House of Commons
Business and Enterprise Committee

The Automotive Industry in the UK

Ninth Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The Business & Enterprise Committee

The Business & Enterprise Committee was appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

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1 Introduction

1. The Automotive Assistance Programme was launched on 27 January 2009, as an attempt to support the industry through the economic crisis. We announced our inquiry into the Automotive Assistance Programme (AAP) on 25 March 2009. We invited evidence on the following points:

- the definition of ‘eligible companies’;
- the application criteria for the types of projects that are covered by the AAP, including the focus on low-carbon projects;
- whether the £5 million threshold excludes too many SMEs;
- the criteria used for awarding loans/loans guarantees, and how this compares with the criteria used by the EIB;
- the degree to which the award of support through this scheme has prevented, or is likely to prevent, companies from abandoning projects or moving them out of the United Kingdom;
- whether other measures, such as scrappage or support for car finance companies, are required; and
- any other views stakeholders think the Committee should be aware of.

2. Our intention was to hold a single session on the effectiveness of the programme itself. However, events have moved fast. Since we took our decision, the New Automotive Innovation and Growth Team (NAIGT) (an industry-led project facilitated by the Department for Business, Enterprise and Regulatory Reform) has presented its report on the future of the automotive industry in the UK. The proposed takeover of LDV has failed and the company has gone into administration. General Motors, which has two major plants and other facilities in the United Kingdom, has also gone into administration. In the light of this we extended our evidence taking, and widened the scope of our inquiry.

3. We took evidence from Professor Richard Parry-Jones CBE, the Chairman of NAIGT, to set a context for the inquiry. We then travelled to Birmingham where we saw Mr David Smith, Chief Executive, Jaguar Land Rover, Mr Paul Everitt, Chief Executive, of the Society of Motor Manufacturers and Traders (SMMT), Mr Graham Smith, Senior Vice President, External Affairs, Toyota Motor Europe, and Mr Paul Williams, Chief Executive of the Retail Motor Industry Federation. The next day we visited the North West Region where, in addition to visiting Leyland Trucks, we took formal evidence from Mrs Andrea Paver,

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The New Automotive Innovation and Growth Team (NAIGT) was launched in April 2008 to facilitate the development of a collective strategic view from the automotive industry on the innovation and growth challenges that it faces in the period to 2025. It was an industry-led project facilitated by the Automotive Unit (AU) within the Department for Business, Enterprise and Regulatory Reform (BERR). The NAIGT’s work was being delivered through an industry-led Steering Group of senior industrialists, academics and financial analysts experienced in the automotive sector. http://www.berr.gov.uk/whatwedo/sectors/automotive/naigt/page45547.html
Managing Director and Mr Denis Culloty, Chief Engineer, of the company and Mr Steve Barfoot, United Kingdom Country Manager, PACCAR Finance International Limited (Leyland Trucks is part of the PACCAR Group). We also took evidence from Mr Chris Gately, Managing Director, Multipart, and Mr Mark Hughes, Executive Director, Economic Development, Northwest Development Agency. We concluded by taking evidence from Mr Dave Osborne, National Officer for Vehicle Building and Automotive and Mr Roger Maddison, National Officer for Motor Components, Unite the Union and the newly appointed Economic and Business Minister, Ian Lucas MP, accompanied by Ms Jane Whewell, Director, Automotive Sector, and Mr Ian Gregory, Director, Automotive Assistance, of the Department for Business, Innovation and Skills. We are grateful to all those who submitted written and oral evidence, and we are particularly grateful to the organisations which hosted visits or evidence taking away from Westminster.

The current state of the UK automotive industry

4. The Government told us that the manufacturing part of the automotive industry directly employs around 180,000 people; the NAIGT report estimates that if a wider range of jobs are included the number directly supported by the automotive industry is around 384,000. The Retail Motor Industry Federation told us “The annual turnover of the United Kingdom retail motor industry is £14 billion and it employs 570,000 people in 70,000 businesses”. While jobs in motor retail or services will remain whatever kind of cars are sold, the NAIGT report suggests that 333,000 jobs will be at risk in future if manufacturing moves offshore. A large proportion of United Kingdom production is exported; for example, Toyota exports about 85% of its United Kingdom production, and Jaguar about 80% of its products.

