PVH that were to remain outside the new joint venture might leave the new JV bearing substantial liabilities (in particular relating to pensions and redundancy payments). In the light of the clear seriousness of the situation and the urgent need to gain a clear understanding as to whether the deal would be completed, the Secretary of State sent two senior officials to Shanghai to discuss progress with SAIC and PVH Directors direct.

25. In discussions and written exchanges over the following few days, SAIC continued to stress the commercial opportunities they saw in the proposed deal, but also their substantial concerns about proceeding in the absence of greater comfort on the solvency of the residual PVH business. SAIC did not at any point state explicitly that they did not intend to proceed with the deal, and PVH Directors continued to express confidence that it would be concluded imminently. However, Rothschilds, SAIC's advisers, reported to the Department on 5 April 2005 that SAIC had taken a firm decision not to go ahead with the deal. Ministers wanted to check this information, given the continuing contradictory signals, in particular from the PVH Directors, and over the next two days intensive efforts therefore made to clarify the position. But by the afternoon of 7 April 2005 it was clear that SAIC had indeed decided not to go ahead with the joint venture deal that they had been negotiating with MG Rover.

26. Without the prospect of the joint venture deal with SAIC there was no possibility of the Department providing a bridging loan. In addition some suppliers had ceased to provide parts which stopped production at Longbridge. In this situation the Rover Directors had no choice but to call in the administrators. They took this decision at about 8.30 pm on 7 April and having done so John Towers rang the Secretary of State to confirm the situation. It was subsequently agreed that both the company and the Department would make statements to the media so that employees were informed as quickly as possible.

THE ADMINISTRATION

27. The administrators, PricewaterhouseCoopers (PwC), took over the day-to-day management of MG Rover and responsibility for negotiating the sale of the company or parts of the business. Although they did market MG Rover widely, given the extent of SAIC's previous interest PwC's immediate priority was to pursue the prospect of a sale of assets as a going concern with SAIC. To assist with this the Secretary of State wrote to SAIC and Prime Minister wrote to Premier Wen Jiabao on 8 April 2005 to offer SAIC assistance in contacting the administrators. The Chinese Ambassador, Zha Peixin, was asked, on 11 April 2005, to immediately notify the Government of any willingness by SAIC to continue negotiating for MG Rover or parts of the business.

28. On Saturday 9 April 2005, PwC made clear to the Department that unless funds were injected into the business it would be necessary for them to declare immediate large-scale redundancies. Although PwC had discussions with the Unions and PVH Directors to see whether either of them were in a position to make some cash injection into the business, it swiftly became clear that unless the Government was able to step-in the chance of a going concern sale would be lost. Ministers weighed up the risks and benefits of a loan. On the one hand it was certain that, without a loan the company would collapse and any possibility of a sale as a going concern, in whole or in part, to SAIC or any other buyers, would be lost. Equally the workforce would inevitably be made redundant before the administrators had been able to make the necessary arrangements. On the other hand, a loan for a brief period would allow PwC to see whether any of those who had expressed an interest in buying the business were serious potential buyers, while making arrangements to handle redundancies if need be. Ministers also considered if no sale was effected whether the loan might not be repaid. On 10 April 2005, the Secretary of State announced DTI's willingness to make a £6.5 million loan to meet MG Rover's operating costs (mainly wages) for a week to enable options to be pursued quickly for the sale of the company as a going concern and enable the position of the workforce to be resolved in an orderly manner. PwC have subsequently returned £1.3 million of the loan.

29. Over the following week, much urgent work was done by the administrators and the Department to obtain clarity regarding SAIC's intentions and explore any other possibilities for a swift going concern sale. However, on 15 April 2005 the Secretary of State received a letter from SAIC making it clear that they were not willing to purchase the whole or part of the MG Rover business as a going-concern basis. In the absence of any credible offers at the time, PwC concluded that the company could not recommence car production and they therefore issued redundancy notices over the next two days to a large majority of the workforce. Over the next few months, PwC received several expressions of interest and had contacted and met most of the potential bidders for MG Rover in order to ascertain their seriousness of their plans for the company and the workforce. In July 2005, PwC announced the sale of the car and engine production assets of MG Rover, including plant, machinery, tooling and stock to Nanjing. Nanjing have relocated the Powertrain

engine plant and a number of production lines to China, but have always maintained their commitment to recommencement of manufacture in the UK. The company recently signed a long-term lease on the South Works section of Longbridge, with the declared intention of starting low volume production of the MG sports car in the UK in 2007.

CONTINGENCY PLANNING FOR MG ROVER'S COLLAPSE: SUPPORT FOR THE WORKERS, COMMUNITY, SUPPLIERS AND DEALERS

30. Initial low-key planning for the contingency of MG Rover's collapse had begun in April 2004. From December 2004 onwards, these efforts were stepped up working on three scenarios, with the Department co-ordinating work with HM Treasury, Advantage West Midlands, Jobcentre Plus and the Learning and Skills Council. The scenarios were the company's prospects of finding a long-term partner; the company could collapse; and they might seek financial support. A planning group with representatives from all these bodies began to meet on a fortnightly basis in January 2005.

The outputs of this work were, for the first and second scenarios, outline packages of £150 million support for workers and supplier companies and, for the third, detailed criteria that would have to be satisfied in order for a loan to be justified with regard to value for money, propriety and legality.

31. Work on the support package drew heavily on the expertise of AWM and other local agencies in running the programmes funded from the money made available to the 2000 Rover Task Force (RTF). In addition to short-term assistance for suppliers while production of certain models was interrupted, the RTF had put in place long-term programmes to modernise the automotive supply base, diversify the local economy and accelerate economic regeneration in three specific areas of the region. These had delivered significant economic benefits and had contributed to the increased resilience of the region's supply base, which in 2000 had been heavily reliant on the Rover Group.²⁴

32. The output of this planning work was the package of support totalling over £150 million, to be overseen by the MG Rover Task Force, announced by Patricia Hewitt on 15 April 2005. Up to £50 million was made available for training for workers made redundant at MG Rover and its suppliers. Over £40 million was provided to cover redundancy payments and protective awards for Longbridge workers. £41.6 million was made available for MG Rover suppliers. £24 million was provided for other purposes agreed by the MG Rover Task Force including a loan fund to help otherwise viable businesses affected by the MG Rover's collapse.

EFFECTIVENESS OF ROVER RECOVERY PACKAGE AND TASK FORCE

33. The contingency planning that had been taking place since April 2004, and more intensively since January 2005, allowed a rapid and effective response to be mounted. The MG Rover Task Force has provided invaluable leadership in coordinating the many agencies and delivery organisations involved. The MG Rover Task Force has given a full account of its activities in its report *The Work Goes On*. The report, published on 7 March 2006, also sets out the important continuing work to assist those former MG Rover workers who have not yet found new jobs and to revitalise the local community. Some of the key actions taken are set out below.

HELP FOR PEOPLE MADE REDUNDANT

34. Agencies on the ground expanded their capacity to meet the immediate large increase in demand for advice and services from both the 5,300 people who had been made redundant from MG Rover and from companies in the supply chain. Some examples of the efforts that were made include:

- The Redundancy Payments Directorate of the Insolvency Service was able to process the majority of claims for statutory redundancy pay and social security benefits quickly and payment made within two days of applications being received.²⁵
- Jobcentre Plus made available a range of information and services, including advice on CVs and job interviews which is not usually provided until a person has been unemployed for six months.
- The Learning and Skills Council sourced and developed some 150 different training courses.

35. As a result of the actions taken by Jobcentre Plus and the Learning and Skills Council, by the middle of February 2005, over 63% of people made redundant from the collapse of MG Rover have found new jobs and over 10% are booked on or have started training. Some are being helped to start their own companies.

²⁴ In 2000, 161 companies in the UK were dependent on Rover for over 20% of their sales. By 2005, this had dropped to 74, of which 57 were in the West Midlands. An estimated 22,000 people in the West Midlands were dependent on Longbridge in 2000 compared to 12,000 in 2005.

²⁵ The normal targets of Redundancy Payments Directorate of the Insolvency Service are to pay 70% of claims within three weeks and 92% within six weeks.

HELP FOR MG ROVER SUPPLIERS AND RETAILERS

36. MG Rover collapsed owing its UK based trade creditors £102 million. Support was made quickly available to those affected and it included the £41.6 million support package and loan fund mentioned earlier. Companies in the supply chain were provided with immediate support for wage costs, consultancy advice on business planning and restructuring and medium-term assistance with diversification and business improvement. The Wage Support Scheme alone has helped 170 companies to save 1,300 jobs. In addition, HM Revenue and Customs considered, on a case-by-case basis, VAT deferral for companies which had remained viable companies after MG Rover's closure and has allowed over 100 companies to defer tax payments worth nearly £12 million.

CONCLUSION

37. The Government did all it could to support MG Rover in its pursuit of a strategic partnership that could have secured the company's long-term future. When the efforts of all concerned sadly proved fruitless, the collapse of the company was a devastating blow for those working for the company, its suppliers and dealers and their families, and for the local community more widely. However, the Government considers that the effective contingency planning for that eventuality, and the impressive response since by Advantage West Midlands, Job Centre Plus, the Learning and Skills Council and others has significantly mitigated the impact of the collapse on the local economy. More remains to be done, of course, and the Government will continue to provide support—for instance, a continuing package totalling more than £6 million to help local companies diversify and innovate.

APPENDIX 9

Supplementary memorandum by the Department of Trade and Industry

INTRODUCTION

The Department welcomes this Inquiry. This memorandum should be read in conjunction with DTI's memorandum in response to the Committee's inquiry into the Collapse of MG Rover (announced January 2006) and DTI's memorandum in response to the Committee's inquiry into the UK Automotive Sector (held in 2004).

The UK automotive sector is very diverse, with a wide range of car and commercial vehicle makers, together with a vibrant component industry. Seven of the global top 10 vehicle makers, and 19 of the top 20 component makers, have a manufacturing presence in UK. DTI recently published a brochure summarising the state of the UK automotive sector "Driving Force: Success and sustainability in the UK Automotive Industry".

Altogether, around 222,000²⁶ people are employed in the manufacture of vehicles and components in some 3,300 businesses. The sector contributes around £9.9 billion value added to the UK economy, and accounts for 1% of GDP, 6.6% of manufacturing value added and 12.7% of UK manufactured exports. The statistics for the performance of the sector over the last 10 years are set out in Annex A. This understates the full scope of the industry, as many components are manufactured by businesses classified to other industries.

UK car production peaked in 1972 at just over 1.9 million cars, but within 10 years production had fallen to under 900,000 units. However, growth has returned, and in 2005, 1.6 million cars and 207,000 commercial vehicles were produced in the UK. This represents 3% of global vehicle output, ranking UK fourth in Europe behind Germany, France and Spain, and ninth globally.

The UK industry operates in a complex and integrated EU market. Over 70% of UK-made vehicles are exported, mainly to Europe but with premium products sold around the world. In 2005 the UK saw a record level of car exports, 73% of production. This record looks set to be broken in 2006 as the very latest rolling 12-month data (12 months to March 2006) shows that UK is now exporting over 75% of the cars made here.

There is a large and diverse cross European trade in car components. Engine development and manufacture are major strengths of the UK automotive sector and have undergone a period of impressive growth in recent years.²⁷ In 2004 production exceeded three million. Substantial new investments have been made at a number of locations both in developing existing facilities and establishing new ones. The UK is a significant net exporter of automotive engines, mainly to car plants around Europe. For example:

- Ford sources 25% of its entire global engine production from the UK, with over 80% of Dagenham and Bridgend's production being exported.²⁸ Ford has recently announced a further £100 million

²⁶ ONS 2004 data: SIC codes 25.11, 31.61, 34.1, 34.2, 34.3.

²⁷ DTI report (June 2005) "*A study of the UK Automotive Engine Industry*".

²⁸ The exports are used in Ford vehicles manufactured in mainland Europe, Volvo vehicles made in Sweden, and Mazda cars produced in Japan. The remaining 20% is used in Ford's Jaguar, Land Rover and Aston Martin models, made here in the UK.

investment in the Bridgend plant and is committed to make Dagenham its global “Centre of Diesel Excellence”. This will entail further expansion of Dagenham’s role to include not just the manufacture of the engines but also their advanced design (in collaboration with Dunton). The Government has been highly supportive of this strategy, agreeing in December 2004 to provide grant aid of £5.1 million in support of a £220 million project by Ford to build its new DV4/DV6 engine series at the site.

- Honda have announced that they plan to build an in-house diesel-engine production plant at Swindon within two years.

Both the UK’s domestic and main export markets are relatively mature, with individual company growth mainly achieved by winning market share from other manufacturers. The diversity of the UK auto industry is such that some companies have grown, some have failed, and many have continued to do well. VAT registration statistics show that the total number of companies has remained stable over the last 10 years: as some companies have closed, others have started up. Meanwhile, headline vehicle production is also relatively stable.

Employment is on a downward trend due to new technology and improving productivity; up by 44% from 2000 to 2004 in value terms, as UK companies address the challenges of globalisation.²⁹ The balance between employment and productivity is being felt across many major automotive companies in Europe, for example Volkswagen have said that it is looking to reduce the workforce in its six western German plants by 20,000 (about one in eight) to make them more competitive.

The outlook for the UK auto industry is positive. Manufacturing close to retail markets remains attractive, as it minimises logistics cost and allows responsiveness to customer demands. Global companies are demonstrating a long-term commitment to UK manufacturing by investing in new models. UK suppliers are winning key contracts, demonstrating that UK can still be a competitive place to do business with the right investments, the right workforce and the right products.

THE PRINCIPAL REASONS FOR THE DIFFERENT RECORDS OF SUCCESS

The UK automotive sector is made up of a diverse collection of over 3,000 individual sites. Records of success and failure vary and the reasons vary too.

For example, it is generally accepted that MG Rover failed because it both lacked the resources and capability to develop new models to replace its ageing product range (eg Rover 25 and Rover 45) and failed to find an external partner to provide this expertise. In contrast, Bentley has benefited from a £500 million investment from the VW Group, which helped the company to return to profit in 2005.³⁰

These examples and the consolidation of the car industry over recent decades demonstrate that economies of scale and the ability to generate large sums for reinvestment are generally regarded as a requirement for anything other than the smallest niche car manufacturers. The component industry has a wider spread of viable company sizes depending on the complexity of the components being produced.

Within the car industry, there are some general features associated with company success. Many of the business approaches were originally introduced by Japanese car manufacturers, they now apply to a similar degree in both volume car production and in premium brands and the lessons learned are being applied in other sectors.

Most importantly, successful companies have a good understanding of the market and are able to design, produce and market a product that the customer sees as desirable and good value. Value is not just about price and technical specification but also includes sustained high quality and a reputation for product reliability. Branding is an important element in the customers’ perception of quality and value and successful companies make long-term investments in acquiring and promoting a good reputation and building strong brands.

Leading automotive companies share other attributes that deliver value and quality. They tend to have a business culture which emphasises working with employees and valuing their contribution to process improvement. Particular emphasis is given to dealing with problems at their source and relying heavily on the workforce both as the identifier of the problem, and the source that can offer the best solution. The more successful companies also focus on supply chain management, with buyer and seller working together as a knowledge-sharing, problem-solving partnership. This approach of trusting the workforce, emphasising quality, and deep integration with the supply chain contrasts to the more traditional command and control management practices of the past.

²⁹ For example BMW has increased productivity at Cowley (where they make the new MINI) from 36 cars per worker per year at launch to 45 a transformation that the Deputy Managing Director attributed to “The level of technical innovation and excellence and just the level of skill and education that you find in BMW . . .” (*Panorama*, 25 September 2005).

³⁰ *Driving Force: Success and sustainability in the UK Automotive Industry*, p 8.

Finally, recent management focus has been on taking waste out of the business and reducing costs. Some of this is saving on raw materials, some is configuration on factory floor space so that there is minimal handling of components between machines and operations, some is to ensure that products are made to the required quality first time and that rework is kept to a minimum. To deliver these savings the companies need to invest in and operate complex systems of information management and analysis to accelerate decision-making.

HOW COMPANIES ARRIVE AT INVESTMENT AND CLOSURE DECISIONS IN THIS COUNTRY AND ABROAD

Investment decisions can be complex, involving the consideration of many geographical factors (such as the availability of economical land, raw materials, labour force, suppliers and customer markets). Other important influences may be more dependent on government policy: tax regimes, transport infrastructure, employment law, R&D infrastructure and government support. Less tangible factors such as quality of life, attitudes of locals towards business, and quality of public services may also influence a firm's decision.

A global corporation choosing between different sites in different countries will have to consider many more issues than a smaller, single-site engineering company. But even in the largest investment decisions, "soft" factors have a part to play, and there is rarely one, clear-cut, incontrovertible answer to any individual decision that is not open to debate.

When considering whether to relocate, firms face a range of other issues. The costs and opportunity costs associated with moving are high. Many plants cannot be profitably sold, as many past investments are product or firm specific. Planning, building, and operating at an entirely new location is expensive and risky. It may take a long time to cover the costs of a large relocation or new location investment. Other issues may emerge: we are aware of a company which relocated 20 miles away from its original location and 75% of the employees resigned, resulting in a significant loss of experience, and an unexpected recruitment and training cost.

Individual location decisions are the result of detailed discussions within companies. These are often private to them, and not shared with Government. The precise way different location factors are balanced cannot always be known. Nor can we know for certain how these decisions interrelate to the wider strategy of the firm.

In general terms, empirical studies show that location decisions of large-scale manufacturing firms are driven by tangible economic variables like proximity to market or raw materials, transportation costs, and the availability of an appropriately skilled workforce. Many studies have found that productivity, education, taxes, and quality of life factors have become increasingly influential.

Research from UKTI identifies the following recent key issues for the automotive sector that impact on retention:

- Labour (principally costs, skills and availability),
- Site (mostly the location of older facilities—often requiring significant investment to update aging plant—and issues around access and transport infrastructure), and
- Business Costs (including energy costs).

The empirical evidence sheds some light on the historical pattern of automotive plant closures.³¹ Many studies show that plant size, age and productivity affect the likelihood of plant closure. Overall, larger, well-established and more efficient plants are less likely to be closed than small, less efficient plants. Within these studies the evidence suggests that foreign-owned plants are no more likely to close than UK-owned companies. However, evidence shows that any change of ownership increases the risk of subsequent plant closure but this effect is less pronounced for larger and/or more productive plants.

The research evidence covers the full range of plant sizes over a considerable time period. However, well-established, larger plants are sometimes closed. When this happens the closures tend to attract a greater public interest and they have a major impact on the local community and supply chain.

What is clear is that in a diverse industry, there is no "one size fits all" rationale as to why plants are opened or closed. The UK has an excellent track record for inward investment over many years and the government are determined to maintain that record in an increasingly competitive global market. Government's most important role is to maintain an overall regulatory environment that encourages high-value investments and a competitive economy.

Labour Market Regulation

The UK has a dynamic, high-performing and flexible labour market, which makes the UK an attractive location for inward investors. Across the economy 75,000 new jobs were created by direct inward investment

³¹ See, for example: a recent paper by leading academics Harris and Hassaszadeh (2002) *Exits in UK manufacturing, 1974–1995: evidence from the Motor Vehicle Industry*.

into the UK in 2004–05. Overall, the employment rate in UK is the highest in the G7,³² much higher than the EU and OECD averages.³³ The number of temporary employees who could not find a permanent job and of part-time workers who could not find full-time work have both fallen by about a third over the past 10 years.³⁴

It has been suggested that this labour market flexibility makes UK workers more vulnerable than their European counterparts. However, UK employees enjoy significant protections when redundancy threatens. For example, employers are obliged to consult and provide information on redundancies involving 20 or more employees at one establishment. The consultation must include ways of:

- avoiding the redundancy situation or dismissals;
- reducing the number of dismissals involved; and
- mitigating the effects of the dismissals.

In addition, where redundancies take place, the employer is required by statute to make redundancy payments to the affected employees. The maximum statutory redundancy pay is £8,900 and many companies top up the statutory amounts with voluntary severance payments (often set at around twice the statutory levels).

The statutory requirements on employers vary across the 25 EU member states but the UK's arrangements are not untypical of those applying in many member states. The UK Government believes that UK law strikes the right balance between employee protection and labour market flexibility. It is not accidental that in France where there is a more rigid regulatory regime for the labour market, French youth unemployment is around 25% and their labour market regulation is widely regarded as discouraging employers from taking on new employees.

Nissan at Sunderland is Europe's most productive car plant,³⁵ and is a global benchmark for other Nissan plants. Toyota at Burnaston and Honda at Swindon are also in the European top 10 most productive car plants. Much of the success of these plants is predicated on labour market flexibility enabling them to increase levels of production to meet market demands.

Clearly the overall test is the relative success of the UK in attracting and retaining inward investors. Here the UK's overall record speaks for itself as the UK attracts more inward investment than any other EU country. The latest European Investment Monitor figures show that in 2004 the UK was the top inward investment destination in Europe securing 563 investment projects (20% of the European total) ahead of France (17%), Germany (6%), Poland (5%) and Hungary (5%). The UK also attracted more investment projects by car manufacturers (15% of European total) than any other destination. The UK did less well in attracting inward investment in the automotive components sub-sector, but jobs in this sector offer significantly lower added value than for vehicle and engine production.³⁶

THE ROLE PLAYED BY TRADE UNIONS IN THE INDUSTRY

Trade unions have an important role to play in the motor industry. Trade union membership in the sector is relatively high and all the large motor companies recognise at least one trade union.

