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Hitachi suffers setback over UK train deal

By Mark Odell, Transport Correspondent

Hitachi's attempts to establish itself in the lucrative European rail market have suffered a setback after the UK government admitted it may not sign off on part of a key contract for new trains worth more than £2bn.

Earlier this year, the Japanese manufacturer secured an initial order for 596 carriages worth £4.5bn as part of the UK's largest ever train procurement programme, dubbed the Intercity Express Programme.

It also secured an option for a further 270 vehicles.

The complex deal means it had to split the financing of the firm order into two parts with just under half the carriages still awaiting financial close, which is due next year.

The 596 new carriages will from 2018 replace 1970s vintage intercity rolling stock that provide services between London and the west of England and Wales, as well as some of the rolling stock on the route between London and Edinburgh.

It was envisaged that the option for 270 vehicles would replace the more modern InterCity 225 trains, built in the late 1980s and early 1990s, on east coast intercity services from 2020.

But it has emerged that the UK government is weighing up whether to exercise those options, dealing a blow to Hitachi's hopes of establishing itself as a serious competitor to its two main rivals in Europe: Germany's Siemens and Canada's Bombardier.

Among the big European rail markets, Hitachi has so far only secured a position in the UK. Bombardier and Siemens, which both have train-making units based in Germany, have lobbied against Hitachi gaining access to the European market because Japan has so far resisted attempts to open up its domestic rail market.

Simon Burns, the UK rail minister, told the Financial Times that the government remained "committed to providing a modern intercity train fleet for the east coast main line" but warned that "as part of our commitment to secure the best deal for passengers and taxayers, we are also looking at a range of options to modernise the rest of east coast's existing fleet."

One proposal is being put forward by the owner of the existing fleet of 225s, Eversholt Rail, a rolling stock leasing company owned by a consortium of private equity groups.

Eversholt is offering to invest £120m to refurbish the existing fleet and lease it at a third of the cost of the IEPs, promising savings of just under £170m per year.

Eversholt is concerned that the government's commitment to the IEP programme – which will also include a £70m factory to assemble the trains built near Darlington, in northeast England, employing 700 workers – would skew ministers to favour the IEPs when it came to exercising the option.

"All we want is an open competition," said Steve Timothy, a senior executive at Eversholt. He said the cheaper option should be attractive to ministers who are looking to cut the cost of running the railways.

Alistair Dormer, chief executive of Hitachi's European rail business, admitted the IEP would be more expensive to lease or buy than the 225s but pointed to the other advantages of running new trains, such as reliability.

"From an economic viewpoint, new trains have a higher price to buy or lease than 20-year-old trains but when all costs are considered we believe that new trains are more cost effective and deliver higher passenger growth. A comparable industry is short-haul aviation. Old aircraft are much cheaper to lease than new aircraft, but it is telling that the extremely price sensitive low-cost operators are running very new fleets of aircraft," he told the FT.

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