5. As the NAIGT report notes “the UK automotive manufacturing sector has moved further away from volume car production by indigenous companies, towards greater dependence on inward investors, and a bias towards luxury niche vehicles, together with engine manufacture”. Professor Parry-Jones told us:

we make three million engines a year which is as good as you could ever hope for in any given country. Most of those are small engines for small cars and most of them are exported. On the vehicle assembly itself, […] Because of the historical problems I have described, we have kind of retreated to an assembler of global, mass-market vehicles and a developer of niche premium products such as Land Rover, Jaguar and Aston Martin.

The United Kingdom has the second largest premium car industry in the world, after Germany. Scarcely any of the indigenous automotive manufacturers are not ultimately

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2 Ev 64 [BERR]
3 NAIGT report, p 25
4 Ev 87 [RMIF]
5 Q 62
6 P 27
7 Q 3
8 Q 57
owned by companies based outside the United Kingdom. The Committee welcomes the contribution that these foreign-owned companies make to the United Kingdom economy and the United Kingdom automotive sector in particular.

6. The UK industry benefits from the presence of many international companies who have based major assembly plants in the United Kingdom. There is also an extensive supply industry. United Kingdom suppliers have the advantage of producing high quality products and being close to users. Multipart has a network of 900 suppliers in the United Kingdom. The challenge is to ensure that the country remains an attractive place for investment, and that the component supply chain remains strong enough to serve the vehicle assembly plants. As Mr Smith said:

Manufacturing operations depend on large numbers of components. We have approximately 250 suppliers across Europe, a good number in the UK, and without that supply infrastructure, and, again, close to the manufacturing operations where logistics make sense, we would not be as successful and would not have the same capability and that is part of it.

Our witnesses shared the NAIGT’s concern that the supply chain was “hollowing out” and that this was “probably the biggest single threat to the world class industry and the world class manufacturing operations that we have here at the vehicle assembly and engine manufacture level”.

7. If the UK automotive industry dwindles further, then it will not only be employment which suffers. Automotive companies are responsible for high levels of United Kingdom R&D. The 2008 R&D scoreboard notes:

R&D spending by companies in the UK850 was dominated by five sectors: pharmaceuticals and biotechnology, aerospace and defence, software & computer services, fixed line communications and automobiles and parts, which together accounted for 60% of R&D (see Figure 2). The pharmaceuticals and biotechnology sector was by far the largest investor, accounting for 37% of the UK850 total.

Automotive R&D, like the other three leading non-pharmaceutical sectors, accounted for 6% of total R&D. Ford Motor, Jaguar and Land Rover all appear in the Top 20 companies carrying out R&D in the United Kingdom.

8. Not only does the innovation from that R&D strengthen the UK automotive industry itself, it can support other United Kingdom industries. The expertise and equipment needed by the automotive industry underpins many other manufacturing sectors. As Professor Parry-Jones told us:

What are the core processes in any manufacturing industry? Stamping metal, forming it, joining it, machining it, forging it and casting it. If you do not have those

9  QQ 194-198  
10  Q 56  
11  Q 69, see also Q 162  
five competencies in your country, it is very hard to be an internationally effective manufacturing economy. Those five core processes of manufacturing are all underpinned by the auto industry. The auto industry has been the innovator in all five of those over the last 100 years. Most other manufacturing industries have piggy-backed on the innovation developed by the auto industry.\textsuperscript{13}

**The future of the industry**

9. Globally, the automotive industry is clearly going to remain a key manufacturing industry for the foreseeable future. As the NAIGT report says, cars provide 90\% of all passenger transport needs and commercial vehicles over 90\% of all freight transport needs. There may be some modal switch, but over much of the United Kingdom the car or van will remain the most practical solution.\textsuperscript{14} The challenge will be to ensure the automotive industry in the United Kingdom, from major manufacturers to small suppliers, remains healthy. In the longer term, the key to this will be to develop a lead in low carbon technology.