Unions in the motor industry, in common with all unions, are concerned about workplace issues such as terms and conditions of employment and health and safety. However, their interests are much broader. Modern trade unions serve their members' interests by ensuring that the employers with whom they work are successful and adapt to changing market conditions because such employers are best able to sustain employment and provide quality jobs.

The motor industry is dominated by large multinational companies, and globalisation is therefore a well-established phenomenon in the sector. Unions have a strong incentive to develop a dialogue with the motor employers about the implications of globalisation for their members.

The legal framework supports unions in that endeavour:

- (a) A statutory procedure whereby a trade union can be recognised for collective bargaining purposes took effect in June 2000. Amicus achieved recognition at Honda as a result of an application under the statutory procedure.
- (b) The Information and Consultation of Employees Regulations 2004, which came into effect on 6 April 2005, provide routes for employees and their representatives to be consulted and informed on an ongoing structured basis about the performance and strategic direction of their employer's

³² OECD 2006. Data for 2005: UK 72.6%, Canada 72.5%, USA 71.5%, Japan, 69.3%, Germany 65.5%, France 62.3%, Italy 57.5%. Figures are for those aged 16-64 in UK and US and those aged 15-64 in the rest. Latest UK Employment rate is 74.7% (ONS data for February to April 2006).

³³ OECD data: UK 72.6%, OECD 65.5%, EU15 65.4%.

³⁴ DTI Employment Relations Research Series No 56: *How have employees Fared? Recent UK Trends*.

³⁵ European Automotive Productivity Index 2003, published by WMRC. This is the most recent edition, based on data for 2002. Nissan ranked first in terms of cars per employee, and second in terms of hours per vehicle behind Renault Valladolid.

³⁶ DTI analysis of ONS data.

business. Most of the motor companies had consultative arrangements in place before the 2004 Regulations came into effect, but the Regulations provide employees with a means to develop those arrangements if necessary to ensure that suitable consultation takes place.

- (c) The Transnational Information and Consultation of Employees Regulations 1999 provide arrangements for European Works Councils to be established, thereby enabling representatives from the UK arms of major multinational companies operating in the EU to join colleagues from other member states in discussions with their employer about the strategic outlook for their business. Several motor multinationals operating in the UK, including Peugeot, General Motors and Ford, have established a European Works Council.
- (d) There are long-standing arrangements in place for recognised trade unions to be informed and consulted when large-scale redundancies are being proposed. Where employers propose to dismiss 100 or more employees they must consult with representatives of the affected employees at least 90 days before the first dismissals take effect. The consultation should include discussing ways of (i) avoiding the dismissal, (ii) reducing the numbers to be dismissed and (iii) mitigating the consequences of the dismissals and be run with a view to reaching agreement with trade union representatives.

The Government recognises that different skills and expertise are required if trade unions are to make best use of opportunities to widen their dialogue with employers. In order to ensure that trade unions are well placed to undertake this partnership role the Government established its Union Modernisation Fund to support unions in improving their efficiency and effectiveness. One theme of the UMF is to assist trade unions in equipping themselves to engage in a dialogue with employers within the framework of information and consultation arrangements. The Government has between £5 and £10 million for UMF projects, which will be allocated to successful projects over a number of years.

Union support can be an important element of any transformation process to save a plant that might otherwise have an uncertain future. For example the Ford Halewood plant was transformed from a mass-production assembly plant into a new integrated plant for the production of the Jaguar X-TYPE. As well as the investment in physical infrastructure this transformation was complemented by a culture change that required a partnership between management, workforce and Trades Unions (see below).

Jaguar's Halewood Plant manufactures the Jaguar X-TYPE and employs around 2,500 people. It is recognised throughout the industry as a centre of excellence for Lean Manufacturing and has won several awards for its best practice production processes and excellent quality record.

In 2000, a significant investment transformed Halewood from a mass-production assembly plant for the Ford Escort to a world class manufacturing facility for the Jaguar X-TYPE. It meant that for the first time Jaguar would have all four stages of the production process under one roof—totally new body construction and final assembly facilities, along with refurbished press and paint shops.

The transformation of the manufacturing facility was complemented by a culture change strategy, which ensured Halewood's people and processes were ready to build a luxury vehicle. Jaguar invested in over a million hours of training in the Halewood workforce.

The relationship between Halewood management and Trade Unions was central to this culture change activity and it was quickly realised that in order to achieve the plant's quality and skills targets, a partnership approach would need to be taken. A series of "Gateway" agreements were jointly proposed to the workforce by Management and Unions and all employees were asked sign up and commit to achieving these targets. Gateway agreements included quality and productivity goals as well as commitments around workforce flexibility and attendance.

Management and Trade Unions have continued to maintain a positive relationship with a focus on honest and regular communication. Halewood has achieved much since the transition, including the J.D Power European Plant Gold Award for Quality and has been chosen to manufacture the next generation Land Rover Freelander. These achievements would not have been realised without the support and commitment of the plant Trade Unions.

THE APPROPRIATE RESPONSE OF GOVERNMENT TO CLOSURE ANNOUNCEMENTS OR SPECULATION

DTI's Automotive Unit is responsible for managing Government's relationship with the automotive industry and working with the sector to enhance its competitiveness. The Unit works to attract and maintain investment, drive up innovation and skills performance and help shape a positive policy and regulatory framework. In this way we try to maximise the potential for investment in UK and therefore minimise the chances of plant closures.

A range of Government initiatives are in place to support successful business strategies. For example:

- Selective Finance for Investment in England (SFIE, with Regional Selective Assistance, or RSA, in Wales and Scotland) is available in designated geographic areas to help with various costs associated with business location and development.

- The Supply Chain Group programme (set up following the Automotive Innovation and Growth Team)³⁷ is being given £15 million of government funding over five years to help suppliers and customers work together to improve working relationships, and improve efficiency to the benefit of the whole supply chain. In some cases this is simply to improve efficiency and cut cost, but most projects are driven by a need for improved efficiency to cope with growth. Already 27 Supply Chain Group projects are under way covering automotive companies that employ over 50,000 people and generate over £2.5 billion of added value.
- The Automotive Academy was established in 2004 as a partnership between Government and industry and with over £13 million backing from the DTI. It provides firms and individuals (from the shop floor through to senior boardroom directors) with easy access to training focused on lean production and business improvement.

The Automotive Unit assigns Relationship Managers to the major firms in the industry. A key role for the Relationship Managers is to work with companies so that we have early warning of company plans that may impact on jobs and plants. We encourage companies to seek our help in supporting new projects or expansions—and to involve us at a sufficiently early stage to enable us to add maximum value.

The Department regularly commissions independently run surveys of companies with which we have a relationship. These surveys show that the large majority of companies, particularly in the automotive sector, are satisfied with their relationship with DTI. In 2005, 83% of the companies responded to the survey. When asked, some 77% of these (87% for automotive companies) said they were satisfied with the “quality of the dialogue” with DTI.

Regional Development Agencies also have a strong interest in establishing relationships with the companies who have significant operations in their regions. This is particularly true where the company in question is part of a cluster or has a strong regional supply chain.

The DTI will always look to sustain and increase investment in the UK where possible. There is a range of options open to us:

- persuasion and encouragement of the company at all levels (including by Ministers)—marketing the UK’s strengths as a business environment;
- helping companies put their arguments to other parts of government—where issues may be energy or transport infrastructure, planning consents, regulations or training provision;
- mediation with third parties (eg Unions, other companies)—as we did in the case of MG Rover; and
- direct financial support—primarily through existing schemes such as SFIE.

When vehicle production ceased at Dagenham in 2000, many thought that manufacturing at the site would also end. But instead a remarkable transformation was wrought. This was achieved through Ford identifying that a sustainable future could best be secured through making advanced, high valued added diesel engines in Dagenham. The strategy has been extraordinarily successful, with Dagenham now the largest producer of Ford diesel engines anywhere in the world and set to take on an increased role in advanced diesel engine design. This investment has been helped by both SFIE grant and the establishment of the nearby Centre for Engineering and Manufacturing Excellence with some £37 million from a unique private/public partnership led by Ford and the London Development Agency.

There will inevitably be some occasions when a company or plant no longer has a viable future. The role of the Government is not to prop up failing operations by restricting competition or through Government handouts, but to respond to the social and economic issues incurred by the loss of jobs and the impact on the supply chains. We provide support and retraining to the individuals affected, assess the impact on the supply chain and respond accordingly and we take a strategic view of the need for longer term support for the regeneration of the local area and community. Early warning obviously allows the respective agencies including: RDAs; Jobcentre Plus; Learning and Skills Councils; and where necessary the Redundancy Payments Directorate of the Insolvency Service to plan a coordinated and evidence-based response.

WHAT THE GOVERNMENT CAN DO TO HELP THE WORKFORCE AND THE SUPPLY CHAIN IF PLANTS CLOSE

The best recent example of how Government can help the workforce and supply chain following the closure of a plant is the response to MG Rover. This was covered in some detail in the memoranda submitted by the Department of Trade and Industry and Advantage West Midlands to the Trade and Industry Committee Inquiry into the Government and MG Rover.

There are statutory schemes that the Government will use to support the workforce in all major redundancies. These include the services provided by Jobcentre Plus (in particular their Rapid Response Service) and the Learning and Skills Council. There are also statutory schemes that will apply in specific

³⁷ For background see DTI Memorandum to 2004 Trade and Industry Inquiry into the Automotive Sector.

circumstances (such as the collapse of MG Rover) where an entire company has failed and cannot therefore meet the normal redundancy support and ongoing pension commitment. Here the Redundancy Payments Directorate of the Insolvency Service and the Pension Protection Fund may have an important role to play.

The largest redundancies may also require additional intervention. This will depend in part on the particular circumstances as redundancy situations differ in size, timing (redundancies are often spread over a matter of months), the skills of the workforce and the opportunities offered by the local labour market. Clearly the collapse of MG Rover which resulted in over 5,000 workers being made redundant in a short period from one site was a more extreme case which required a greater than usual level of individual support. The MG Rover experience showed that people with few transferable skills need appropriate up-skilling to meet the minimum threshold for new, sustainable employment. Many of those affected, for example, were able to secure employment in the construction industry where there is significant evidence of skills shortages.

Most redundancy decisions affect fewer people or affect a number of different sites and the company can release workers in a phased process, provide more support in retraining staff and offer redundancy packages that are large enough to reduce the financial impact of a period of unemployment on individuals. In these cases the need for Government to provide exceptional direct support to workers is reduced.

Similar arguments apply to the question of Government support for the companies in a supply chain. In the case of MG Rover there had historically been a large number of companies in the West Midlands who had been almost entirely dependent on Rover as a customer for their products. This number had been reduced over the period from 2000 to 2005 in part due to the work of the first Rover Task Force. However by 2005 there were still 74 first tier suppliers who had a high-level of exposure to MG Rover. This was exacerbated by the bad debt that many of them faced. For this reason the Government believes that the support package made available in 2005 was appropriate. The purpose of the package was not to prop up companies with no feasible alternative business plan, but to help those who otherwise had a viable future to make the adjustment over the short to medium term.

In most plant closures either manufacturing of the same product is being moved elsewhere in which case there may be little impact on the supply chain,³⁸ or there will be a more gradual and planned reduction in the activity at the site and therefore more time for the suppliers to adjust their business plans and look for new customers or diversify their activities more generally. Where they need to adjust their business model, suppliers will be able to do this in the relative certainty that they will be paid for the goods that they have supplied over the transition period.

CONCLUSION

The UK is part of a larger European market, which is essentially mature, and individual companies are competing strongly for market share. This is driving increased productivity, which in a mature market tends to lead to reductions in the number of people employed and some plant closures. Government's role is to help provide a business and regulatory environment which enables companies and individual plants to be competitive, to attract investment into the UK and where closures do occur to manage the social costs and economic regeneration in a cost-effective manner.

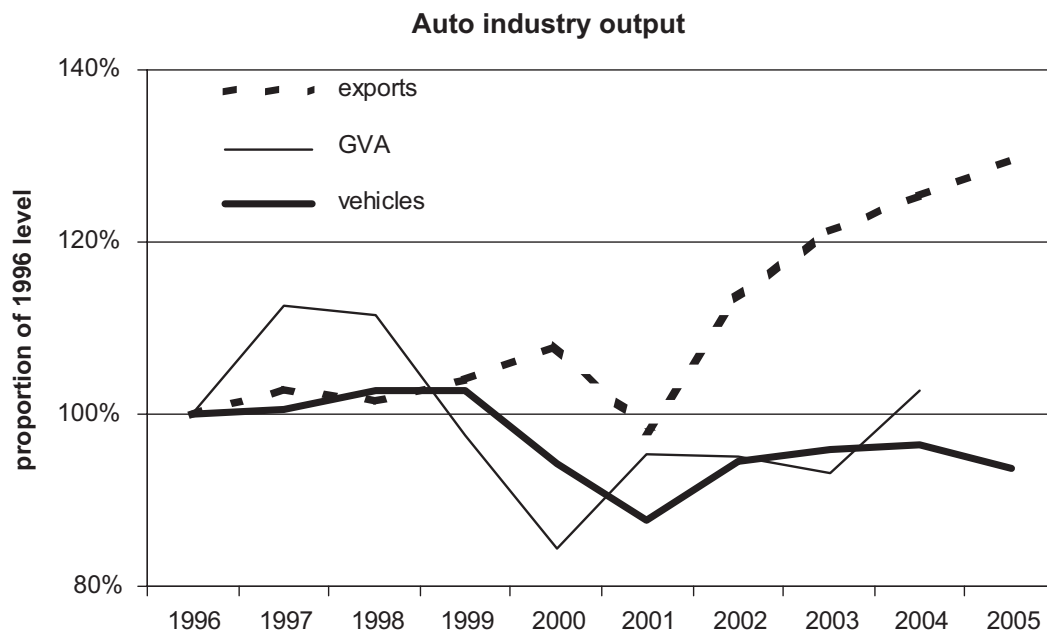
Much of the UK automotive industry is rising to this challenge and will need to continue to do so. The Government will continue to support the sector and provide a business environment in which efficient companies can succeed.

Annex A

UK AUTOMOTIVE INDUSTRY—KEY STATISTICS

The table below brings together various key statistics for the UK automotive industry. These are sourced from official statistics, including the ONS "Annual Business Inquiry", for which 2004 data is the latest available.

³⁸ For example when vehicle manufacturing ceased at Jaguar's Browns Lane facility the existing supply chain was relatively unaffected because production of the XJ and XK models was consolidated at nearby Castle Bromwich.



Total output has remained fairly stable over the last 10 years, with an all-time high in 1999. However, major car plants at Dagenham and Luton closed, taking out some 350,000 units per annum. Despite this, output growth elsewhere has all-but compensated for the loss of these two plants, and this despite the loss of Longbridge in early 2005.

Value added has shown some instability over the last 10 years. This is directly impacted by volumes, and also price. For this reason, GVA does not directly correlate with output. Intense competition has driven down forecourt prices, which has in turn lowered prices throughout the value chain. However, a determined effort in the last five years to minimise costs and maximise efficiency has seen gross value added increase despite stable output.

Export sales are at an all time high both in value terms and as a proportion of output. The very latest rolling 12-month data (12 months to March 2006) shows that UK is now exporting over 75% of the cars, and 64% of the commercial vehicles made here.

Company numbers have remained fairly static over the last 10 years, with no significant change in the overall number. VAT registration data shows that the number of new companies starting up broadly balances the number of auto sector companies closing each year.

Employment is declining, largely as a result of improving productivity: output of the industry in terms of vehicles made has been fairly steady over the last 10 years.

Profitability: Analysis of GVA as a proportion of labour cost gives a measure of potential profitability: a result of 100% implies that GVA is only paying the wages, with no money left to pay other operating costs, let alone providing funds for investment. This data demonstrates that profitability is very difficult, with 2000 a turning point, since when profitability should have been on an upward trend. To set the figures in context, the auto sector is still behind the overall manufacturing position of over 170%, but by comparison, the motor trades are averaging over 230% by this measure, indicating significantly higher profitability in sales and servicing than manufacturing.

Stock Turn is another efficiency measure, indicating the average time that stock is turned over. Huge strides have been achieved here, with the introduction of lean manufacturing techniques cutting the amounts of stock held, and in consequence cutting the capital tied up in stock.

APPENDIX 10

Memorandum by Alan Duncan MP, Shadow Secretary of State for Trade, Industry and Energy

INQUIRY INTO THE SALE OF ROVER BY BMW TO PHOENIX AND ITS SUBSEQUENT COLLAPSE

I should be grateful if your Select Committee inquiry into Rover would study and consider the enclosed submission from me.

At the time of BMW's sale of Rover I was the Shadow Minister for Trade and Industry. I recall that there was active intervention in the sale from the then Secretary of State, Stephen Byers, who was reported to have spoken to the CEO of BMW on a number of occasions in order to encourage the Phoenix offer over and

above the proposals made by Alchemy. Much of the detailed involvement of Mr Byers in favour of the Phoenix bid is recorded in the book “We Ain’t Going Away”: The Battle for Longbridge, by Carl Chinn and Stephen Dyson. Mr John Hemming (now the Lib Dem MP for Birmingham Yardley) also figures prominently in the accounts of the negotiations. Another book, “End of the Road” by Brady and Lorenz also records clear evidence of these events.

The Alchemy proposals would have required the company to be slimmed down so as to become a niche producer. There would have been redundancies. The Secretary of State was reluctant to see any redundancies in the run-up to an Election, even though the workers would have received pay-offs of anything up to £80,000 and their pension, and that of the workers who remained employed, would have remained intact.

As a result of Mr Byers’ involvement in discussions with BMW, the Phoenix bid was favoured, and was eventually successful. Setting aside any judgement about the propriety of the ensuing conduct of the “Phoenix Four”, the business model they championed for Rover was doomed from the outset. Their stewardship of the company, instead of securing the future of a smaller company and the maintenance of a properly funded pension scheme, led to the collapse of the company, the destruction of all its jobs, and the annihilation of its pension scheme.

The evidence I wish to submit to your committee proves beyond all doubt that this was inevitable and that it was known at the time. The political judgement behind Mr Byers’ approach illustrated supreme incompetence. Most investigations rely on hindsight: my submission does not.

I, and others, predicted Rover’s demise at the time, and were outspoken in saying so. Thus we had foresight, and cannot be accused of being wise after the event.

As Shadow Minister I commissioned a full study into the finances of Rover and its likely prospects. I enclose herewith the document that records both that study and its conclusions.³⁹

It boldly predicted the collapse of the company by 2004, its timing subsequently proving mildly pessimistic because of assumptions about future investment in a production platform which in the end, by not happening, extended the life of Rover by a few months. The fundamental assumptions, though, were spot on.

Those of us who criticise Mr Stephen Byers have been doing so on a consistent basis. We openly warned that Rover would fold. We were dismissed by him and by others: but we were 100% right.

I therefore maintain that the then Secretary of State should be held to account by the Select Committee for pursuing an option which has led to the complete destruction of Rover and the destruction too of tens of thousands of livelihoods in the West Midlands. His track record is one of incompetence and catastrophe, and we who wish for the betterment of people in this country should not hesitate to pass judgement on his actions.

APPENDIX 11

Memorandum by the Ford Motor Company

1. Ford Motor Company (“FMC”) welcomes the opportunity to submit written evidence to the House of Commons Trade and Industry Select Committee’s inquiry into the British automotive industry.

COMPANY GLOBAL OVERVIEW

2. FMC, headquartered in Dearborn, Michigan in the United States of America, is one of the world’s largest vehicle manufacturers, with approximately 300,000 employees in 200 markets on six continents. Its automotive brands include Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Mazda, Mercury and Volvo. Combined global sales were 6,818,000 in 2005. Net income globally last year was \$2 billion, and turnover was \$177.1 billion. FMC’s automotive-related activities include Ford Credit, Quality Care and Motorcraft. FMC observed its 100th anniversary on 16 June 2003.

FORD MOTOR COMPANY IN BRITAIN

3. FMC group companies in Britain employ around 33,000 people—approximately 30% of all Ford Motor Company employees in Europe. 20,500 of these people are employees of Jaguar, Land Rover and Aston Martin. FMC accounts for some 80% of UK automotive R&D, employing 9,500 people at technical centres located in Dunton, Essex and Whitley and Gaydon in the West Midlands.

4. Four Ford Motor Company brands build vehicles in the country—Ford “Blue Oval”, Jaguar, Land Rover and Aston Martin.

³⁹ Not printed.

5. The Bridgend and Dagenham Engine Plants also build petrol and diesel engines respectively for Ford, Jaguar, Land Rover and Volvo products. In addition, Mazda and Volvo have sales organisations in Britain, and Ford Financial Europe—Ford’s financial services organisation—is headquartered in the country.

6. FMC group companies operate over 30 facilities in England, Wales and Scotland. A third of Ford’s European spending, and over two-thirds of Jaguar and Land Rover’s total spending, is in Britain. In total, Ford Motor Company spends around £4.5 billion in the UK each year. Jaguar and Land Rover are among the country’s largest exporters to the United States market.

FORD “BLUE OVAL” IN BRITAIN

7. FMC’s association with Britain began in 1903, the year of the company’s founding in the United States, when two Ford Model A cars were shipped to the country. By 1908, a Ford sales company had been established, and the first Ford manufacturing plant in Britain was opened at Trafford Park, Manchester in 1911. The first Ford vehicle built in Britain was the Model T.

8. Ford Motor Company Limited (“Ford of Britain”) has been the new car sales market leader in Britain for the past 29 consecutive years and leader for 40 successive years in the commercial vehicle market with the Ford Transit. Britain is second only to the United States in terms of sales of Ford cars and commercial vehicles, and is the only major automotive market where Ford has both new car and commercial vehicle leadership. Ford of Britain accounts for around 25% of all Ford “Blue Oval” vehicle sales in Europe. In 2005, Ford had three cars in the Top 10 new car sales list, including the Ford Focus at No 1 for the seventh successive year. The Ford Focus was also the leading car model in the fleet sales sector, and Ford was the overall leader in the diesel sales market.

9. Ford of Britain employs approximately 12,500 people in Britain, and operates a dealer network with 582 Car and 218 Transit Specialist sales outlets. There are 621 Ford authorised vehicle repairers, plus 240 Transit authorised repairers.

JAGUAR, LAND ROVER AND ASTON MARTIN IN BRITAIN

10. Jaguar has a long and distinguished manufacturing presence in Britain. The company was founded in 1922, began manufacturing vehicle bodies in 1928 and has produced complete vehicles in Britain since the mid-1930s. Following an announcement made in September 2004 the company announced proposals aimed at stemming losses and helping secure a stable future for the company. The proposals included cessation of vehicle production at the Browns Lane plant in Coventry and Jaguar gave evidence to the committee during a separate inquiry into the West Midlands automotive industry in November 2004. Although Jaguar is still loss-making, progress is being made on the company’s product-led recovery plan and the successful launch of the new XK sports car is the most recent example.

11. The British market is extremely important to Jaguar accounting for 30% of total sales last year. Jaguar exports to 68 markets worldwide.

12. Land Rover has produced vehicles at its Solihull site in the West Midlands since 1948. In the past decade it has grown considerably, doubling sales since 1994 to last year’s all time record of 185,120. The model line up will complete its overhaul this year with the introduction of the all new Freelander 2, which replaces the existing Freelander which has consistently been the UK’s best selling 4x4. A fifth nameplate, the highly successful Range Rover Sport has been added to the model line up. Land Rover’s iconic Defender is approaching its 60th anniversary and plans have been announced to keep it in production until at least 2010. The British market is very important to Land Rover, accounting for 26% of total sales in 2005. Land Rover exports to 140 markets worldwide.

13. Created in 1914, Aston Martin is the world’s most exclusive sports car company. Its new headquarters and manufacturing site at Gaydon, Warwickshire, was officially opened in 2003, and in 2004 the company commenced production of the DB9 Coupe. Production of the most recent addition to the Aston Martin line up, the compact V8 Vantage, began in 2005. This is in line with Aston Martin’s objective to sell 5,000 cars per annum in more than 32 countries around the world.

FORD OF BRITAIN MANUFACTURING OPERATIONS

14. Ford of Britain operates three manufacturing centers in Britain: the Ford Swaythling plant near Southampton which manufactures Ford Transit variants; the Dagenham Engine Plant in East London which is Ford’s global centre of excellence for the engineering and manufacturing of diesel engines; and the Bridgend Engine Plant in South Wales which builds petrol engines.

15. Aside from manufacturing diesel engines for FMC, the Dagenham Engine Plant also provides engines for Peugeot Citroen.

JAGUAR, LAND ROVER AND ASTON MARTIN MANUFACTURING IN BRITAIN

16. 2,600 people are employed at Jaguar's Castle Bromwich plant, where XK, XJ and S-Type vehicle production takes place. Jaguar's X-Type saloon is produced at Halewood on Merseyside where a further 2,300 people are employed.

17. Some 7,300 people are employed at Land Rover's Solihull plant where all five current models – Defender, Discovery 3, Range Rover, Range Rover Sport and Freelander—are produced. The next generation Freelander 2 will be manufactured at Halewood.

18. A further 2,300 staff are employed at Jaguar/Land Rover's design and engineering centre at Gaydon, Warwickshire and 3,000 at Jaguar's Whitley Design Centre in Coventry.

19. Aston Martin employs 1,400 people at its new headquarters and manufacturing site at Gaydon and a further 300 at Newport Pagnell where Aston Martin's Works Service is also based.

20. Supply Industry—FMC's manufacturing activity in the UK has a direct economic benefit in terms of its impact upon the automotive supply industry. Jaguar and Land Rover spends £2 billion in purchasing goods and services from UK suppliers and makes a huge contribution to employment and the economy of the West Midlands in particular, although the positive impact stretches across the UK.

RESEARCH AND DEVELOPMENT

21. Research and development forms an important part of FMC's activity in the UK and accounts for the overwhelming majority of automotive industry R&D in Britain, with around 9,500 people working at its three main technical centres in the country: the Ford of Britain technical centre at Dunton, Essex, and the Gaydon and Whitley complexes responsible for Jaguar, Land Rover and Aston Martin engineering development. Other R&D is also conducted into diesel engine engineering at the Ford Dagenham Diesel Centre, at Aston Martin's Gaydon facility, and among the technical teams working in FMC manufacturing facilities. Spending on R&D in the UK for Ford Motor Company brands is £800 million.

CURRENT STATE OF THE AUTOMOTIVE BUSINESS

22. FMC reported a full-year 2005 global net income of \$2 billion, or \$1.06 per share. Ford's worldwide automotive sector suffered a net loss of \$3.9 billion in 2005. Ford is making a profit in all other regions, including Europe. Ford of Europe reported a pre-tax profit of \$91 million for the first quarter of 2006, an improvement of \$32 million from \$59 million a year ago. PAG reported \$163 million profit for Quarter 1, turning round a \$55 million loss for the same period last year and the expectation is that Ford of Europe and PAG will be profitable this year.

INVESTMENT OVERVIEW

23. In recent years FMC has made substantial new investments in the UK, and these investment actions are ongoing. Among the most significant recent investments are the following:

- Over £650 million has been invested on the Dagenham Estate since 2003, primarily in diesel engine engineering and manufacturing.
- Some £700 million will have been invested at Land Rover Solihull since FMC's acquisition of the Company in 2000.
- Over £245 million at Bridgend to build a new inline six-cylinder petrol engine for FMC's Premier Automotive Group brands.
- £480 million at Halewood for the production of Jaguar X-Type and the new Freelander 2.
- £200 million at Castle Bromwich for the Jaguar S Type launched in 1999.
- £435 million has been invested in the recent Jaguar XJ and new XK.
- £129 million at Southampton for the production of the latest version of the Ford Transit.

24. FMC's investment decisions are long-term commitments and take into account many factors including: market demand; existing manufacturing capacity; proximity to a competitive supply base; a productive, flexible and well-educated workforce; infrastructure support; grant assistance availability; exchange rate stability; GDP and economic growth of the country in question; past history of investment; plant productivity, etc.

FMC SPEND IN BRITAIN

25. In 2002, FMC's total spend in Europe was \$33 billion—of which around 24%, or \$7.5 billion, was in Britain.

26. Ford "Blue Oval" spend in Britain in 2005 accounted for around 11% of its total European spend, while Jaguar and Land Rover's Sterling expense was over 60% for each company in 2005.

27. FMC is committed to a strong and healthy supply base in Britain—as evidenced by our continuing spend and by Jaguar’s collaboration with the Warwick Manufacturing Group in the Midlands. This should be compared to the dramatic cut in Sterling spend by many of our competitors.

ISSUES IMPACTING ON FORD MOTOR COMPANY’S AUTOMOTIVE BUSINESS IN BRITAIN

Education and Skills

28. Ford’s substantial commitment to R&D in the UK produces a requirement for an appropriately skilled workforce. Britain has to compete head-to-head with the other great engineering nations and that means securing the long-term sustainability of our engineering base. This ultimately depends on our ability to recruit great engineering talent which, in turn, relies on the need to ensure that children in this country are educated in mathematics and science in a world-class way, and then attract into university engineering courses some of the best and brightest students.

29. Ford believes we must do more in the UK to raise teaching standards in mathematics and science, and improve the image of technology and engineering. Industry and government need to work more closely than before in order to achieve this goal.

30. One difficulty companies like Ford face is accessing funding for basic skills and retraining activity. The existing training delivery structure is unnecessarily complex and there is a need to simplify and secure greater ease of access to training funds.

Regulation

31. The impact of increasing regulation was highlighted in our written submission to the Committee’s 2004 Inquiry and this issue remains a key concern. We continue to believe that the cumulative impact of regulation, much of it emanating from the European Union, is damaging the automotive industry’s global competitiveness and increasing the cost of doing business in Europe. This is compounded by increased competition from Eastern Europe, China and India as alternative lower cost manufacturing locations.

32. Conflicting regulatory objectives continue to pose problems for the automotive industry, a good example of which is the attempt to address both CO₂ and tailpipe emissions—the former through the EU voluntary agreement and the latter through EURO V proposals. The measures required to address vehicle tailpipe emissions have a detrimental effect upon carbon emissions, so the extent and pace of change in each area needs to be very carefully balanced. At present, the industry is being asked to address both issues aggressively and this causes often insurmountable technical and cost challenges.

33. In our last submission we argued that “European Union and national governments need to strive to achieve a better balance in assessing the economic, social and environmental impacts of newly proposed legislation.” One positive development has been the establishment and subsequent report of the EU CARS21 High Level Group, led by the then Competitiveness Commissioner, Mr Verheugen. CARS21 made a number of recommendations including a series of better regulation principles aimed at improving the competitiveness of the automotive industry in the EU. Ford of Europe’s Chairman, Lewis Booth, participated in the CARS21 Group and Ford fully supports its recommendations. The key now, however, is to fully embed and implement these principles at Member State level and we are concerned at the lack of progress on this issue. We urge the UK Government to take a lead on ensuring effective implementation of the CARS21 recommendations.

Employment Issues

There are a number of employment-related issues which impact Ford Motor Company’s operations in the UK. Much of the relevant legislation again emanates from the EU, but there are also issues arising at UK Government level.

34. **Working Time**—The Company has welcomed the UK Government’s continued support for the opt out from the EU Working Time Directive. It is essential that the Company retains the ability both to compete effectively in a global market and to respond to changing market conditions and losing the opt out would be damaging to the UK automotive sector. We understand that discussions at EU level are ongoing and urge the Government to continue to support the opt out.

35. **Agency Workers**—It has been longstanding practice for automotive companies in the UK to use agency support for key engineering programmes and we believe that agency terms and conditions should be determined by the agency in line with competitive market rates.

36. **Pensions and Worklife Policies**—Ford is concerned that measures designed to protect employee’s pensions increase the cost and administrative burden on employers such as ourselves that have demonstrated a substantial and ongoing commitment to occupational pension provision. The UK Government needs to take care not to add a further cost burden on “good” employers based in the UK. As with pension provision, Ford is leading the way on providing family friendly policies for our staff, such as providing 100% occupational maternity pay for 12 months. We are concerned about the Government’s

proposals to transfer a proportion of their maternity leave entitlement to fathers. If this is not implemented with care, it will substantially increase costs to “good” employers like Ford while would threaten our occupational maternity pay policy. These are just two examples of areas in which UK Government activity has the potential to negatively impact the cost base of doing business in the UK.

Vehicle and Fuel Taxation

37. FMC repeats the call we made for stability in vehicle taxation in our last written submission to the Committee. We accept the role that fiscal measures can play in influencing consumer behaviour in environmental terms, though we believe that care needs to be taken to avoid market distortion in the impact of such measures. We believe that taxation incentives should be intelligently applied across all car segments and over time to encourage sustained environmental improvement. Dramatic tax changes which distort the market or unfairly target specific market segments will not achieve the results we all want to see.

38. Ford believes a higher level of fuel duty incentive for bio fuels is justified. The well to wheel CO₂ reduction from current generation bio fuels is typically 50% so it makes sense to encourage take-up of bio-fuels like E85—provided the development of even more efficient bio fuels in the future is encouraged. Because the energy content of ethanol is around 30% less than for gasoline, customers are required to fill up more often and the cost at the pump is therefore critical. Looking at the experience of other countries, like Sweden, it has required higher incentives than those currently offered in the UK in order to encourage bio fuels to take off. Government could also look at other fiscal instruments such as company car tax and build on the current £10 bio fuel discount in the current VED structure.

39. The changed structure of company car taxation has had the desired effect of reducing the CO₂ emissions of the company car fleet but it has also led to significant “opting out” of the company car system, particularly at the upper end of the market. Similarly, the introduction of a graduated VED system has provided a clear signal to motorists about the importance of CO₂ emissions. The scheme introduced in March 2001 has been subject to revision in 2002 and 2003 and again in 2006 with the addition of a further top band. The extent of recent changes argues for a period of stability to allow the new structure to bed down.

R&D Tax Credits

40. While Ford welcomes the R&D tax credits regime, there would be much greater beneficial impact if there was facility to claim a cash payment for excess R&D tax credits, or alternatively set the credits against other tax liabilities such as PAYE or NIC. Currently, for large companies the credits may only be used to offset corporation tax liabilities. Due to losses within the group and heavy investment in plant and equipment with resulting surplus Capital Allowances, the payment of corporation tax will be deferred for many years. Consequently the R&D tax credits regime has no current impact. As a major component of costs eligible for credits are staff costs it seems entirely logical to allow credits which cannot be offset against corporation tax liabilities to be set against employment related taxes such as PAYE or NIC. This might free up some capacity within engineering budgets and fuel further R&D employment opportunity.

Financial Assistance

41. FMC has benefited from the British Government’s assistance over the years in gaining access to Regional Selective Assistance, including recently over £23 million to support an ongoing \$425 million investment at the Bridgend Engine Plant to build a new six-cylinder inline engine for use in Premier Automotive Products. Jaguar has also benefited from grant support for S and X-Type development and production.

42. Ford continues to regard RSA as a significant consideration when deciding on future investment decisions. In our evidence to the Committee’s 2004 inquiry we stated:

“It is important that the British Government continues to provide competitive RSA support to ensure the continuation of foreign direct investment, especially given the growing competition for automotive investment not only from existing EU Member States but also from the EU accession states and from outside Europe. Should this challenge not be met, Britain will find itself at a competitive disadvantage in securing foreign direct investment in the future”. Competition from potential alternative manufacturing locations has intensified, even since our last submission to the committee.

43. FMC welcomes recent Government statements on the importance of research and development, most recently in the Chancellor’s 2006 Budget. However, funds to support R&D activity in the UK are currently very limited and FMC would welcome an expansion in available grant assistance, particularly in light of the critical importance of R&D to the future of UK manufacturing.

APPENDIX 12

Memorandum by General Motors

THE GENERAL MOTORS FAMILY

General Motors Corporation today employs about 327,000 people around the world and manufactures its cars and trucks in 33 countries. In 2005, 9.17 million GM cars and trucks were sold globally under the following brands: Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, HUMMER, Opel, Pontiac, Saab, Saturn, and Vauxhall. This figure was up 2% from the previous year, and the second-highest total in the company's history. GM operates one of the world's leading finance companies, GMAC Financial Services, which offers automotive, residential and commercial financing and insurance. More information on GM can be found at www.gm.com.

GM is the majority shareholder in GM Daewoo Auto & Technology Co of South Korea, and has product, powertrain and purchasing collaborations with Suzuki Motor Corp and Isuzu Motors Ltd of Japan. GM also has advanced technology collaborations with DaimlerChrysler AG and BMW AG of Germany and Toyota Motor Corp of Japan, and vehicle manufacturing ventures with several automakers around the world, including Toyota, Suzuki, Shanghai Automotive Industry Corp of China, AVTOVAZ of Russia and Renault SA of France.

Genuine GM Parts and accessories are sold under the GM, GM Performance Parts, GM Goodwrench and ACDelco brands through GM Service and Parts Operations, which supplies GM dealerships and distributors worldwide. GM engines and transmissions are marketed through GM Powertrain.

General Motors divides its global operations into four regions: GM North America (GMNA), GM Europe (GME), GM Latin America, Africa, and Middle East (GMLAAM), and GM Asia Pacific (GMAP).

GM GLOBAL PERFORMANCE

For 2005, GM reported global losses of \$3.4 billion, including GMNA losses of \$8.6 billion.

GM is taking steps to improve its competitiveness and reduce its structural costs in all its regions. In North America, GM is implementing a turnaround plan based on a number of key elements including raising the bar in the execution of great cars and trucks, revitalizing the sales and marketing strategy, improving cost competitiveness and addressing health care and pension legacy costs.

GENERAL MOTORS IN EUROPE

In Europe, GM sells its vehicles in over 30 markets. It operates 11 vehicle production and assembly facilities which produced just under 1.8 million vehicles last year. As of the end of 2005, GM Europe employed around 64,500 people. Based on an estimated multiplier of three, it is estimated that GM's European supply chain generates in the region of a further 190,000 jobs. Many additional directly related jobs are provided by some 8,700 independent sales and service outlets.

In 2005, GM sold 1.98 million passenger cars and light commercial vehicles in Europe, keeping its market share at 9.4% of a total European market of 21.05 million units.

In the first quarter of 2006, GM Europe reported adjusted earnings of \$88 million, its first profitable first quarter since 2000, and an improvement of \$180 million over the first quarter of 2005. This progress reflects continued progress in reducing structural and material costs, better vehicle mix and lower warranty and policy costs, and comes after consecutive losses amounting to \$3 billion for the period 2000–05.

Although a great deal remains to be done, GM Europe's restructuring plan is on track on the cost side, and the focus is now also on growth.

GM's next quarterly results will be announced on 26 July.

GENERAL MOTORS IN THE UK

The United Kingdom is GM's fourth largest national market worldwide, after the United States, China, and Canada. It is also GM's largest European market.

General Motors (GM) operates a number of companies in the UK, namely Vauxhall Motors Ltd, Saab GB Ltd. and GMM Luton, all wholly owned subsidiaries of GM, as well as Chevrolet UK Ltd. (41% owned). Millbrook Proving Ground is also operated by GM, as a related business (www.millbrook.co.uk). GM has two manufacturing facilities in the UK: Luton, Bedfordshire, and Ellesmere Port, Cheshire.

VAUXHALL MOTORS LTD: OVER A CENTURY OF UK HERITAGE

Vauxhall Motors, which built its first car in the Vauxhall district of South London in 1903, moved to Luton in 1905, and was acquired by General Motors Corporation in 1925. Production at Ellesmere Port began in 1964, where the first vehicle to roll off the new production line in June of that year was the Vauxhall Viva. In May 2003, Vauxhall celebrated its centenary, underpinned by the theme of “A Century in Motion”.

Vauxhall currently markets the Agila, Astra, Astra TwinTop, Corsa, Tigra, Meriva, New Zafira, New Vectra, New Signum and Monaro passenger cars. Its commercial vehicle range comprises the Vivaro, Astravan, Movano, Combo and the Corsavan.

VAUXHALL/GM PERFORMANCE IN THE UK

In 2005, GM’s UK plants produced a total of 279,331 vehicles, representing 16% of total UK car and light commercial vehicle production. In the same year, the company sold 415,640 units on the UK market. GM’s share of the UK’s total market for LCVs and cars in 2005 stood at 14.7%. Vauxhall was the second to top brand in the UK, with a market share of 13.07%.

GM’S CONTRIBUTION TO THE UK ECONOMY

Currently, GM directly employs 6,567 people in the UK. Through affiliated dealerships, the company indirectly employs a further 12,630 people in this country. Aside from this, the company has 23,000 retirees in the UK, all benefiting from a GM pension.

Since 1988, GM has produced a total of 6.62 million vehicles in the UK—more units than Toyota and Nissan combined. Over that period, the company has invested in excess of £1.5 billion in its UK manufacturing base. Last year, GM exported in excess of 180,000 vehicles from the UK.

Including direct and indirect materials, machinery and equipment, aftersales, and logistics, approximately 1,400 companies in the UK are suppliers to GM. Total spend with these companies is in excess of £500 million annually.

PRODUCTION AT GMM LUTON

GM Manufacturing Luton produces the Vivaro medium-sized van for sale under the Vauxhall, Opel, Nissan and Renault brands and in 2005, manufactured a record 90,414 units. Last year, it was also confirmed that GMM Luton would maintain the contract to produce the vehicle until 2013.

In terms of GM’s own global measurement system for assessing plant performance (GM-GMS), the company’s plant has achieved a 77% improvement in production quality since 2002. Additionally, over that time period, the number of manpower hours spent producing each vehicle has been reduced by 30%, whilst cost per vehicle has reduced by 26%.

PRODUCTION AT GMM ELLESMERE PORT

Vauxhall GM Manufacturing Ellesmere Port currently produces the 5-door Astra for Vauxhall and Opel. In 2005, the plant produced a record 188,917 vehicles. The plant will begin production of the new Astravan in August of this year.

Since 2002, according to GM-GMS criteria, production quality at the plant has improved by more than 40%. Furthermore, the number of manpower hours spent producing each car has reduced by 49%. Meanwhile, total plant cost per car has fallen by 40%, whilst assembly cost per car has reduced by 37.3%. The plant has become GM’s safest Astra plant, having maintained a record of zero lost working days through injury over the past 12 months.

MAY 2006: ANNOUNCEMENT ON REMOVAL OF THIRD SHIFT AT ELLESMERE PORT

On 17 May this year, General Motors Europe began formal consultation with the trade unions to eliminate the third shift of production. Ellesmere Port currently has the highest operating costs and product lifecycle cost projections of the plants currently producing the Astra (which include Antwerp, Belgium and Bochum, Germany). The decision will affect approximately 900 employees at Ellesmere Port.

It is expected that the shift reduction will help to increase the efficiency of the Ellesmere Port plant and will position the plant more positively for future product allocations.

The company intends to achieve the job reductions necessitated by the loss of third shift at the plant via voluntary redundancies. The adjustment is expected to take effect following the summer shutdown of the plant in August, and will be implemented in line with existing agreements established with the trade unions.

GM INTERNAL MEASURES TO IMPROVE COMPETITIVENESS

GM is working hard to improve the elements of competitiveness in its direct control. For example, we are bringing to market 45 new products and variants over the next five years. We are moving to fewer global vehicle architectures which will allow us to do more common sourcing of those vehicle components that do not differentiate a vehicle. In Europe, we have dramatically improved quality and reduced warranty rates by as much as 70% over the past six years. Between 2002 and 2005, the company also improved overall European manufacturing productivity by 23.5%, partly as a result of more competitive labour agreements and more flexible working practices.

At the same time, as a legacy of the company's long history of manufacturing in the UK, we continue to face challenges in re-negotiating employee contracts in order to bring labour flexibility up to the world class standards already negotiated from the outset by those automotive companies with a much more recently established manufacturing base in this country.

Additionally, there are a number of market forces, economic pressures and policy issues significantly impacting our profitability and competitiveness, that are beyond our control.

MARKET FORCES, ECONOMIC PRESSURES AND REGULATORY CHALLENGES

The UK market, along with most West European markets, is mature, with little growth forecasted. In fact, it is projected that between 2005 and 2011, the UK market will actually contract by 5%. Meanwhile, Central and Eastern European markets are set to expand by 30% over that period.

The market for traditional mainstream segment vehicles in Europe is currently shrinking, while the market for both premium and value vehicles is on the rise. At the same time, the net price of vehicles sold in Europe is declining 1% a year on average, making it vitally important for automotive companies competing in the value and mainstream segments to pursue cost reductions aggressively.

With the emergence of new segments such as multi-activity vehicles, and small and compact monocabs, there are more and more niche product offerings with much lower volumes, making economies of scale increasingly difficult to achieve.

Meanwhile, current overcapacity across the industry in the order of 25% in Europe (roughly equivalent to 20 excess assembly plants) is not economically sustainable. Automakers are adding about one million units of capacity in Central and Eastern Europe to support market growth in these countries and to reduce their overall manufacturing costs. This will exacerbate the challenge of excess capacity, especially in Western Europe.

Raw material costs are also increasing dramatically, with prices for steel up 30% to 60%, aluminium up 25%, and plastic materials and resins up over 50% over the past seven years.

At the same time, recent EU regulatory requirements are imposing a significant cost burden on all manufacturers. It is estimated that the combined effect of new legislation on design protection, the REACH directive, the End of Life Vehicles directive, new rules on mobile air conditioning and pedestrian protection, the draft Euro 5 emissions regulation, and the voluntary agreement on CO₂ will be to impose an additional cost per vehicle of between €1,600 and €2,900.

These pressures are squeezing profitability for all mainstream European auto manufacturers, whose average net profit has been less than 3% for the past three years, whilst a number of major automakers (including GM) have operated at a loss over that period.

CURRENCY VALUATION CHALLENGES

Virtually all foreign exchange indices and experts agree that the Euro and Sterling are significantly undervalued against the Japanese Yen and other Asian currencies. The Bank of Japan has been intervening heavily in foreign currency markets to weaken the yen relative to the dollar while the European Central Bank and the Bank of England have allowed market forces to determine the value of the Euro and the British Pound respectively. The net result is a substantial undervaluation of the yen relative to the Euro and the Pound Sterling. Numerous independent forecasters estimate that the fair value Euro/Yen exchange rate should be in the range of 120–125 yen to the Euro, compared to the current exchange rate of over 140 yen to the Euro. The practical effect of this situation is to give vehicles exported from those markets to Europe a major unfair price advantage. Based on an average transaction price of €18,442 before taxes, a Japanese manufactured vehicle exported to Europe would incur an unfair advantage of over €3,000.

Japanese-based manufacturers still import large numbers of vehicles from Japan, giving them a substantial unearned exchange rate advantage. This windfall can be spent on new product programs, subsidising new technology introductions, on marketing and sales, and other strategies to expand their operations.

CHALLENGES TO UK COMPETITIVENESS IN MANUFACTURING

The UK faces some specific challenges when seeking to maintain a competitive automotive manufacturing sector.

Utilities costs currently impose a disproportionately high burden on UK manufacturing industry, compared with continental Europe. For example, compared to 2005 expenditure, energy costs for GM's Ellesmere Port facility are projected to increase by 34% in 2006. This is considerably higher than the cost increases being experienced at some competitor plants in the EU.

Logistical costs also create a substantial inherent disadvantage for the UK in relation to continental manufacturing locations. Taking account of the relative split between production for the domestic market and for export at each of GME's current three Astra plants, and a combined figure for logistical cost of transporting supplies into the plant and shipping finished vehicles out, the company's Ellesmere Port facility incurs an annual logistical cost disadvantage of €18.7 million compared to the company's other two Astra plants on the European mainland.

GM continues to work closely with local and national government and other stakeholders in an effort to identify means of offsetting these specific disadvantages, and maintaining and enhancing the competitiveness of the UK as an automotive manufacturing location.

CONCLUSION

Many factors play a role in product allocation decisions including logistics costs, utility costs, direct and indirect labour costs, labour productivity and flexibility, assembly cost per car, the regulatory environment of the country concerned, including the local taxation regime, availability of government grant funding, as well as market presence in that country. While some of these factors are within the direct control of the company, many are the result of the policy frameworks established by governments and our negotiated relationships with our unions.

In the context of an extremely competitive global market, including a degree of unfair competition, an increasing regulatory burden, diminishing profit margins and shifts in projected future growth, excess production capacity, and the challenges to economies of scale resulting from market fragmentation, General Motors is compelled to continue to take aggressive action to improve the company's overall cost-competitiveness. This action is vitally important to secure the long term future of the company.

In this challenging environment, we would call on all governments, including the UK, to develop a clear understanding of the challenges faced by the automotive industry, and to work with us to enhance automotive sector competitiveness.

21 June 2006

APPENDIX 13

Memorandum by the Institution of Mechanical Engineers

Thank you for providing us with the opportunity to comment on the inquiry by your Committee into the Automotive Sector and, in particular, on the reasons for success and failure in the UK automotive sector.

The Institution of Mechanical Engineers is well placed to comment, with some 16,000 of its members directly involved in the sector and many others with close connections.

Having discussed the issues with suppliers in the auto industry and companies currently undergoing the Manufacturing Excellence assessment process, the Institution offers the following comments, which are particularly relevant to the last point raised by the Committee:

- The statement is reactive when what is required is a proactive approach, ie to take action before plants close.

It is acknowledged that government probably has little advance warning that plants are threatened with closure, and have typically had to respond to situations. However, the Inquiry should look at the generic causes rather than be plant specific. There are some known recognised national issues:

- (i) Globally uncompetitive skills at all levels.
- (ii) Insufficient engineering research and development by UK suppliers, particularly with regard to innovation.
- (iii) Organised labour attitudes (although this is improving rapidly).
- (iv) There is a pervading perception of supplier quality shortfall (once again this is an area that is improving).

Whilst the Government does address some of these issues, it seems to do so on a short-term palliative basis, when what is needed is long-term structured support. One example is the Automotive Academy whose future remit is seriously being considered just when it is beginning to deliver on its aims.

- Companies in supply chains that have fared best against a backdrop of closures have been those that have diversified their products in good time. They do not necessarily need to diversify out of the automotive sector but have used better technology to drive down costs, improve quality and functionality.

Dependency on a single manufacturing sector is very risky and, although most companies have some sort of exit strategy, they should be encouraged by government to innovate their products and processes and diversify. Supplying to the automotive sector is no more risky than many others, as long as companies develop a long-term and global strategy.

- The Government already encourage companies to innovate to some extent with R&D tax credits but, once again, these are retrospective. What is required is help (preferably financial) aimed at business development and assistance to move into new markets. The Government may have some difficulty in launching any “pump priming” scheme because such schemes are increasingly not allowed under international competition rules.

There are two things that Government can do, however, to help the UK automotive sector. Firstly, help police the even-handed application of the rules for international competition and, secondly, provide substantial long-term financial support for training in productivity, quality, investment management and innovation through such bodies as the Automotive Academy and Sector Skills Councils.

12 June 2006

APPENDIX 14

Memorandum by LTI Limited

LTI Limited is Britain’s premier manufacturer of purpose-built taxis. We are universally recognised for giving the UK the “black cab”, the icon of the world’s best taxi system.

Part of Manganese Bronze Holdings plc, LTI employ over 450 people at our Coventry manufacturing plant and wholly-owned Mann and Overton dealerships in London, Birmingham and Manchester. A further seven franchised dealerships and 61 service agents complete a nationwide sales, service and support network.

The first-ever black cab left the company’s Coventry factory in 1948. Since then, more than 100,000 vehicles have rolled off the production line. Nowadays, LTI taxis can be seen in large numbers on the streets of London and other cities and towns in Britain and around the world.

We pride ourselves on the robust design of our hand-built vehicles, which are renowned for their longevity and ability to cover hundreds of thousands of miles during a lifetime of use.

LTI Vehicles is working to secure support for:

- the implementation of the Disability Discrimination Act 1995 for national taxi regulations;
- a commitment to harmonise taxi emissions regulations across the UK;
- further funding to help LTI develop a low emission powertrain technology application;
- ministerial support to develop overseas markets especially in China and the EU; and
- support to retain a two year derogation on Euro 5, which is currently being drafted.

Recent media attention has shown the effect of labour market rigidities in the EU impacting on British jobs. LTI Vehicles supports a competitive automotive market and calls for the British Government to support British industry on a par with other Western European countries and ensure a well functioning sustainable automotive market.

The UK hosts a range of niche automotive manufacturers which provide expertise across a range of specialised markets. Without LTI Vehicles and Metrocab Britain will lose its purpose built taxi market which raises a range of public policy issues outside the remit of this inquiry and which sit across policy areas but should be considered in their totality.

LTI Vehicles is actively looking to develop its international markets in Europe, the US and China and asks for the British Government to play a more active role in promoting the British automotive industry globally.

The SMMT and Department of Trade and Industry⁴⁰ correctly identify that the future of the British automotive sector depends on product development and innovation, especially in the research and development of environmentally efficient powertrain technologies. LTI seeks government support to secure funding for further research to develop a manufacturable low emission powertrain technology application.

⁴⁰ Department of Trade and Industry report “Driving Force: Success and Sustainability in the UK”.

As a niche automotive manufacturer LTI Vehicles considers the following issues most important when making investment decisions:

- (i) Market capacity and potential market capacity to develop international markets.
- (ii) Sustainable government support for research and development funding for low emission powertrain technology application; when considering vehicle development.
- (iii) Existing regulatory conditions particularly disability regulations, emissions and taxi licensing regulations.

DISABILITY DISCRIMINATION ACT 1995

LTI vehicles calls for the Department of Transport to further consider the use of the enabling powers of the Disability Discrimination Act 1995 (Section 32) to implement taxi disability regulations across the UK and to secure full disability access across the integrated transport system and to actively seek the harmonisation of uniform, proportionate and fair taxi disability access requirements across the EU.

The Disability Discrimination Act 1995 has implemented the specifications for disability access for trains and buses but has not yet implemented taxi specifications. The Mobility and Inclusion Unit has been planning to introduce a requirement for all hackney carriages in the UK to become wheelchair accessible under the provisions of the Act. However, 11 years later this has yet to be achieved.

CURRENT SITUATION

The Mobility and Inclusion Unit at the Department of Transport, has recently organised a series of meetings in Brussels to assess the ergonomic and policy feasibility of establishing a European specification for accessible taxis. These meetings were attended by manufacturers and vehicle converters from across the European Union. The result of these meetings was an agreement that a specification should be arrived at for an accessible taxi that caters for approximately 85% of wheelchair and other disabled users.

LTI now understand that the Mobility and Inclusion Unit has been rationalised from a unit of five specialists to one specialist. This is extremely concerning as it would appear to indicate that the political will and importantly the technical expertise have been removed from the Unit.

LTI spent £20 million developing the TXI in 1997, re-engineering the vehicle to make it wheelchair accessible and, as a result, ensured thousands of accessible taxis were introduced across the UK. Since that time, local authorities across the country have been waiting for guidance from the Government on taxi regulations. It is imperative that the Government acts so that local authorities, disabled people and taxi manufacturers are provided with a clear set of licensing specifications to ensure taxis are disability compliant.

MULTILEVEL REGULATORY ENVIRONMENT: UK

LTI Vehicles has to meet the demands of an excess of environmental regulations. Given LTI's market size and unit production of 2,500 units per year, our regulatory burden is excessive. LTI seeks the standardisation of regional taxi emission regulations across the UK to ensure that all regions operate to a single environmental standard.

The UK Government's Better Regulation agenda which aims to simplify existing regulations provides a mandate to look at the UK's regional emission regulations and to standardise these regulations.

ALTERNATIVELY FUELLED VEHICLES

LTI Vehicles secured funding from the Energy Savings Trust (EST) worth £386,000 for a joint project with Azure in 2003–04 and has begun developing a hybrid powertrain. The project developed three prototypes but further investment is required to develop a manufacturable environmentally efficient taxi. LTI understand that there is consideration being given to developing a "green" taxi fleet for the London Olympics 2012 and would welcome any approach to work on such a joint consortium project.

Current research requires further funding estimated at between £4–5 million to achieve the production of a manufacturable vehicle.

LTI have identified two potential funding streams; the DTI's "Emerging Energy Technologies: Low Carbon Energy Technology" which offers funding opportunities every six months and has a budget of £15 million; the EST also provide funding for projects on a six monthly bases.

These funding streams provide support for future technology but not for a manufacturable vehicle. The link between government funding for the development of manufacturable new technology vehicles and research technologies has widened greatly, now there is no funding to develop a manufacturable low emission powertrain. LTI seeks Government support to ensure future funding for research and development provides funding for the development of a manufacturable low emission powertrain.

GLOBAL MARKETS: CHINA

The Chinese automotive market is experiencing continuous and sustained growth; the estimated capacity for 2006 is 6 to 8 million production units. LTI Vehicles is actively seeking ministerial support to develop a Chinese market for our iconic British taxi.

Background

The New China Auto Policy was released in May 2004. It requires a foreign company to establish an automotive manufacturing enterprise with a total investment sum of £143 million minimum, including £57 million of its own investment; the set up of a research and development centre with an investment of £36 million minimum and also to establish an engine plant for production.

LTI seeks UK ministerial support for our efforts to establish a manufacturing base in China and to develop sales into the Chinese market and also assistance with accommodating our vehicle within the Chinese Auto Policy and strategy.

EURO 5

The current Euro 4 emissions legislation allows a two year derogation for the implementation of M1 “heavy” vehicles, which covers LTI’s current TXII model taxi.

The current Euro 5 draft would force LTI to comply with new emission limits by 2010 and to re-categorise the TXII as an N1 vehicle, this will be extremely problematic for LTI. This will effectively create a “double whammy”, as our vehicles would have to meet limits reduced through the onset of the new legislation with the removal of the two year derogation and also through a revised vehicle classification. LTI seeks Government support to ensure that the two year derogation remains and that the TXII continues to be categorised as an M1 heavy vehicle.

CONCLUSION

In the Government’s response to the Committee’s last report on the U.K. automotive industry,⁴¹ the Government said that a central plank of its policy should be to ensure the consistent implementation of regulations. LTI strongly support this position and call on the Government under the Better Regulation principle to strengthen taxi regulations across the UK, to standardise regional emissions policy and implement the Disability Discrimination Act to ensure the standardisation of taxi disability regulations across the U.K.

LTI are working to develop a low emission powertrain technology application. Government support for a joint funded consortium project would secure an environmentally efficient taxi for the future of the company. Timely and incremental ministerial support for our product will significantly help LTI develop our overseas markets to sustain and grow our business.

LTI is committed to retaining our factory in Coventry and supporting regional employment and skills as part of a region whose identity is bound by the automotive sector. With incremental and sustained government support LTI can continue to contribute to the region’s employment and to develop international markets to sell an iconic and world class British automotive product.

APPENDIX 15

Memorandum by Phoenix Venture Holdings

We refer to your press notice PN 20 of Session 2005–06 relating to the Inquiry. We set out below a submission to the Inquiry on behalf of the Board of Phoenix Venture Holdings Limited (“PVHL”). We should point out that, whilst PVHL wishes to support the Inquiry in every way possible, it has inevitably been forced to limit its input below to avoid prejudicing the outcome of the current DTI investigation into the affairs of MG Rover Group Limited (“MGRG”), a point that was also mentioned in your press notice.

The submission takes the form of suggested questions and lines of inquiry focusing on the DTI’s process and tactics not least, although not exclusively, the DTI’s reliance on input from Rothschilds. PVHL believes that, the right individuals being asked the right questions will give rise to a very different picture of MGRG’s collapse from that described by the DTI.

On a number of the issues raised below, we have sought to obtain information from the DTI, the Treasury, and elsewhere. So far, and despite citing the provisions of the Freedom of Information Act, our requests have largely been denied.

⁴¹ UK Automotive Industry: Government Response to the Committee’s Eighth Report of Session 2003–04; 8 December 2004.

Equally, PVHL directors do acknowledge the contribution made by certain leading political figures within HMG who, in addition to being fundamentally supportive, showed a clear appreciation that the DTI's process, in itself, would have a strong bearing on the outcome of MGRG's JV negotiations with SAIC/NAC. This was particularly important given that Chinese business culture has enormous regard for Governmental views and involvement, a fact that was borne out by SAIC/NAC's exceptionally enthusiastic reception of HMG's initial involvement but which was also borne out in the opposite direction when SAIC/NAC's views of the DTI's objectives changed as the DTI officials engaged in depth.

The submission has six main strands:

1. The contribution of DTI contingency plans to MGRG's inability to continue to trade on competitive commercial terms with suppliers and dealers.
2. The contribution to MGRG's collapse of potential conflict within the DTI—between sponsors of contingency plans based upon the demise of MGRG and those within the DTI who were pressing the possibility of providing the bridging loan.
3. The contribution made to MGRG's collapse by the inadequate background of DTI officials handed the burden of travelling to China in late March 2005.
4. The contribution made to MGRG's collapse due to the negative impact of the DTI's approach on the negotiations that were in progress in early April 2005.
5. The contributions of a series of press indiscretions authorised by the DTI.
6. The contrast of the DTI's approach to supporting MGRG compared with its expansive approach to funding the Administrators and the other consequences of MGRG's collapse.

The submission is set out in detail below (noting that “NAO” refers to the National Audit Office and “NAO Report” to the NAO report published on 10 March 2006 into the collapse of MGRG. SAIC refers to Shanghai Automotive. NAC refers to Nanjing Automotive.)

1. Paragraph 2.15 of the NAO Report records that, having considered the provision of rescue aid to MGRG, an April 2004 DTI review into the financial and commercial viability of MGRG concluded that DTI resources would be best confined to discreetly developing a contingency plan to mitigate the impact on the local community of MGRG's collapse. With this in mind:

1.1 Is it not the case that such planning necessarily required opinions regarding the viability of MGRG being discussed with individuals at local agencies who had close ties to MGRG suppliers and dealers?

1.2 What agencies and affiliates would have been aware of the contingency planning?

1.3 Would it not have been wise, or even just polite, to apprise MGRG's directors of this process.

1.4 During the contingency planning, despite well-documented progress in negotiations with SAIC/NAC, MGRG suffered increasing, widespread commercial pressure, and notably on its supplier payment terms and dealer relationships. Can this paradox not be attributed to the negative impact created by general knowledge of the contingency plans such that they became a self-fulfilling prophecy?

1.5 Therefore, what real steps were taken to ensure discretion in this contingency planning so that MGRG suppliers and dealers did not become aware that the DTI and its affiliated agencies—parties that could reasonably be believed to be key fact-holders—were predicting collapse?

1.6 How were such contingency plans formed whilst avoiding those suppliers and dealers feeling they must take steps to minimise the commercial risk by limiting their exposure to MGRG, thereby creating further challenges for the company?

1.7 How can discretion be reconciled with the outspoken views regarding MGRG's viability expressed across a prolonged period by certain individuals, some of whom were known to be close to the DTI, and prominent in Midlands agencies?

2. In view of the swift implementation of its contingency plan following MGRG's actual collapse, it is clear that the planning was completed in good time, in detail and with authorisation at high levels in the DTI. With this in mind:

2.1 Given that it had previously been rejected as an option, and given that contingency plans were so well formed by one side of the DTI, on what basis and by whom at the DTI was the decision taken in early 2005—before the formal request for such a loan in late February—to review the possibility of the DTI providing a bridging loan thereby potentially displacing the contingency plans?

2.2 In light of the risks of such a loan causing political debate and controversy for DTI and HMG, is there evidence within the DTI, or broader HMG, of strong reservations and views that it was inappropriate to plan for anything other than MGRG's collapse?

3. In respect of the DTI sending officials to Shanghai in late March 2005:

3.1 Is there evidence in any of DTI's communications or correspondence that explains why, after SAIC/NAC's initial enthusiasm and very rapid arrangements made for sending a joint supportive senior delegation to meet with the DTI in London, they then decided it would be better if the DTI met them in Shanghai?

3.2 Given that it was communicated to PVHL that the DTI intended to send officials capable of conducting face-to-face meetings with SAIC/NAC so that the DTI could confirm its intention to provide the loan and who could meet representatives of the Chinese government. Is there any evidence in the DTI that this was not the true intention of the trip?

3.3 Can the DTI confirm that its legal position at the time was that no bridging loan could be provided unless such face-to-face meetings were held?

3.4 With this in mind, how were the individuals chosen to represent the DTI?

3.5 What were each of the individual's qualifications for such a role?

3.6 Was this their first visit to China?

3.7 What was their prior experience of business dealings in China?

3.8 Did any DTI official speak Mandarin or avail of the services of independent interpreters to facilitate the conduct of meetings with SAIC/NAC or government officials?

4. In respect of the conduct of DTI officials in early April 2005:

4.1 Why were the DTI officials sent to China unable to engage with the Chinese government at any time during their trip when this was one of the stated intentions of the trip?

4.2 Precisely how many face-to-face meetings did DTI officials hold with SAIC/NAC officials in China given that this was one of the stated intentions of the trip? And how does this compare with the number of meetings they held with Rothschilds?

4.3 Paragraph 2.34 of the NAO Report states that the DTI considered relaxing its loan criteria during its officials' trip. Why is it that during that first week in April 2005, the DTI in fact attempted to negotiate, *inter alia*, through SAIC's advisors Rothschilds that:

- SAIC accept 100% of the commercial risk of the deal and provide a guarantee that it would repay the loan thereby effectively relieving the DTI of taking responsibility for the decision to make the loan; whilst
- at the same time, the DTI stated, for the first time, that the loan would be available for only two months rather than six as previously mooted?

4.4 Noting that these negotiations were routed through SAIC's agents Rothschilds, by contrast to the number of face-to-face meetings held between the DTI and PRINCIPALS to the deal—PVHL and SAIC/NAC—how many meetings or conversations or telephone conversations were held between DTI officials and Rothschilds? Who were the Rothschilds people involved, and might the committee be minded to call those people to give evidence, particularly Mr. Christopher Brooks, the main Rothschilds interface?

4.5 During the process of these negotiations, or elsewhere, did DTI officials receive any indications that Rothschilds had portrayed themselves to SAIC as being particularly closely connected to, and highly influential with, HMG and HMG's advisors?

4.6 Is there any evidence of any separate meetings between Rothschilds and HMG or HMG's advisors in the run-up to the bridging loan process and, if so, what was the nature and content of those meetings.

4.7 What is the background to the total relationship between the DTI and Rothschilds?

4.8 Why were DTI officials unwilling to interact with PVHL representatives in Shanghai in a balanced and open fashion?

4.9 During its meetings, or otherwise, did Rothschilds inform DTI officials either formally or informally that it was recommending to SAIC/NAC to allow MGRG to become insolvent and thus acquire the company's assets more advantageously?

4.10 Paragraph 2.35 of the NAO Report states that the DTI relied on unconfirmed reports by Rothschilds rather than face-to-face meetings with SAIC/NAC for assurance that SAIC/NAC were not inclined to proceed. Is it true that this was based on Rothschilds' reporting an "interpretation of its client's attitude" rather than formal confirmation by SAIC/NAC officials?

4.11 Since there were clearly insufficient outstanding matters in the commercial negotiations to have caused SAIC/NAC to change its position so radically and terminally, how does the DTI reconcile its requirement for face-to-face meetings with the Principals to progress provision of the loan compared with its rapid acceptance of indirect and bizarrely worded comment from SAIC's advisors to initiate loan cancellation and a course of action that would inevitably result in the closure of the Longbridge site and the loss of many thousands of British jobs?

4.12 Is it not true that SAIC moved from its position prior to the DTI officials' arrival, ie acceptance that there were a reasonable number of surmountable commercial matters outstanding, to a position of much greater nervousness, due to the pursuit of an agenda that aimed to offset all of the DTI's decision-making parameters onto SAIC?

4.13 Paragraph 2.37 of the NAO Report states how the DTI was balancing its role in the commercial negotiations against a risk of being deemed a shadow director of MGRG. Is it not true that, at best, in attempting this with inadequate experience in a very specialist business territory, DTI officials actually achieved the reverse?

5. Bearing in mind the discretion with which the DTI purports to handles its affairs:

5.1 Was there and, if so, when was a decision taken to leak to the press the extent of the DTI's contingency planning—preparing the local community for its mitigation of the impact of the collapse of MGRG—and who at the DTI leaked this information and on whose authority?

5.2 Having gained positive publicity from suggesting it was willing to advance the bridging loan, a series of negative press briefings were given by DTI officials over the weekend of 2–3 April. What was the purpose of these briefings given that they led directly to the cessation of component supplies to MGRG from 4 April? Commentators have suggested this might have been orchestrated as a prelude to a heroic act of snatching victory from the jaws of defeat. Did those who authorised the briefings realise that negotiations were still taking place in Shanghai, and that the effects of those briefings would inevitably undermine that process?

5.3 The DTI informed PVHL on 5 April that it was circulating a draft press announcement of its agreement to provide the bridging loan. Trade Union sources also informed PVHL that they were to be invited to a good news briefing at Longbridge on 6 April. Bearing in mind that at no stage had the DTI received confirmation from either PRINCIPAL to negotiations in Shanghai that either MGRG or SAIC/NAC had pulled out of the deal, on which official's advice was the decision taken that SoS must announce (on 7 April) that the deal would not proceed and that MGRG would instead collapse into "receivership" before the MGRG directors had received an acceptance of appointment from Administrators?

5.4 Indeed, given the circumstances set out above and the very real expressions of concern on this matter of discretion that were levelled at the DTI by BMW during its ownership of MGRG, is it not the case that the NAO Report failed to challenge the contention that the DTI handles its affairs with discretion?

6. How would the DTI characterise the difference in its approach to making available the £110 million bridging loan that provided the strong possibility of the long term survival of manufacturing at Longbridge versus:

6.1 the overnight provision of £6.5 million to the administrators immediately after MGRG's collapse—noting that:

- MGRG had received less than £5 million in funding in the five years between May 2000 and 7 April 2005; and
- provision of the £6.5 million loan has since been criticised in the NAO Report as having been ill-conceived?

6.2 the certain cost to HMG of MGRG's collapse (estimated in the NAO Report at £176 million and in some quarters in excess of £250 million) plus the even greater additional costs to the economy arising as a consequence of MGRG's collapse?

7. Given the widely reported fashion in which SAIC and NAC have energetically competed to take control of MGRG's assets and intellectual properties, and given the substantial costs that they have incurred in this process, is there still a view amongst DTI officials that their original appetite for a deal did not exist?

8. Which other HMG departments and advisors were at the heart of this decision.

We hope you will find the above submission useful in defining your lines of inquiry.

16 March 2006

APPENDIX 16

Memorandum by The Retail Motor Industry Federation

1. INTRODUCTION

This memorandum is submitted in response to the Trade and Industry Committee's Press notice dated 17 January 2006 on the inquiry into the Government and MG Rover.

The Retail Motor Industry Federation (RMIF) represents businesses concerned with providing motor industry products and services and has more than 9,000 members throughout the UK. You will be aware that the annual turnover of the UK retail motor industry is in excess of £70 billion and employs 600,000 people in 30,000 businesses. Annually the industry raises £33 billion in tax revenue.

As a Trade Association the RMIF worked very closely with MG Rover dealers and was on the MG Rover Dealer Task Force.

What follows are some objective comments on: 2. Sales Allowances and Warranty Re-Imbursements.

2. SALES ALLOWANCES AND WARRANTY RE-IMBURSEMENTS

Through the direct experiences of our MG Rover dealer members and discussions within the MG Rover dealer task force, we have been alerted to the scale of the detrimental financial cost incurred when a manufacturer cannot honour payments to their dealers once the vehicle has been sold.

The current payment system involves a delay in monies due from the manufacturer to the dealer, until after the dealer has completed the sale. In the case of MG Rover, our dealers were selling cars at a loss that would in theory have been balanced by the manufacturer after the point of sale.

As such MG Rover case dealers lost £20 million in sales allowances and warranty re-imbursements which under normal circumstances they would have received. We believe that problem could have been solved if funds which are due for payment but are subject to a time delay were paid into an ESCROW account by the manufacturer, thereby lessening the financial burden to the car dealer if the supplier goes into liquidation before the due date for payment. In practice, this would not be a financial burden on the supplier as he would benefit from the interest earned on the account but would ensure that the manufacturer could not pass his financial risk of selling the car onto the dealer.

10 March 2006

APPENDIX 17

Memorandum submitted by Skills4Auto

The MG Rover Task Force created a Job Matching Service and Manufacturing Skills Hub to support and enhance the recruitment activities of engineering and manufacturing employers and maximise the retention and development of skilled staff within the region, in particular those made redundant from MG Rover, Powertrain, Peugeot and MG Rover supply chain companies. Almost 800 individuals are registered on the scheme.

This service included the following company offer:

- Travel support for the Ex-MG Rover/Supply Chain/Peugeot, up to £75 per week for 20 weeks.
- A company induction support allowance of £50 per week, for 12 weeks for each new recruit when they undertake the training support element.
- Each individual recruited will be entitled to free retraining or upskilling typically to NVQ level 2/3 relevant to the needs of the business.
- In addition the company will be entitled to free retraining or upskilling as noted above for an additional employee for each ex- MG Rover, Powertrain, Peugeot or supply chain employee recruited.

INITIAL JOB MATCHING ELEMENT

From a personal perspective Job Centre Plus standard service was the best kept secret that we had come across in years. JCP have created a record system that builds up a comprehensive history of an individual's employment history. The system is also able to track employer's vacancies, who has applied and who has been recruited for that vacancy. The system also provides alerts to JCP staff to confirm recruitment or not against advertised vacancy. All JCP vacancies are advertised on the JCP intranet and the Internet. This free service is often used by agencies, who then charge companies large sums of money for finding suitable recruits.

The only indirect negative comment regarding the JCP service was from employers who repetitively said more than half of the applicants never turned up for interview, to the extent that employers were put off using the JCP service in the future.

Initially it was hoped that a direct matching service would be provided by sending vacancies from JCP to the HR department at MG Rover, for staff to search and contact suitable ex-MG Rover employees enabling them to apply for suitable posts. This was not as successful as anticipated, due to issues around using and sharing data between agencies, plus not enough information regarding individual's competences was held on file to enable an appropriate match. After writing to all ex-MG Rover employees only 1,000 agreed to participate in this level of support.

What was extremely successful, were the weekly newsletters, which were sent out to ex-MG Rover employees summarising current JCP vacancies, any individual actively seeking employment acted on this weekly information. A number of employers found the initial job fairs an excellent means of recruiting ex-Rover individuals.

If we could get employers to write job descriptions in the format of national competences and likewise individuals CV's then in future a true job matching service could be provided.

COMPANY OFFER

The offer of travel support, induction payment and free training was given within three weeks of the plant closure. As a consequence no systems were in place to contract with companies for the payment of travel and induction support or providers for the delivery of the free training. It took considerable time for these systems to be put in place, which resulted in a number of upset individuals although no formal complaints were received. We need to learn from this and make sure existing systems can be adopted immediately or those systems created for this situation are recorded and can be pulled out again when needed.

The regional agencies pulled together to support those affected by the MG Rover Plant closure, this did have an adverse affect when some parties involved issued statements or newspaper editorials summarising the offer, which in turn lead to multiple interpretations of the offer and confusion to potential recipients.

The multiple agencies involved in the delivery of this offer initially created their own but similar spreadsheets with slight difference depending on their focus within it. Information collection and storage is a time consuming business. Eventually a shared database was created, although it still has limitations and needs to be developed further. It would be worth looking at setting up shared databases that could be used in similar circumstances, all information stored in one place with the various agencies having limited access to ensure we do not contravene the data protection act.

TRAINING OFFER

Skills4Auto's main role as an independent broker, within the offer was to make contact with the employer and support the identification of the employer's training need for the ex-MG Rover individual and matched existing employee/s. Once the training need was established then Skills4Auto would recommend where possible a local Centre of Vocational Excellence (CoVE) or quality assured LSC approved provider. If the company had an existing relationship with a provider then they could stipulate whom they wanted to deliver the training. This initial process was not as easy as it sounds. Companies participating in this offer ranged from multi-national to small companies employing two people. Some had on-going working relationships with LSC providers, some looked upon training as a hindrance not a help. Generally it took anything between half a day to three days to establish training needs and source a suitable provider.

With our experience we were not surprised to find out how difficult it was to source training and speak to the right person within the LSC provider provision. Skills4Auto aimed to remove that difficulty for employers and made sure the provider was able to satisfy the companies training need before connecting both parties. We used various means to source training from Learn Direct, sub-regional skills search stations, local colleges to general searches on the internet.

Under the training offer the LSC ideally wanted companies to pick up NVQ's but this was not always appropriate. Some companies had already participated in the NVQ qualification system and did not want to go near it again as they found it time consuming and as a company did not get a benefit from it. What has been most popular is the industry written Business Improvement Techniques NVQ, which companies do see as a positive contribution to the success of their business and the individual. Smaller industries without national competences were able to gain training through private providers as an exception to the rule.

SUMMARY

As an offer it provided a good balance to the individual, employer and the local economy.

Generally it is difficult to engage companies; in many cases we had to sell this offer. In future we need to ensure we streamline the process and having the privilege of supporting the offer from the beginning, never under-estimate the benefits of building a relationship and single point of contact to move agendas forward.

Companies were genuinely impressed with the calibre of staff from MG Rover and even actively tried to employ Rover individuals as a means of benefit to society.

Sourcing training and providing an independent brokerage service was greatly received by participating companies.

APPENDIX 18

Memorandum by The Society of Motor Manufacturers and Traders Limited

INTRODUCTION

The Society of Motor Manufacturers and Traders (SMMT) is the leading trade association for the UK automotive industry. SMMT provides expert advice and information to members as well as to external organisations. It represents some 600 member companies ranging from vehicle manufacturers, component and material suppliers to power train providers and design engineers. The motor industry is a key sector of the UK economy, generating a manufacturing turnover of around £45 billion and supporting approximately 800,000 jobs.

SMMT welcomes the opportunity to contribute to the Committee's inquiry into the reasons for success and failure in the UK automotive industry, and recognises the contribution the Committee's 2004 inquiry into the automotive sector had in evaluating the challenges and achievements of the sector.

SMMT feels that it would be inappropriate to comment on the individual commercial performances of our members in the UK automotive industry. However, with contributions from our members and associates, we have evaluated the current marketplace in the context of trends in the wider automotive industry.

1. EXECUTIVE SUMMARY

1.1 In 2004 SMMT responded to the Committee's inquiry into the UK automotive industry and broadly welcomed the Committee's final report. Our industry has made good progress in responding to its recommendations, some of which are highlighted in this paper.

1.2 UK manufacturing matters and is crucial to the success of the UK economy. The UK is home to the most diverse range of vehicle manufacturers in the world and our industry is a significant contributor to the economy and the labour market. Automotive manufacturing and its supply chain creates wealth and is a source of significant UK investment. Intense and sustained R&D investment helps ensure that the UK keeps pace with technological developments and helps maintain its international competitiveness as a centre for automotive investment and high-calibre employment.

1.3 The inclination of the media and other observers is to comment almost exclusively on the operations of global brand vehicle manufacturers (and within this, chiefly passenger cars). This is understandable given that brands and marques are household names, but the industry is much broader and diverse than is commonly understood.

1.4 Our sector has had to respond to the commercial realities of operating within a global manufacturing market and the increased intensity of competition from abroad. Manufacturing in the UK continues to face challenging trading conditions both at home and especially in an increasingly competitive global market. Its role within the UK economy has changed. It accounts for a smaller share of value-added and employment and this trend is expected to continue as organisations source a range of components from plants in developing nations and new EU Member States.

1.5 Business and plant restructuring have been persistent features of the automotive manufacturing business model, reflecting the global nature of the sector, stiff competition, and cost pressures. The long-term challenge for the industry in the UK (within the global market) will be to focus on high added-value processes and products and to utilise the UK's significant strength in automotive design and innovation and its skilled and flexible labour force. Competition on the basis of low cost, semi-skilled workers and low value-added processes will be increasingly challenged and become non-viable as globalisation—increased international economic integration—sees lower cost countries challenge established markets, firms and goods traded across the world economy.

1.6 One of the most significant costs to our industry comes from energy supply. The forthcoming Energy Review is timely, coming as it does in the context of price volatility and forecasts for increasing dependency on imported supplies. Security of supply is by far the most important concern for the automotive industry. Continuity of production and cost stability are of crucial importance to the competitiveness of all manufacturers, particularly within the UK automotive industry, which is composed of multinational companies that relate first and foremost to their "home/mother" countries for strategic decisions, including on energy.

1.7 Our industry is concerned by the Government's decision not to implement proposed grant programmes, despite all of them receiving State Aid approval. An opportunity has been lost to progress the UK market for clean, low carbon vehicles and technology. We hope that the DfT's proposed consumer communication programme will involve our industry from the beginning and will acknowledge the full role that the "integrated approach" can now play.

1.8 The UK automotive industry, like all modern industrial sectors, seeks certainty and the ability to work in a flexible and competitive environment. It is therefore important to ensure that EU legislation is transposed into national law in a consistent manner and it is the task of the UK Government to reduce the

financial impact of legislation and regulation on industry whilst creating market conditions that allow business to grow and innovate and work towards environmental and safety objectives. Similarly, fiscal certainty and stability are crucial for our industry. Appropriate fiscal measures and incentives are needed to promote certainty and planning for business investment and to ensure the long-term competitiveness of the sector.

1.9 It is vital that government works closely with industry to address these challenges. There are many positive announcements from the automotive sector as outlined within this submission but government support is necessary to maintain long-term competitiveness and investment. Our industry looks forward to working in partnership with government and continuing dialogue on issues of mutual concern.

2. MAIN COMMENTS

The state of the UK automotive industry (since the 2004 inquiry in particular)

2.1 The Trade and Industry Select Committee looked at the UK automotive industry in 2004 (in its Eighth Report of Session 2003–04). The final report concluded that the UK was still a competitive place to manufacture vehicles but that the threat of closures remained.

2.2 In April 2005 MG Rover, went into administration with the loss of around 5,000 jobs. The announcement had a massive impact on the local community surrounding the Longbridge plant and the companies within the MG Rover supply chain. In April 2006, Peugeot (PSA Group) announced that it would be ceasing car production at its Ryton facility from summer 2007. And in May, Vauxhall announced its decision to reduce production of the Astra model at Ellesmere Port from three shifts to two with the loss of around 900 jobs.

2.3 However, despite these particular setbacks, SMMT believes that automotive manufacturing will continue to be a key aspect to manufacturing activity in the UK. The UK automotive industry remains wide and diverse in nature with a larger number of global brands located here than in any other European country. The sector generates an annual turnover approaching £45 billion and directly supports almost 200,000 and indirectly approximately 600,000 employees. The inclination of the media and other observers is to comment almost exclusively on the operations of global brand vehicle manufacturers (and within this, chiefly passenger cars). This is understandable given that brands and marques are household names, but the industry is much broader and diverse than is commonly understood.

2.4 In this context, it is worthwhile considering a summary of positive announcements to have come from our industry since the 2004 inquiry, and particularly in 2006 alone.

2.5 UK automotive industry announcements:

- Nissan has announced that a fifth model is to be built in Sunderland following an investment of £125 million. Total investment in Sunderland now stands at £2.3 billion.
- Honda has just opened their £24 million logistics operation in Swindon.
- Ford has invested £129 million at its Southampton facility for the production of the new Ford Transit which has been completely designed and developed in the UK.
- Leyland Trucks—multi-million pound investment at Leyland, the most productive CV plant in Europe. Production is now up to almost 15,000 units a year.
- Production of the New Honda Civic at Swindon will be the first time that the plant has progressed a new model to mass production in the UK, without the car being produced in a Japanese parent plant. Total investment at Swindon now stands at £1.33 billion.
- Cobra UK Ltd recently secured £7 million of orders from Volvo, CNH Tractors and Ford, despite the closure of MG Rover in 2005 which resulted in a turnover loss of 25%.
- Optare has invested £2 million in an expansion programme at its Rotherham plant—making it the most modern UK production centre for small buses.
- Bentley will manufacture the Continental Flying Spur in Crewe following a £63 million investment.
- In 2004 Toyota invested £50 million in its Burnaston factory, in Derbyshire, to boost production capacity from 220,000 to 285,000 cars a year. Toyota has invested more than £1.75 billion in the UK to date.
- Ford's PAG has invested £250 million at Solihull for the Land Rover Discovery 3 and Range Rover Sport, and £435 million at Castle Bromwich for the Jaguar XJ and new XK.
- Nissan's European engineering and technical centre is located in the UK in Cranfield. The Micra C+C was Nissan's first fully designed, engineered and built in the UK vehicle.
- MINI has manufactured 500,000 units since 2001 at Oxford. Total investment between 2000–04 stands at £280 million. Investment between 2005–07 is expected at £100 million plus.

- In the last four years, the BMW Group has spent around £900 million in upgrading its production facilities in the UK. This includes expansion of the production facilities for the new MINI; a renewed commitment to training following the success of its Hams Hall engine plant; and a revitalised Rolls-Royce Cars Ltd operation with an investment of £65 million at Goodwood, which supports 500 employees.
- A convertible version of the successful Phantom model will be launched in 2007 and manufactured at Goodwood (Rolls-Royce cars are manufactured solely in the UK).
- Ford's Dagenham plant, which was opened in November 2003 by the Prime Minister, has been redeveloped. Now it is home to the company's diesel engine design and manufacture operations, with £650 million invested over the past three years. Ford will soon be supplying 25% of its global engine requirements from its UK plants.

UK manufacturing

2.6 In 2002, the Government launched its UK manufacturing strategy, which identified seven pillars to support a successful, knowledge intense, highly-skilled manufacturing sector. This was followed in 2004 by the manufacturing strategy review and the introduction of the Manufacturing Forum. The introduction of the practical Manufacturing Advisory Service (MAS) is a welcome addition to DTI's manufacturing support services, particularly for smaller businesses that benefit from the hands-on advice.

2.7 SMMT and its members have welcomed the greater commitment shown by Government to the manufacturing sector, particularly in helping to improve the public perception of manufacturing, and to increase both sector skills and public procurement. We believe manufacturing matters and is crucial to the success of the UK economy.

2.8 However, it is clear that manufacturing in the UK continues to face challenging trading conditions both at home and especially in an increasingly competitive global market. Its role within the UK economy has changed. It accounts for a smaller share of value-added and employment. This trend is expected to continue as organisations source a range of components from plants in developing nations and new EU Member States. The Committee's 2004 report concluded that industry's preference for building vehicles close to their intended market means that, whilst worldwide production may not move to markets such as India or China, the introduction of the new EU Member States will increase competition in this regard, particularly if relative labour and other costs are compared. This will impact upon the whole of our industry and one of the major casualties of low cost sourcing are small SME's who lack the resources to effectively manage offshore outsourcing internally.

2.9 In a globalised industry costs vary considerably between nations. A comparative "Index of Effective Costs" published by the Manufacturing Institute of the United States in 2003 provides a composite of labour costs, corporation taxes, employee benefits, energy costs and pollution abatement costs (see Annex 1). The Index clearly shows that these effective costs in Western Europe (the UK, France and Germany are listed) and North America and Canada are broadly comparable, but Asia/Pacific states and developing nations are significantly lower (China, Japan, Taiwan and Mexico). The German VDA (Verband der Automobilindustrie) in its 2005 Annual Report states that production facilities in emerging nations offer labour rates that are considerably lower than established producers. The VDA also reports that the differential between the highest and the lowest labour costs countries is actually increasing rather than decreasing. This is caused by differing levels of corporation and income tax between Western and Eastern Europe.

2.10 Nevertheless, UK manufacturing remains a significant driver of innovation, investment, trade and employment. With an extensive number of businesses involved in the manufacturing supply chain and the transport services sector, automotive manufacturing is linked very closely to the UK's overall prosperity as a trading nation. In recent years the sector in the UK has accounted for almost 10% of annual total manufacturing turnover value, seen an export value of £20 billion (10% of total UK export value) and net capital investment of £1.9 billion.

2.11 Most independent forecasts expect overall manufacturing output in the UK to remain broadly stable in 2006. Private surveys and forecasts from organisations such as the Engineering Employers Federation (EEF) paint a more optimistic picture with the June 2006 engineering outlook survey suggesting that output indicators have been at their most positive for 10 years. The EEF forecast engineering growth of 2% in 2006, rising to 2.5% in 2007. Manufacturing should also show slight improvements, at 0.5% in 2006 and one per cent in 2007. However, the June survey concludes that employment in vehicle manufacturing should "see some of the steepest job cuts as production is relocated outside of the UK".

A diverse sector

2.12 It is Europe, not just the UK, that now provides the "home" market for vehicle producers. In contrast to the UK, where growth has existed, new passenger car registrations in the EU15 (and EFTA) have fluctuated around 14.5 million since 2000. The Western European market is mature, with many underlying economies dominated by slow growth. A table illustrating new passenger car registrations in Western

Europe can be found at Annex 2. The Western European heavy commercial vehicle market is equally competitive with around two million new vehicles above 3.5 tonnes having been registered annually in recent years.

2.13 Nevertheless, this diverse industry, like others, is facing some considerable challenges, but within each section of the industry there are equally diverse reasons to anticipate more success stories.

2.14 **Passenger cars**—The UK is Europe's second largest new car market, second only to Germany, with 2.440 million new registrations in 2005. Growth in the new car market has cooled over the past two years, reflecting the slowdown in economic growth, but volumes remain high—surpassing 2.4 million units in each of the past five years. Despite changes in the composition of UK producers, car production in the UK has remained resilient and significantly higher than output during the 1980's, when fewer than one million cars were produced. Output in 2005 hit 1.596 million units despite the loss of MG Rover, whilst in the same year exports accounted for 74.2% of output. Output in 2006 is projected to reach 1.535 million units.

2.15 **Commercial vehicles (CVs)**—registrations edged down 1% in 2005 to 385,969 units, just 3,954 units shy of record volumes recorded in 2004. The CV market has benefited from a stable and robust UK economy and increased demand for home deliveries. Between 1994 and 2004 the market rose by over 70% or 160,000 units, and in 2004, CV production moved back over the 200,000 unit level for the first time since 1998. 2005 saw this rate being sustained with 206,753 CV units produced, whilst growth of some three per cent is forecast for 2006.

2.16 **Buses and coaches**—the UK is home to a thriving bus and coach sector. Manufacturers in the sector supply chassis and bodywork to the operators of bus services across the UK. Annual production in 2005 was at 1,431 units with registrations at 12,498 and there has been modest year-on-year growth in new bus registrations. However, there has been no real change in the underlying trends; buying patterns seem mostly affected by regulatory changes than other factors.

2.17 **Motor homes**—One of the biggest growth areas in recent years has been the motor home section. Exciting products have captured the imagination of an ever-growing leisure market and the motor home market has grown in every year since 1996. Between 1996 and 2005 the market increased by 250% and further growth is expected in 2006.

2.18 **Specialist vehicles**—(sports cars, motor bikes, mobility vehicles, taxis). The UK has a deep and well rooted tradition of making a diverse array of vehicles and in recent years, household names such as Aston Martin, Bentley, Noble and Lotus are well-known in the marketplace. LTI Limited has also manufactured over 100,000 of the iconic “black cabs” in the UK, and is expanding its sales internationally. But the industry is also host to an array of less famous names that deliver niche products to meet demands from across the globe. This section of the industry does, however, face some key challenges, not least from increasing regulation and niche product developments from the larger global volume manufacturers. Accelerate and Advantage West Midlands operate the Niche Vehicle Network, which looks to represent the companies in this sector and provide best practice and inter-trading opportunities.

2.19 **Engines**—Engine manufacturing is a core contributor to the UK automotive sector, with the UK home to eight automotive engine manufacturers. Engines represent 17% of the total value of a passenger car and are therefore a lucrative form of automotive manufacturing. The manufacturing of engines in the UK increased by 22.6% between 1999–2004, from 2.4 million units to 3.1 million. The DTI's 2005 report “A study of the UK Automotive Engine Industry,” concluded that the UK was a significant net exporter of engines and had achieved impressive growth thanks to significant investment by manufacturers. For example, Ford, which has recently announced a £100 million investment in its Bridgend facility, will oversee the creation of 250 new jobs to produce the new 3.2 litre short in-line six cylinder engine, marking the completion of a £245 million two-year investment programme at the plant. The DTI report also noted the significant UK activity in engine design and testing. R&D is therefore essential to ensure long-term competitiveness.

2.20 **Supply chain**—within the automotive sector supply chain, there are estimated to be 7,000 manufacturing sites operating in the UK. SMMT research suggests that there are close to 2,000 companies for whom the majority of their business is in the automotive sector. It is estimated that these companies provide some 140,000 jobs and have a combined turnover of £12 billion. About 50% of these companies fall into the Small and Medium-sized Enterprise (SME) category. Alongside the famous British names, 17 of the world's top 20 component manufacturers have operations here. There are also companies who supply products such as rubber, plastics, tyres, electronic and electrical components, and prefabricated metal products into the automotive industry. SMMT estimates that these companies have an automotive turnover of £3 billion and employ up to 50,000 people.

2.21 **Vehicle servicing and repair**—as the second largest new car market in Europe the UK is clearly a desirable European market for vehicle manufacturers who must compete with rivals on choice, quality and value for money to attract consumers. SMMT is currently heavily involved in delivering a Code of Practice for the repair and servicing sector through the Retail Motor Strategy Group to ensure consumers always receive the highest standard of customer service and value for money in a transparent manner.

Retail motor industry

2.22 SMMT was disappointed with the Committee's conclusions in its 2004 inquiry concerning the retail and servicing side of the industry. New car prices within the UK have fallen by 9.2% over the last five years and the "Supply of New Cars Order", introduced in 2000, already requires manufacturers to offer equivalent discounts to both the fleet and retail sectors.

2.23 SMMT rejects the claim that restrictive practices are used within the servicing and repair sector to prevent access to the market. In May 2004, the OFT praised vehicle manufacturers for removing the franchised dealer servicing condition of new car warranties. Investment criteria for "authorised repairer" status may vary across brands but core criteria ensures that minimum standards of safety and staff competence are in place.

2.24 In addition, comments made by the Committee about the availability of technical information contradict those made by the Motor Vehicle Repairers Association (MVRA) who congratulated manufacturers for access to technical data and claimed to be "delighted" by the improvements made since the introduction of new block exemption rules.

2.25 In March 2006 the National Consumer Council (NCC) announced the suspension of an Office of Fair Trading (OFT) super-complaint against the automotive service and repair sector following the work undertaken by industry to address consumer detriment through a proposed service and repair Code of Practice. The NCC has set a new time line of September 2006 for the industry Code of Practice to gain OFT stage one approval and September 2007 to gain stage two full approval status. The Retail Motor Strategy Group (RMSG) has endorsed the work plan and next steps of the Code Sherpa group and SMMT, our members and other industry stakeholders are fully committed to delivering, through the RMSG, a workable Code that further improves the standard of service and the overall consumer experience.

Skills and training

2.26 The UK Manufacturing Strategy acknowledged that skills were high upon the political agenda but called for more to be done to encourage high calibre young people into manufacturing and to improve the public perception of manufacturing. The Committee's report on the automotive industry outlined the need for the sector to address its basic skills deficiencies to safeguard future investment decisions.

2.27 The priorities of the automotive sector are to raise the standard of basic skills, improve the role of vocational education, and increase the guidance available to young people about careers in the industry. The DTI's Science and Engineering Ambassador scheme supports and encourages engagement between schools and industry and provides role models for young people.

2.28 The newly formed Automotive Academy is a positive example of industry working alongside government to enhance the skills base of the sector. The Academy has been created with the backing of £12 million of Government funds. It operates from a central administrative hub in Birmingham, with delivery spokes in Scotland, Wales, Northern Ireland and six English regions.

2.29 The Academy promotes skills improvements at all levels, from shop floor, right through to the boardroom. Its core programmes concentrate on lean manufacturing tools and techniques but increasingly it will encompass technical, leadership, management and general business support programmes. It reviews and agrees training needs in partnership with industry before commissioning the design of globally competitive training programmes that are delivered through a national network of best practice, Academy validated, training providers. NVQ assessors are subject to similar validation procedures. Over 1,000 individuals were trained in 2005, the first full year of operation. In 2006 the target, which is presently being exceeded, is for 7,000. The Academy also works closely with funding bodies such as the Learning and Skills Council to ensure that industry at all levels, from multi-nationals to the smallest SMEs, have access to adequate funding support for training.

2.30 The importance of high-quality education and development in the automotive sector is reflected in the significant investment made by companies in developing their own training facilities and institutes. For example, in 2005, Toyota opened its £11.2 million European Global Production Centre at its Burnaston Plant in the UK. The centre will provide skills and training for up to 1,000 Toyota employees each year.

2.31 Graduate recruitment into automotive manufacturing remains difficult, as in the wider manufacturing sector, especially in smaller companies. Government and local RDA programmes do exist to support the placement and recruitment of graduates, but more needs to be done to ensure young, bright employees are attracted to the sector.

Research and Development

2.32 The Select Committee's 2004 report showed concern that UK automotive research and development was failing behind that of its global rivals. SMMT and ACEA (the association of the European automobile manufacturers) recognise that total R&D expenditure is around €20 billion per annum for the European automotive industry which equates to five per cent of European automotive turnover and around 25% of all EU expenditure on R&D. The Government's R&D Tax Credits have been a successful incentive to

support UK R&D investment from SME and larger automotive businesses. A further enhancement to the base rate of the Credit would add further value to the incentive, although we recognise that this would lead to an additional burden from the Treasury.

2.33 The European Commission's 2004 EU Industrial R&D Investment Scoreboard recognised that the EU's single largest R&D investment is within automobiles and parts, and within this SME investment. The 2005 Scoreboard assessed R&D spend by individual companies and on a global scale. Automobiles and parts accounted for the largest proportion of R&D spend in Europe (26%) and Japan (26.1%). Automotive R&D accounts for 12% of total spend in the USA and 6.2% for the rest of the world.

2.34 The Select Committee's report also criticised the progress made towards the AIGT's recommendation for a Centre of Excellence for Low Carbon and Fuel Cell Technology. Since the introduction of the Low Carbon Vehicle Partnership (LowCVP) in 2003, another AIGT recommendation, the partnership has been influential in accelerating the shift to low carbon vehicles and fuels in the UK. Within the LowCVP's Innovation Working Group the business case and specifications for the new Centre of Automotive Excellence for Low Carbon and Fuel Cell Technologies (CENEX) were developed.

2.35 CENEX, housed within Loughborough University, aims to assist industry in developing a UK competitive advantage from the global shift to a low carbon economy. One particular objective of CENEX is to influence the creation and deployment of fleet-scale demonstrators in the UK passenger vehicle, public transport and commercial vehicle sectors. This has been identified to help curb the highly-expensive development of prototype models that are subsequently scrapped and the commercialisation of low carbon vehicle prototypes to the market. CENEX and SMMT's Foresight Vehicle, together with Fuel Cells UK and Fuel Cells Today, are supporting innovation in the UK automotive industry through a Knowledge Transfer Network (KTN) dedicated to low carbon and fuel cell technologies. This KTN and the LowCVP's Innovation Working Group are brokering a programme of activities focused on technology demonstration, targeting early market adoption and supply chain development.

2.36 SMMT Foresight Vehicle is a UK Government initiative set up to identify and fund appropriate research projects and, through collaboration projects between academia and industry, develop and demonstrate appropriate product and process technologies for use in road transport for the future. Launched in 1995, the programme has involved over 100 projects, of which 19 are still live. Over 400 participating organisations have been involved, with the total value spent on the programme approaching £150 million. Over £50 million of Government funding has already been made available with industry contributing the remainder. Foresight Vehicle is currently investigating ways of securing new innovation funding through the DTI.

2.37 Within Foresight Vehicle, the HEAFV (Hybrid, Electric and Alternatively Fuelled Vehicles) Thematic Group is undertaking important work towards developing sustainable, low carbon vehicles for the future. For example, within this group, the ZESTFUL (Zero Emission Small Vehicle with Integrated High Temperature Battery and Fuel Cell) project aims to provide a complete power source for the traction and heating/cooling of a passenger car and deliver the associated environmental savings of a fuel cell/battery power source. Another group within Foresight Vehicle, the EPT (Engine and Powertrain) Thematic Group, is developing increasingly fuel efficient demonstrator vehicles by maximising the conversion of energy in fuel. The 2/4 Sight project won the Safety and Technology category at the 2005 Autocar awards after being recognised for its potential to deliver an improvement of up to 30% in fuel consumption and CO₂ emissions.

2.38 In 2004, SMMT Foresight Vehicle published a revised version of its Technology Roadmap to identify technology and research themes for road transport, with the aim of supporting UK industry in the globally competitive market for transport products and to provide sustainable mobility for UK citizens. The Technology Roadmap is important in providing a broad direction for the future technology and research agenda in the UK automotive sector. The report confirms that emissions, recycling, pedestrian protection, vehicle design, manufacturing processes and road infrastructure are all vital areas of research. The directions highlighted in the report will help researchers in the UK automotive industry remain world leaders.

Productivity

2.39 With increased global competition and competition within global brands between different countries, productivity within the UK sector is crucial. Some positive examples of automotive productivity include:

- In 2004, Jaguar's Halewood plant became Ford's best performing plant in the world.
- Nissan's Sunderland plant, which manufactures the Almera, Note, Micra and Primera models, has been named the most productive car plant in Europe for the seventh consecutive year, producing 315,297 units in 2005.
- Honda's facility in Swindon and Toyota's Burnaston plant are within the top 10 most productive car plants in Europe.

- Aston Martin, BMW, Land Rover, Toyota and Vauxhall all achieved record car production output volumes in 2005.

2.40 This level of achievement is delivered through a commitment to innovation, investment, dynamic new products, new processes and highly-skilled, highly-motivated British workers.

2.41 The SMMT Industry Forum was launched in 1994 and has had a significant impact on the competitiveness of the UK-based supply chain within the sector. Since 1996, the SMMT Industry Forum has worked with over 450 vehicle and components manufacturers to improve performance, equip engineers with the tools and techniques of modern practices, and to train engineers from a number of other sectors ranging from aerospace and construction equipment through to the food sector. The links between skills, productivity, competitiveness and profitability are clear and SMMT Industry Forum continues to work very closely with SEMTA, the Learning and Skills Council and the Automotive Academy on these and other issues. The DTI recently praised the SMMT Industry Forum in its Report on The Industry Forum Adapter Programme in March 2006. The Committee 2004 report also noted the effectiveness of its role.

2.42 In October 2005, the Government approved SEMTA's Expression of Interest to develop a National Manufacturing Skills Academy. SEMTA and its partners (including SMMT and the SMMT Industry Forum) is expected to launch the NMSA in September 2006. Through the commitment of its partners, the NMSA will develop national standards for skills to ensure the sector is globally competitive and aligned to the new NVQ framework. Regional involvement is crucial to ensure that the specific skill needs of regions are met.

Competitiveness and restructuring

2.43 Business and plant restructuring have been persistent features of the automotive manufacturing business model, reflecting the global nature of the sector, stiff competition, and cost pressures. The long-term challenge for the industry in the UK (within the global market) will be to focus on high added-value processes and products and to utilise the UK's significant strength in automotive design and innovation and its skilled and flexible labour force. Competition on the basis of low cost, semi-skilled workers and low value-added processes will be increasingly challenged and become non-viable as globalisation—increased international economic integration—sees lower cost countries challenge established markets, firms and goods traded across the world economy. For example, despite a backdrop of increasing energy and raw material prices, the charges levied by automotive component suppliers have fallen in real terms by as much as 20% in order to remain competitive and attractive to manufacturers.

2.44 The Government's much-anticipated Energy Review will be vital to establishing a clean, secure and sustainable energy supply for the UK and its industries. Its publication is timely, coming as it does in the context of price volatility and forecasts for increasing dependency on imported supplies. The extent to which manufacturing locates in the UK is affected by the cost and reliability of energy supplies as compared with other countries and it is crucial that the UK has access to secure, reliable, affordable, and clean energy supplies at the same or better price than our competitors. SMMT and our members would urge the Government to embrace the widest possible range of technologies that support CO₂-efficient power generation and use, ie to adopt a technology-neutral approach to energy supply and demand.

2.45 Security of supply is by far the most important concern for the automotive industry. Continuity of production and cost stability are of crucial importance to the competitiveness of all manufacturers, particularly within the UK automotive industry, which is composed of multinational companies that relate first and foremost to their "home/mother" countries for strategic decisions, including on energy. For example, as multinationals, all the major vehicle manufacturers in the UK have production capacity elsewhere in Europe or the world, and UK plants therefore have to compete for business within their own companies. This means that cost stability and security of energy supply is a competitive consideration when awarding contracts internally.

2.46 If gas supplies are interrupted, vehicle manufacturing has to stop. Even a momentary interruption means several hours would pass before being able to return to full production and if, for example, process tank chemicals are not maintained at temperature they can precipitate and would require disposal with the tanks cleaned fully and then refilled. The result would be wasted staffing costs through lost production as well as a knock-on effect for the component and assembly suppliers. "Just in time" production techniques result in lean and efficient manufacturing, which has obvious advantages but reliable energy supply is crucial to its success. This is likely to cost somewhere in the region of £1 million to £2 million per day plus the costs of lost production.

2.47 In 2001, a need for collective action and priorities was recognised in the work of the DTI's Automotive Innovation and Growth Team (AIGT). The decision to give priority to setting up an Innovation and Growth Team for the automotive sector reflected particular problems in Government's relations with the sector. The AIGT's conclusions were reported in 2002 and significant progress has been made on all seven of its core recommendations. Government pledged a total of £45 million to achieve the AIGT recommendations and our industry continues to recognise this commitment shown by Government.

Better regulation

2.48 A key concern of the automotive sector is the ability to respond to the many, and at times contradictory, regulatory demands whilst remaining competitive both internationally and in the UK. It is important to ensure that EU legislation is transposed into national law in a consistent manner throughout the EU. The task of Government is to reduce the financial impact of legislation and regulation on industry whilst creating market conditions that allow business to grow and innovate and work towards environmental and safety objectives. To highlight this point, at Annex 3 you will find a chart highlighting environmental improvements delivered through modern technology versus the impact of legislation and safety requirements.

2.49 SMEs, in particular, do not have the resources to keep abreast with the latest legal requirements and so are dependent on information from regional support programmes, such as Business Links and Chambers of Commerce.

2.50 The Government's UK Manufacturing Strategy identified the need to reduce the cost and administrative burden of new regulation. The Bill for Better Regulation included proposals for the UK Government's Better Regulation agenda that would remove unnecessary regulation, simplify existing regulation and reduce administrative costs. SMMT and the motor industry welcomed the proposals and have been extensively involved in the Better Regulation agenda in partnership with the key Government departments that influence our work, as well as the Cabinet Office, which is leading on the issue.

2.51 SMMT has responded to the Davidson Review's call for evidence on the over-implementation of EU legislation, highlighting that the UK needs to meet its competitiveness challenges with a lighter regulatory touch, building on an integrated approach to smarter regulation.

2.52 The automotive industry fully supports the focus on better regulation both in the UK and the EU. A risk based, co-ordinated approach must be taken forward in the UK to deliver maximum quality achievements on the better regulation initiative. SMMT and its members regard a lean and pro-competitive regulatory framework in the UK and EU as one of the key determinants for the competitiveness of our industry.

Regional government and support programmes

2.53 The automotive industry benefits from a wide range of Government support. These range from European state aid assistance to local support provided by the Learning and Skills Council (LSC) and Regional Development Agencies (RDAs). However, some initiatives remain difficult to access and the criteria for such initiatives difficult to understand. For instance, the Small Engineering Firms Investment Scheme (SEFIS) has a simple ethos and simple application but we remain disappointed that major capital allowance for manufacturing and engineering SMEs is now predominantly linked to information technology (IT) instead of manufacturing investment in general.

2.54 The AIGT recommended the creation of a National Supply Chain Group funding programme to encourage large UK-based manufacturers to improve the competitiveness of their UK-based suppliers. This programme has been successful with over 40 such supply chain groups embarked upon improvement activities. The scheme has proven to be a very good example of how regions can and must work together with national Government departments (in this case the DTI) in order to present a coherent or "joined up" picture to the major multinationals who are based in the UK.

2.55 Some of the businesses who are acting as "host companies" within this programme are in discussion with SMMT Industry Forum and the Learning and Skills Council to explore how to build upon these Supply Chain Group activities to also encourage businesses to up-skill their employees in line with the NVQ framework. It is anticipated that qualifications which improve the productivity, competitiveness and profitability of the company, along with employability of the individual, will be promoted along the supply chain.

2.56 Individual companies have at times received direct support from government. For instance, according to DTI figures, around £5 million was committed to MG Rover between May 2000 and April 2005. When the company went into administration the Government quickly established the MG Rover Task Force to provide assistance to redundant workers, the local community and companies within the supply chain with the £40 million fund. This investment and the quick response helped to ensure that suppliers were able to quickly access financial support and expert information on business restructuring. Such was the success of the support that only two SME suppliers in the West Midlands closed as a direct result of the closure of MG Rover. The Task Force's Final Report concluded that excellent progress had been made with 4,000 of the 5,000 redundant employees returning to work. The DTI also announced ongoing support in the form of a new £2 million Employability Support Package to provide intensive back-to-work support. The initiative will be run by Jobcentre Plus and the Learning and Skills Council and continue until March 2008.

2.57 The Automotive Academy has also launched a new Re-Employment Training Programme aimed at those made redundant from MG Rover, including its supply chain. After an initial pilot programme funded by the Learning and Skills Council, further programmes, which are free to candidates, may be rolled out nationally. SMMT would urge the LSC and local Government authorities to support this valuable programme.

UK fiscal and grants policy

2.58 Ahead of the 2006 Budget statement SMMT called for fiscal certainty and stability. Appropriate fiscal measures and incentives are needed to promote certainty and planning for business investment and to ensure the long-term competitiveness of the sector.

2.59 SMMT's third annual "Automotive Executive Survey" reported cost pressures, worries about regulatory burdens, rising energy costs and pensions. Clearly these concerns will continue to impact on the competitiveness of UK business.

2.60 The UK's current strategy of three year planning compares unfavourably with the likes of Germany, whose 10 year fiscal regime provides much more certainty for investment and confidence in the end product. It is Government's role to create a fiscal environment where businesses can grow within a thriving UK economy. For example, vehicle manufacturers base their planning decisions for new vehicle/platform investment on a seven year cycle.

2.61 Nevertheless, the Government's decision to continue with the Low Carbon Research and Development programme and Infrastructure Development programme will encourage the development and wider-availability of low carbon vehicles and fuels as industry looks to fulfill its responsibilities under the Government's revised target of a 15% to 18% reduction in CO₂ emissions by 2010 from 1990 levels.

2.62 However, our industry has been frustrated at the disjointed nature of grant funding for clean vehicles and fuels under the DfT's Transport Energy programme. In 2005, the grant funding programmes for clean vehicles and fuels ceased without replacement programmes being put in place, following previous years of "stop-start" in grant funding. The lack of certainty since 2005 has disrupted the market and hindered further potential CO₂ savings as industry strives to meet environmental targets.

2.63 The Minister of State for Transport announced on 7 June 2006 that the Government will not be implementing the Low Carbon Car, Low Carbon Bus, Air Quality Retrofit and Enhanced Environmental Vehicle grant programmes, despite all receiving state aid approval from the European Commission. The essence of any funding programme is to ensure long-term planning and investment to kick-start the market, but they also aim to deliver the associated environmental benefits of a cleaner UK car parc. SMMT and its members are therefore highly disappointed with the Government's decision and we believe an opportunity has been lost to progress the UK market for clean, low carbon vehicles and technology. We hope that the channeling of these funds towards the consumer communication programme that is now proposed along the lines of the TH!NK campaign on safety, will involve our industry from the beginning and will acknowledge the full role that the integrated approach can now play.

CONCLUSION

2.64 Since the Committee's 2004 report on the UK automotive sector, our industry has continued to face many challenges to its competitiveness. The influence of the sector on the UK economy is threatened in light of increased international competition, over-capacity and a mature Western European new vehicle market. Margins are being continually squeezed as a result of volatile energy, oil and raw material prices.

2.65 However, the UK automotive sector is incredibly diverse and continues to innovate. SMMT members are investing heavily in R&D in the UK and this should ensure that the UK, as a manufacturing location, remains competitive and a centre for innovation and highly-skilled employees.

2.66 It is essential that the Government continues to work closely with our industry so that the UK remains a competitive location for automotive manufacturing and investment. Recognising the diversity of the sector, as outlined in the positive announcements within this submission, will ensure that the industry as a whole is given support. Our industry looks forward to working in partnership with Government and continuing dialogue on issues of mutual concern.

June 2006

Annexes

1. Index of Effective Costs—The US Manufacturing Institute (2003).
2. New Passenger Car Registrations in Western Europe (2000–05).
3. CO₂ Emissions Development (1998 to 2005)—Diesel to High Performance Clean Diesel.

Annex 1

INDEX OF EFFECTIVE COSTS—THE US MANUFACTURING INSTITUTE (2003)

The Manufacturing Institute.

Table 1

Effect of Key “Overhead Costs” on Raw Cost Index of Nine Largest US Trading Partners, 2002
(US dollars per hour)

Raw cost Index	United States	Average of nine partners	Canada	Mexico	Japan	China	Germany	United Kingdom	South Korea	Taiwan	France
	24.30	19.30	25.57	8.11	16.92	5.34	29.60	28.30	23.96	16.41	26.50
<i>Difference relative to US costs in per cent</i>											
Corporate tax rate	—	−5.06%	−3.4%	−6.0%	2.0%	−15.0%	−0.4%	−10.0%	−10.3%	−15.0%	−5.7%
Employee benefits	—	−5.5%	−4.8%	−9.4%	−9.4%	−12.6%	3.6%	−5.1%	9.0%	−11.5%	10.7%
Tort costs	—	−3.2%	−3.1%	n/a	−3.3%	n/a	−0.7%	−3.4%	n/a	n/a	n/a
Natural gas costs	—	−0.5%	−6.0%	−2.3%	12.5%	−2.3%	0.6%	2.1%	4.1%	15.3%	−4.2%
Pollution abatement	—	−3.5%	−2.8%	n/a	−2.3%	n/a	−2.4%	−3.0%	n/a	n/a	−1.5%
<i>Manufacturing production costs relative to the United States accounting for differences in overhead costs (dollars per hour)</i>											
Effective cost index	24.30	16.02	22.46	6.19	16.64	3.50	29.77	23.14	22.67	12.85	25.77

Source: Author's calculations based on data in subsequent tables and charts.⁴²

Note: Data for tort costs and regulatory compliance costs are limited to the industrialised partners. Conservative assumptions have been made in estimating the missing values, as described in later sections.⁴² Thus, the absence of these data likely understates the overall cost advantage of US trading partners.

Source: *How Structural Costs Imposed on US Manufacturers Harm Workers and Threaten Competitiveness* by Jeremy A Leonard of the Manufacturers Alliance/MAPI for The US Manufacturing Institute (2003).

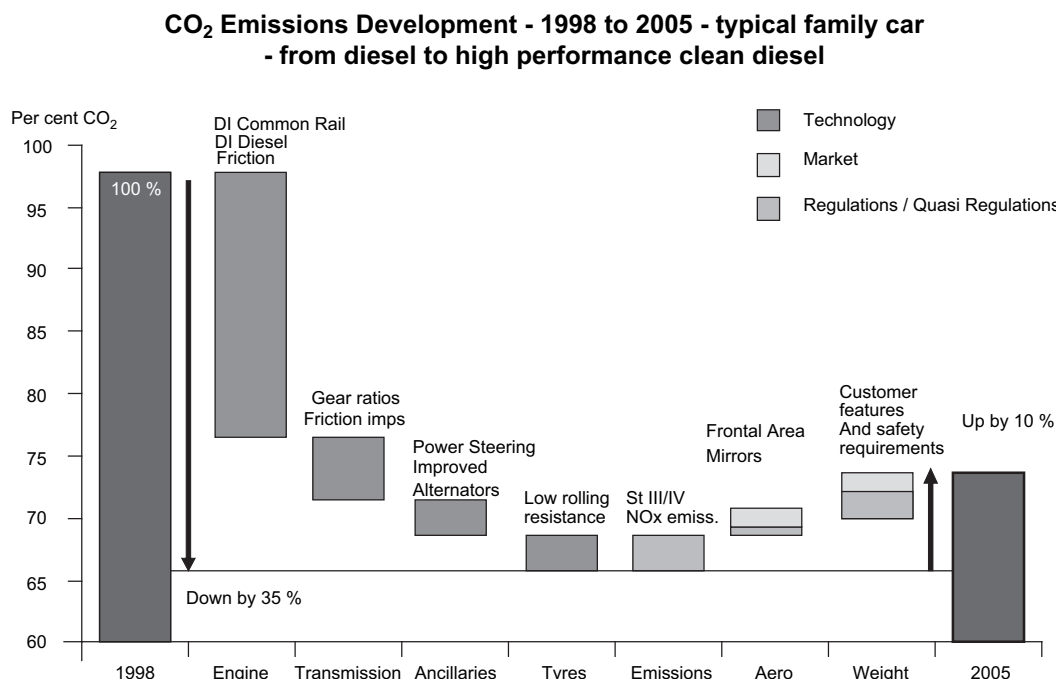
Annex 2

NEW PASSENGER CAR REGISTRATIONS IN WESTERN EUROPE (2000–05)

Year	New Passenger Car Registrations
2000	14,746,571
2001	14,817,719
2002	14,398,742
2003	14,212,669
2004	14,524,450
2005	14,504,592

Source: ACEA, EU 15 and European Free Trade Area (EFTA) 3.

⁴² Not provided.



APPENDIX 19

Memorandum by the Transport & General Workers' Union

The Transport & General Workers' Union (T&G) represents 800,000 members and was the major trade union at MG Rover, working alongside sister unions including Amicus and GMB. As a National Secretary and subsequently General Secretary of the union, Tony Woodley was closely involved in the struggle to save jobs at MG Rover and secure the long term future of the company which we believe has a strategic importance not only to the West Midlands but also to UK manufacturing.

The T&G welcomes the chance to set out its views on this matter and notes that the Committee will concentrate on three main areas:

- The role played by the then Secretary of State for Trade and Industry, Mr Stephen Byers, during the disposal of its MG Rover subsidiaries by BMW.
- The attempts by the then Secretary of State for Trade and Industry, Patricia Hewitt, to support MG Rover during its negotiations with SAIC in early 2005.
- The effectiveness to date of the recovery package and taskforce for the Rover workforce and the West Midlands more generally after the company went into receivership.

We also note that the Committee intends to explore whether the Government should have done more to save Rover—or whether it intervened too much; and whether there are any wider lessons to be drawn on how to help any big manufacturing companies which get into difficulties in the future.

Like the Committee itself, we do not intend to anticipate the DTI inspectors' investigation into the affairs of the MG Rover Group, including Phoenix Venture Holdings Ltd and MG Capital Ltd.

APRIL 2000: THE SALE OF MG ROVER BY BMW TO THE PHOENIX FOUR (PVH)

Q. In 2000, should the Government have stood back and not got involved?

We believe strongly that the Government was right to take an interest in the potential demise or survival of MG Rover in 2000. This was because of the strategic importance of MG Rover to the UK manufacturing base, West Midlands region and jobs; because of the social and economic costs associated with MG Rover's demise and because there still seemed to be strong prospects of a viable future at the time. Large losses and loss of market share were in our view the result of under-investment and the failure to replace models adequately. We knew that the long term future would depend on MG Rover finding a bigger international partner in particular to develop new models, but time was needed to achieve this.

We make no apologies for fighting hard to preserve our members' jobs. The MG Rover workforce had been productive workers and the collapse was not their fault. It emerged that BMW had been planning the sale for several months even while they were running road-shows for the workforce reassuring the workers that MG Rover was an integral part of BMW. Our members had made considerable sacrifice in order to contribute to the future of the company on the back of that assurance. Then as now they are the main victims of the situation, through no fault of their own.

The immediate cost to the public purse of the demise of MG Rover would have been high in terms of lost tax revenue, and support for unemployed workers. But the UK would also be losing the last truly British car maker.

It is unthinkable that Governments of our European neighbours would stand back and see such an industrial champion fall to the ground. Could you imagine the German government seeing VW or BMW collapse? Or the French government see Renault or Citroen die?

We believed that the Government should be closely engaged in trying to find a viable way forward for MG Rover.

Nevertheless, it is important to recognise that the sale of MG Rover was a transaction between two parties: BMW and the Phoenix Four. The government was not a party to the deal. The Government had no formal role in the transaction. Stephen Byers expressed his support for the Phoenix 4 bid as did the trade unions, the workforce, almost every shade of opinion in the Birmingham area, local authorities in the West Midlands, distributors and suppliers. The Government did not award any public money in relation to this transaction. Subsequent industrial and regional grants and training assistance to MG Rover of some £5 million during 2000–05 were part of wider schemes for the automotive industry and the West Midlands Region. They would have been available if BMW had continued in control and were nothing out of the ordinary for the sector. (For example, Nissan has received over £100 million in regional selective financial assistance since 1984).

Q. In 2000 should Alchemy have been backed instead of Phoenix 4?

From our perspective the Alchemy proposal was flawed in a number of respects. It proposed only 65,000 units per year sports car production, with mass redundancies of around 5,000 jobs. This was not the sort of volume car production which we had with MG Rover for five more years and which would have continued had the link up with an international partner succeeded.

There has been uninformed speculation made about the level of severance or redundancy pay which Alchemy might have offered if they had bought the firm from BMW, but they never made any proposal to us in this regard. Those that lost their jobs when the Phoenix 4 took over received enhanced redundancy terms.

But above all, it must be remembered that Alchemy withdrew from talks with BMW on 28 April 2000. We understand that BMW also had very serious unresolved issues with the Alchemy offer. The issue at the time was simply whether Phoenix 4 would have their proposal considered by BMW. The sale was not agreed until 9 May 2000. In the meantime the choice was not between Phoenix and Alchemy but between the Phoenix proposition and the closure of the plant. Whilst we were in a mode of “damage limitation” by this stage, we believed that the Phoenix 4 proposals, with continuing volume car production, were a better outcome than Alchemy.

Q. Was there ever a long term future for MG Rover after Phoenix 4 bought the company?

We had five good years of production securing jobs and assisting the UK economy. But in 2000 we knew that existing models gave us only four to five years grace. What was crucial was getting a bigger international partner to develop new models. Extensive attempts were made to find such a suitable partner including talks with China Brilliance, Tata of India, Proton of Malaysia and latterly SAIC and NAC. As we explain below, we believed that a deal with SAIC was close both before the company was taken into administration and certainly at the time SAIC bid to purchase the assets from the Administrator on 23 July 2005.

2005: THE SAIC DEAL AND ADMINISTRATION

Q. Coming to 2005, was the SAIC deal ever likely to happen?

We believe the SAIC link-up had tremendous logic. SAIC have an aim to become one of the top six car manufacturers in the world and the MG Rover deal offered them the chance to enhance their technological know-how and break into the European and international markets. We believe that a deal was close. It is of interest that NAC were part of the SAIC deal as a minor party. We will never finally know for certain what caused the deal to falter. Some people say that SAIC's advisers still had serious qualms about Rover's finances, especially the potential risk of the pension deficit landing on their doorstep; others—including John Towers—say that the Government pressed SAIC to make firm commitments prematurely before agreeing to a “bridging loan”. But whatever the reason, Rover ran out of time—creditors called in money, suppliers cut off supplies and the company went into voluntary administration.

Crucially once the company had been taken into administration and a number of the liabilities had been obliterated, there seemed a good prospect that SAIC might see an improved commercial opportunity for a deal. This was the main justification for the £6.5 million loan to the Administrator to keep the workforce intact for one week immediately after the company had been taken into administration. The administrators at the time said that this had given them a breathing space to evaluate the interests of all parties.

Certainly a big issue for SAIC was the pension exposure with a pension deficit calculated to be £400 million. Once the PPF had taken over the pension liabilities, it became more likely that a way forward with SAIC could have been found.

At the time, we were not alone in supporting this action. Opposition parties did not object to the loan and indeed were generally supportive of action to save MG Rover, criticising the government if anything for not acting sooner. Michael Howard visited Longbridge on 10 April and spoke with nine of our members. He did not criticise the loan, though he was well aware of the impending announcement.

Although at that time SAIC demurred in a letter on Friday 15 April 2005, SAIC later came up with a sound manufacturing plan—linked with Magma Holdings—including for model development—and indeed made a firm bid for the assets of MG Rover by the Administrator. Only because they were pipped at the post by NAC did this plan fail. We believe that had SAIC succeeded in this bid, there would have been a volume production future at Longbridge for 6,000 workers.

Whilst the Administrators acted in a helpful and open manner as far as we were concerned and we have no reason to doubt that they observed their legal duties, we still cannot fully understand how they accepted the NAC bid where no solid plan existed for future employment, whereas SAIC had tabled an offer which would have meant a very different outcome—thousands of jobs and a solid business manufacturing plan for UK production.

Q. Was there a sound logic behind the SAIC Deal?

We believe the SAIC link-up had tremendous logic. SAIC have an aim to become one of the top six car manufacturers in the world and the MG Rover deal offered them the chance to enhance their technological know-how and break into the European and international markets. In our view, yes. Indeed during administration we worked extremely hard with a company called Magma Holdings and SAIC to achieve a viable production programme with international distribution and new product development. This was only finally halted when NAC outbid SAIC for the physical assets at Longbridge.

The Government can give full details of the financial help they offered, but essentially they allowed a loan to the administrator on 10 April 2005 to allow employees to be kept on for a short time so as a deal with SAIC might be secured. When SAIC made clear that they would not give assurances about their future involvement, the Government ended the facility (after only one week).

Before MG Rover was taken into administration, the Government had been considering making available a “bridging loan” at the request of MG Rover to see it through to a successful link-up with SAIC. The DTI pressed SAIC for firm assurances as to its intentions, with a list of detailed questions. This was the context of the letters from SAIC of 29 March, 4 April, and 5 April. They were not seen as a final withdrawal from talks but nervousness about making a commitment at that time owing to uncertainty about the financial state of MG Rover and PVH. In the event the bridging loan was never triggered.

Some of the financial concerns could be overcome once the firm went into administration, and a fresh approach by SAIC was not out of the question at the time. Against that had to be weighed the stigma of administration and the damage to confidence in the company and its brand.

Q. Did the Government go too far in offering money? Did they only get involved because of a forthcoming General Election?

We believe the Government were making genuine attempts to allow the company to survive through a partnership with an international producer. We have no evidence that they were only concerned with the election. If they were, why not keep payments going until after election?

The changed situation with liabilities potential removed by administration meant it was worthwhile to maintain MG Rover workforce intact to see if SAIC could be engaged. It has been estimated (see NAO report) that the benefit to the public purse of maintaining a viable MG Rover compared with the cost of collapse amounted to £10,000 per job. So the Government was in our opinion justified in making available the £6.5 million loan to the Administrator.

We would point out that £1.3 million was repaid and over £1 million was for the Administrator’s own cost.

Moreover the Government made available £171m to deal with the aftermath of the collapse of MG Rover. In fact the estimated actually spend will be £146 million—a saving of £25 million—five times more than the net loan to the Administrator.

Indeed our opinion is that Governments and the EU should be more prepared to assist our manufacturing champions (see below).

We stand by our statement of 10 March 2006 in response to the NAO report:

“It would have been almost treasonable for any government not to have intervened for the survival of MG Rover. The size and importance of MG Rover, not just to the workers and their families, but to British manufacturing and the economy, meant any other response would have been irresponsible. Any and every government in Europe would have intervened in the circumstances, perhaps even more so than the DTI did.”

“It is important to remember that at the time, we and many others involved in MG Rover, including the opposition parties, thought there was a reasonable enough prospect of the SAIC deal progressing to justify the £6.5 million loan, the amount needed to keep the workforce intact for only one week until SAIC made clear their position.”

“Indeed, the Government’s judgement to give SAIC a chance was proved absolutely correct when SAIC became re-engaged with a manufacturing plan and a bid for the assets. It was a question of bad timing, not of bad faith.”

“If the deal had come off, as it almost did, and secured MG Rover’s future, everyone would be singing the praises of the decision.”

2005: DEALING WITH THE AFTERMATH—THE TASK FORCE ETC

Q. What help did the Government give after the firm had been put into administration and SAIC had withdrawn?

There was much to do to ensure there was not a collapse of the component supply chain or the vehicle distributors, and to ensure that redundant workers received job advice and benefit payments.

We also had to ensure issues like pensions (involving the Pension Protection Fund) and the employee car scheme were sorted out. We kept in close touch with government on these issues, though we mainly pursued them ourselves.

The NAO report published on 10 March 2006 finds that this support was wisely spent and effective.

Whilst not disagreeing with this as far as it goes, we would however point out that it was no substitute for a viable MG Rover car production at Longbridge. Moreover the 4,000 ex Rover workers who are said to have found work or training are in most cases we believe in far inferior and more poorly paid jobs than the ones they had at Longbridge.

Q. What was the role of Advantage West Midlands? And the Task Force?

AWM acted very properly as an RDA to look after the interests of the West Midlands and tried hard to make sure either MG Rover continued or that alternative manufacturing activity continued in the West Midlands. The Task Force brought together the main players to concentrate specifically on the MG Rover case, including looking after the workers in the case of redundancy.

We welcomed the package of measures to assist redundant MG Rover workers and also to alleviate the effects in the supply chain. Some of the help included in the “Government rescue package” was in fact money which was in any case due to the former MG Rover employees in terms of social security. Nor did the Rover workers receive generous support. They had made sacrifices in recent years to help secure the viability of the company and many used their redundancy money merely to clear debt. There had never been a redundancy in the car industry in living memory until this occasion where workers had not received enhanced severance or redundancy payments.

The part the unions played in looking after the interest of redundant MG Rover workers should not be overlooked. The unions had to take legal action merely to secure the workers’ full statutory redundancy and notice entitlement. Many were in considerable debt under the Rover employee car scheme where the residual value of the cars had collapsed, but payments were still due. Again the union had to intervene to seek a compromise deal with the financial institutions which owned the debt. Finally members were extremely concerned about their pensions. Thanks to the Pension Protection Fund members had 90% of their pension saved. Without this many workers would have seen the value of their pensions, to which they had contributed over many years, disappear. However, it took some time to establish the proper confirmation of the intervention of the PPF (15 September), during which time the T&G represented the interests of our members to the PPF and Pensions Regulator.

We are frankly very disappointed that the Phoenix Five directors have not fulfilled the pledge they made at the time of the collapse to put their shares into a trust for the benefit of people who lost their jobs and the local community. Instead it seems likely that the directors are still drawing cash from the companies involved.

SHOULD GOVERNMENTS HELP MAJOR MANUFACTURING COMPANIES?

In the particular case of MG Rover a number of lessons could be drawn. The fundamental failing of the company was the failure to develop new models. The key to this was to find an international partner of sufficient stature. Extensive efforts ultimately failed, although in the case of SAIC they came very close.

Competitor companies were no doubt indifferent or even upbeat about the company's demise, seeing market share becoming available at a time of overcapacity in the industry in Europe.

The Phoenix Four themselves became dogged by bad publicity which undermined the company's credibility and we believe even affected car sales.

The opaque nature of the PVH and associated companies made it difficult for a prospective partner to assess the pros and cons of joining forces with MG Rover.

The intervention of the PPF was a very welcome move for the thousands of MG Rover employees who faced losing their pensions. However, as we have stated, it took some time to get a clear decision of the status of the MG Rover pension funds in relation to the PPF.

Finally the Administrator seemed less constrained by law to seek a future for production than the sale of assets to cover his own considerable costs and the interests of creditors. Despite the changed obligations upon administrators in the Enterprise Act 2002, we believe more could have been done to achieve a "going concern" out of the ashes of the Phoenix Four.

On the more general issue of industrial strategy and manufacturing both we and the TUC have been calling for a more active industrial policy, to protect and enhance the needs of modern manufacturing, recognising the contribution a vibrant manufacturing sector makes to economic success, economic and social cohesion, thriving communities, the funding of public services and a high quality of life.

Central to the manufacturing strategy should be the availability of aid money, to strategic champions at UK or EU level, where these companies need to restructure or face short term difficulties and needing bridging support. Factors determining the potential of a champion sector or company should include the market potential; the extent to which it will generate economic activity of a high value added; the impact on industrial activity regionally (including the number and quality of UK-based jobs that are created or sustained).

It is longstanding TUC policy to call for UK state aid to match the average of the EU15, and for a proportion of UK state aid to be dedicated to sectoral, rather than horizontal, support. We call for a proportion of this increase, to be achieved over time, to be dedicated to a strategic industry support fund, to be used in pursuit of the above objectives.

The government should investigate how to encourage the longer-term owning of shares, to enhance the ability of champions to invest in vital technologies or skills of the future, without fear of losing shareholder support.

The government should establish an inquiry, involving Ministers, the CBI, the TUC, the RDAs and academics to investigate the extent to which some companies fail to invest in skills, innovation and high performance work systems, and to identify solutions.

Community development funds should be made available and administered by RDAs, to fund the training and retraining of workers who have been made redundant or whose skills need updating.

For the T&G, we believe the law concerning the rights of employees and the unions that represent them to information and consultation should be enhanced still further in cases of potential closures and during administration. Whilst the Administrator communicated with us, the recognised unions and the individual employees had no real say in what was going on. The law should be strengthened in this regard. Moreover we believe that employees should be moved higher up the hierarchy of preferred creditors in cases of insolvency.

At the very least we need a more open debate about the merits of a more active industrial and manufacturing policy, the value of manufacturing to a modern economy. The experience in the UK has to be contrasted with for example the robust stance taken by the French government when Alstom ran into major difficulty in 2004.

We do not think it is out of the question in such circumstances that the Government or RDA should be prepared to take an equity stake in a company in such circumstances. We believe that in this case even a small public sector stake would have given great comfort to a firm such as SAIC entering an unknown market for the first time.

13 March 2006

APPENDIX 20

Supplementary memorandum by the Transport and General Workers' Union

INTRODUCTION

The TGWU welcomes the opportunity to provide the union's opinion to the Trade and Industry Committee on the reasons for success and failure in the UK Automotive sector. Our union, as the leading negotiator for the workforce in the sector, is proud of the constructive role that we, in co-operation with other unions, have played in developing and implementing progressive industrial relations practices throughout the UK automobile industry. It has been widely acknowledged that the improvements we have helped to achieve in securing world class levels of flexibility in work organisation have led to significant increases in labour productivity thereby making the UK an attractive base for inward investment in the UK automobile sector. As the trade union with the biggest membership in this sector, we are naturally well placed to comment on the factors that differentiate between the success and failure of companies within the sector.

Before we set out our detailed response to the issues the Committee will be considering, we would make two general points. First of all, we need to emphasise, in the strongest possible terms, our view that the spate of plant closures and capacity rationalisation that have hit the sector in recent years represent a radical and deeply disturbing departure from the sort of restructuring the sector endured in the 1980s and 1990s. The failure of MG Rover and the closure of the Longbridge plant together with the loss of the Jaguar production facility at Brown's Lane signalled a new phase of capacity cuts which the closure of Ryton and the TVR plant in Blackpool alongside the job cuts recently announced at Ellesmere Port seem set to accelerate. Of course we acknowledge, in contrast, the relative success of the Japanese automobile companies that have arrived in the last 20 years or so and the pleasing performance of the BMW Mini plant at Cowley. However, there is little on the economic horizon to suggest that the UK is about to achieve any further significant increases in foreign direct investment that could offset recent and projected losses in the automobile sector—even allowing for optimistic assumptions concerning the re-opening of some capacity at Longbridge under Chinese ownership.

We are fearful that the recent “de-location” activity typified by the Peugeot announcement, represents the beginning of a slippery slope that will see the end of any semblance of volume automobile manufacture in the UK over the next two decades. This is not crude scare mongering on our part. On the contrary, it reflects a realistic assessment of the extent to which the enlargement of the EU and the rise of China and India as manufacturing bases have fundamentally altered the economics of the automobile sector. In the absence of any restraint, multi national automobile companies will inevitably relocate significant production capacity to low cost countries. For the next decade or so this might well continue to favour recent entrants to the EU—the trend here is well established. In the longer term though, de-location from the EU to China and India is likely to be the dominant corporate manufacturing strategy for high volume production in the automobile sector.

This leads to our second general point, namely, the need to devise an EU wide regulatory framework aimed at providing common checks and balances at national level on private sector corporate investment and location strategies. Whilst this may be beyond the Committee's present remit, we would urge the committee in the context of current and foreseeable de-location trends in the automobile sector, to at least consider the need for the development of appropriate ways and means to promote amongst automobile companies a higher level of social responsibility to their workforce and a stronger commitment to maintain capacity in countries where they have significant market presence and a history of production. We are, for example, aware of discussions amongst members of the European Parliament concerning the need to develop an EU wide regulation that would require the repayment of all public monies received by MNC's with respect to plant and facilities that they propose to close where public money had supported the plant in question at some point in the previous 10 year period. Applied uniformly across the EU, such a regulation would not impose a competitive disadvantage on any particular member state and would serve to constrain MNC de-location strategies as well as introducing an element of public accountability that has hitherto been lacking. We would certainly suggest the committee give this idea serious consideration.

THE PRINCIPAL REASONS FOR THE DIFFERING RECORDS OF SUCCESS

Although there are many and varied reasons why some UK automobile plants have performed poorly and some outstandingly well, one or two fundamental factors stand out that may help to furnish an answer to this question. There is little doubt that in a highly competitive market: price, quality, design and marketing all play an important part in securing the viability of the product. However, insofar as individual plants are concerned, the crucial determinants of success appear to be more closely related to the achievement of unit costs that are as good or lower than the competition. In the past, this may have favoured plants where investment in technology was high and rising and where the development of skills in the workforce was given an equally high priority. To a great extent this is still true but it is increasingly the case that the flexibility in the system of work organisation adopted by a particular plant can give a further and significant competitive edge. To this end, European and US plants were exposed as relatively high cost and

inflexible when compared with the “lean production” techniques that had given Japanese car manufacturers substantial competitive advantage in the 1980s. In the last two decades, these lessons have been learned and the development and implementation of European versions of lean production have enabled UK and EU based car plants to compete. It is worth noting at this point that in the interests of the long term viability of the sector, the TGWU and the other unions in the sector have worked unstintingly to help these changes take effect.

With the widespread adoption of similar types of flexible work organisation, other factors come into play that differentiate the costs faced by individual plants. For example, there are significant advantages for a firm moving onto a “greenfield” site not just in the incentives that may be available to support the move but also in the continuing benefits of lower infrastructure costs. Both the Jaguar plant at Browns Lane and the MG Rover plant at Longbridge being relatively old sites (and spatially constrained in the case of Brown’s Lane) carried a higher burden of site costs and were much more constrained in terms of development capacity than were the new manufacturing sites in the UK occupied by Toyota, Honda and Nissan.

Proximity to markets and positions in the supply chain also remain important location factors. That said, it is plain that new supply chains and manufacturing clusters are being formed in the eastern parts of the EU that will, over the next few years, enable automobile MNC’s to relocate manufacturing capacity from countries such as the UK—the low costs and scale economies on offer in the newer EU member states evidently outweighing additional transport costs. Peugeot, if they succeed in moving capacity from Ryton to Slovakia may, we suspect, be the first of many such moves. The received wisdom in the automobile sector holds that in order to compete with low cost competition from elsewhere in the EU, UK plants will need to achieve lower unit costs and higher productivity. Whilst there may be some scope for improvement here, the fear remains that the UK is competing on an unequal playing field here with countries where low labour costs are buttressed by lower costs related to lesser health and safety and environmental standards than a UK manufacturer would be expected to bear.

HOW COMPANIES ARRIVE AT INVESTMENT AND CLOSURE DECISIONS IN THE UK AND ABROAD

Again, a variety of factors can be adduced that drive the investment decisions within the sector that result in new plants opening or existing ones being expanded, reduced or closed. The proximity to markets, the availability of skilled labour, the quality of supply chains, the provision of financial incentives, the availability of suitable sites, the effects of labour laws and the nature of the industrial relations system have all been put forward as possible explanations why country X was preferred over country Y and location A over location B. Moreover, no one in the UK auto industry unions (over the age of 50) will forget the crucial intervention in 1976 of the then Prime Minister James Callaghan in securing Ford’s investment in a new engine plant in Bridgend when the company had seemed set to locate this plant in Spain.

More importantly perhaps for the Committee to consider is why the UK seems to perform relatively poorly in closure decisions. The term “easy in and easy out” could have been coined for the UK and the automobile sector in particular. The first real indication of this unhappy state of affairs occurred a few years ago when Ford were considering closing their plant in Halewood following their decision to locate production of the Focus elsewhere in the EU. The TGWU, along with the other unions in the sector, began to look at the relative levels of “exits costs” that Ford would incur associated with the different options they had considered. It became clear that it was much less costly to close a UK plant compared to a plant in Germany or Spain. In the UK the amount of time given over for consultation on such a decision was 90 days. By contrast, in Germany the company would be bound by law to gain agreement from the works council in the plant threatened with closure and would have had to explore in great detail alternative strategies. The conclusion was that it would take around a year at least to bring about a closure in Germany compared to three months in the UK. Evidence of the different timescales that apply in closures surfaced more recently when Marks and Spencers tried to close its stores in France. M&S found that the courts in France forced them to rescind their closure notices until they had been through a consultation process that was much longer than M&S had been used to operating in the UK.

To summarise then and to put it simply, the evidence shows that it is cheaper and easier to close a plant in the UK than in most other parts of the EU. Whilst this position continues, manufacturing plants in the UK will always be at a higher risk of closure than their counterparts in the EU and the job security of workers in the UK will inevitably be inferior to that of workers in the same sectors elsewhere in the EU. This raises the obvious questions—is this fair and if it isn’t, how much longer can it go on?

Finally in this section we need to remind the Committee of the continuing influence of exchange rate volatility on corporate investment decisions. BMW certainly argued very firmly that the Sterling-Euro exchange rate was a major factor in their decision to dispose of MG Rover. Moreover, union officials in the industry have been hearing that the current Sterling-Dollar exchange rate is currently threatening to undermine Jaguar and LandRover sales in the key US market. The strength of the pound on international markets does have negative consequences for UK manufacturing capacity.

THE ROLE PLAYED BY TRADE UNIONS IN THE INDUSTRY

Trade unions in the automobile sector continue to play their normal role in defending and advancing the interests of their members and ensuring decent terms and conditions of employment for the workforce as a whole. We do this in time honoured ways through collective bargaining, joint consultation and by the operation of jointly agreed disciplinary and grievance procedures. The needs of the automobile industry are well understood by the unions and we have in the last couple of decades moved alongside the employers in developing and supporting training systems that ensure high levels of skills and competence. Similarly, we have helped transform the sector's work organisation to the point where the UK has some of the most productive auto plants in the world. Nobody in the sector would disagree that the unions have been vital in the rejuvenation of the sector that, as a result, has witnessed important inward investment in particular from the Japanese. Indeed, unions have played an important role in helping to attract that investment.

We have helped achieve ground breaking agreements on family friendly policies and on promoting and supporting cultural diversity in the sector's workforce. In addition, we play a full role representing the UK workforce on European Works Councils and on the international and European trade union bodies that deal with the sector—most obviously the International Metal Workers Federation and the European Metal Workers Federation. In these latter ways in particular, the unions have benchmarked the UK's automobile sector against the best in Europe and elsewhere. We have used this knowledge to drive up standards in the UK to the point where we are competing in terms of both productivity and social dividends. In our view the very real improvements we have made in developing a highly skilled and committed workforce are now at risk from the unconstrained de-location policies that we have seen emerge in recent years and are typified by the Ryton and Ellesmere Port announcements.

THE APPROPRIATE RESPONSE OF GOVERNMENT TO CLOSURE ANNOUNCEMENTS OR SPECULATION

There are a number of ways that governments could respond to closure announcements or the speculation that frequently is allowed to foment prior to an announcement. When a significant closure (say involving 250 jobs or more) is announced and is contested by the unions and the workforce the government should ensure that an independent review of the proposal is set up. This would allow a proper examination of the case for closure and would enable unions to participate fully in probing the merits or otherwise of the company's arguments before any final decisions were taken. Where the case for closure was supported the unions and the workforce would at least be in a stronger position to explore alternatives or be able to negotiate an orderly closure process with much less of the rancour and lingering uncertainty that so often characterises plant closures. Where the review found the case for closure was weak, the company and unions would be directed to re-examine the case for continuation and in particular to identify the changes that might be necessary to keep the plant open. Some modest government funding to buy in expertise to support this process would in our view be appropriate here. It will be important, for example, for unions to have recourse to expert advice where transfer pricing may be a critical factor in rendering a particular plant unviable. Indeed, this is something that should be probed with regard to the current Peugeot proposal.

It is worth pointing out that there is a precedent within the UK for such an independent review mechanism. The NCB in the 1980s had to subject all proposed closures of coal mines to a colliery closure review board. This established whether or not there was an economic case for closure. We are suggesting here something similar for the automobile sector but would see no reason why it should not be more generally extended to other parts of the economy.

Dealing with speculation is, by definition, rather more difficult for governments. However, in the UK a government in receipt of a complaint from a trade union concerning closure speculation could and should insist that the company involved immediately engages with the union and the workforce along the lines set out in the Information and Consultation Regulations that came into force last year. For too many years, unions have been hobbled by a lack of information and by employers unwilling to engage in early consultation regarding restructuring and investment strategies. In this regard, the committee might usefully consider what strictures would be appropriate on companies that failed to comply with I&C Regulations. Currently the level of fines proposed for companies that are found to be in breach of these regulations are set at far too low a level.

Beyond this, we believe there is now a strong case to re-examine the notion of providing for workforce representation on the boards of MNC's where they have significant investment and capacity in the UK. This is not a new idea and we are of course aware that it was last investigated in the UK nearly 30 years ago by the Bullock Committee. In the meantime, the practice of worker representatives on the supervisory boards of companies has continued to operate with considerable success elsewhere in the EU—most notably in Germany under that country's Co-determination legislation. There is no doubt that workers in the UK are at a considerable disadvantage compared to their counterparts elsewhere in the EU as result of the UK's refusal to introduce comparable legislation. We are firmly of the view that it would now be timely to reconsider board level representation of the workforce along the lines of the model we have seen working in Germany. MNC's in the UK could hardly complain since they already operate the system elsewhere in the EU. Moreover, it would represent a positive harmonisation of an important representational right that would go a long way to providing the workforce with an early indication of the factual background to investment strategy and hence a chance to have some influence on the direction of subsequent decisions.

This is surely a more responsible and effective process than the current position where UK workforces and their unions are kept in the dark until after key decisions are taken unilaterally by the company involved. It is perhaps worthwhile reminding the Committee what the European Parliament and Council said four years ago on this practice, namely:

“The existing legal frameworks for employee information and consultation at Community and national level tend to adopt an excessively “*a posteriori*” approach to the process of change, neglect the economic aspects of decisions taken and do not contribute either to genuine anticipation of employment developments within the undertaking or to risk prevention” [Joint text EP and Council 23 Jan 2002].

Notwithstanding that the EP and Council’s critique was aimed at even the better systems of information and consultation within the EU, we would strongly urge the committee to reopen the debate in the UK as to how best we can ensure the workforce in the UK and the unions that represent them are not forced to rely on rumour and innuendo as the only means of forewarning of changes in a company’s investment strategy.

WHAT THE GOVERNMENT CAN DO TO HELP THE WORKFORCE AND THE SUPPLY CHAIN IF PLANTS CLOSE

There is now considerable experience of mobilising various resources locally and regionally to soften the blow that a plant closure inevitably creates for the workforce and the communities affected. It has to be said though that for all the sterling efforts of the task force that was set up to deal with the Longbridge closure, very few of the workers involved have gained alternative jobs with comparable terms and conditions. Moreover, it is too early to say just how long some of the jobs will last that have been taken by the 50% of the ex-Longbridge workforce the task force is so fond of claiming it has helped. In our view, worthy though their intentions are, task forces of the kind we have seen at Longbridge provide little more than palliative care for workers who deserve a great deal more.

In our evidence to the Trade and Industry committee inquiry into MG Rover earlier this year, we argued strongly that workers should become preferred creditors in the case of insolvency. We repeat this point for the status that workers should be accorded in the case of closures whatever the reason given for the closure. It is indefensible that the workforce is not given the highest priority when closures are put into effect and particularly so when, as is the case with Ryton, an evidently profitable plant is to be sacrificed in pursuit of even greater profits. In our opinion, proposals to close profitable plants should always be referred to an independent review.

What the workforce needs in the automobile industry (or any industry or service) is the confidence that they will not be used and abused by an employer and that if they are then someone will step in and fight their corner. Trade unions have been trying to ensure this confidence for more than a century. The dominance of multi-national companies and the latest phase of globalisation have quite clearly complicated this process. Governments in the UK though can and in our view should support trade unions in this basic endeavour. It is surely time to shift the balance of government effort more towards protecting workers than simply allowing MNC’s to rampage through our labour markets with no thought for the consequences of their actions. Putting some restraint on plant closures and restructuring, as suggested here, would make a much needed start in redressing the balance and would perhaps provide a bulwark against the further diminution of our much battered manufacturing sector. It would provide too, a much needed endorsement from the UK of the European “social model” and a welcome indication that the UK government emphatically rejects the idea of a “race to the bottom” as the only option for UK manufacturing and the workforce that it supports.

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