10. Mr Everitt, Chief Executive of the SMMT told us:

   One of the limited number of very positive outcomes from the current crisis is a recognition that we cannot live by financial services alone and that to succeed long-term and to generate wealth, prosperity and jobs in this country we need the manufacturing sector. The reality is there are relatively few globally competitive manufacturing sectors in the UK: automotive, aerospace and pharmaceuticals are absolute leaders. Not acting, and particularly not acting in a strategic and long-term way, is a huge risk for us as a country.\textsuperscript{15}

11. It is clear that the United Kingdom automotive industry is at a crucial moment. As the NAIGT report says:

    The UK automotive industry has transformed itself in the last decade from a sector with turbulent labour relations and a poor reputation for quality and productivity to one that is fully competitive. Independent external reliability surveys put UK built cars at the top of the rankings, and productivity of labour relations are among the best in the world.\textsuperscript{16}

However, there is over-capacity in the global automotive industry, and the recession has revealed that this over-capacity is not sustainable. The NAIGT report identifies the following weaknesses in the sector:

- lack of any global volume vehicle manufacturers headquarters in the United Kingdom;

\textsuperscript{13} Q 15  
\textsuperscript{14} Q 7  
\textsuperscript{15} Q 54  
\textsuperscript{16} NAIGT report, p5
• lack of critical scale of vehicle manufacture (1.7 million versus 4-8 million for France, Germany, Japan);

• shortage of sufficiently skilled workers—shopfloor and R&D;

• lack of an adequate supply base;

• historically high interest rates and strong currency that mitigate against export profitability;

• lack of orchestrated collaboration among manufacturers and tier one suppliers in the United Kingdom;

• The last weakness it identifies most concerns us:

• Government ambivalence towards the automotive sector and the absence of a consistent long-term strategic policy framework.

12. This Report is a rapid response to an urgent situation. It would be inappropriate for us to comment in detail on commercial negotiations relating to individual companies. We are not in a position to comment on the detailed proposals in the NAIGT report. If the problems identified by the NAIGT can be solved, then we believe UK industry could and should flourish. As well as the reliability, high productivity and good labour relations identified above, the UK industry is diverse, has globally competitive vehicle and power train R&D, and strong premium brands. But its long-term future depends on the Government taking the right actions now to ensure that the industry is sustained through this period of crisis. This Report assesses government policy so far.
2 The Automotive Assistance Programme

13. The Automotive Assistance Programme was announced on 27 January 2009 and received state aid approval from the European Commission on 27 February 2009. The Government told us:

The Automotive Assistance Programme (AAP) is a support package that offers a total of £2.3bn of loan guarantees or loans to the UK automotive sector, which are available for draw down over a two-year period ending December 2010. The final maturity dates of such loans and guarantees can extend beyond 2010. The scheme is designed primarily to use Government guarantees to unlock up to £1.3bn loans from the European Investment Bank (EIB) and a further £1bn in loans from other lenders. In exceptional circumstances, Government loans may be provided under the AAP. 17

14. To be eligible, a company should have a turnover of at least £25 million per year, and, at least at the start of the scheme, should be proposing an investment of at least £5 million. Further criteria are:

- Investment proposals should be consistent, deliver new activity or investment that would not happen without the provision of Government support and be consistent with the Government’s objectives for the loan carbon economy.

- Proposals should be in need of a Government guarantee in respect of lending from the EIB or another bank; as a general rule, it is not intended that guarantees would exceed 75% of any loans, although the Temporary State Aid Framework provides flexibility to consider guarantees up to 90%. In addition, the Government is also prepared to consider direct loans in exceptional circumstances.

- Companies should be viable as at 1 July 2008.

Projects need to be consistent with the Government's plans for a low carbon economy. In the words of the Government:

Principally the £2.3 billion support package aims to support the continued delivery of the investment vital to ensure that the UK industry emerges from the current downturn with the skills and technology base needed to be competitive in the global automotive market. 18

Are the criteria right?

15. In principle, supporting continued investment to ensure that the British automotive industry is well placed to play a leading role in any upturn should be sensible. Moreover, the requirement that projects should be compatible with the Government’s plans for a low carbon economy fits with the NAIGT’s vision of:
a competitive, growing and dynamic industry making a large and increasing contribution to the UK’s employment and prosperity, playing a decisive global role in developing exciting, low carbon vehicle transportation solutions.\textsuperscript{19}

There was widespread support for encouragement of green technologies;\textsuperscript{20} Mr David Smith, Chief Executive of Jaguar Land Rover agreed that “environmental innovation is absolutely critical to our future”.\textsuperscript{21} The CBI considered that:

The offer of loans and loan guarantees within the Automotive Assistance Programme is a reasonable policy response to the difficult credit conditions facing car-makers and suppliers. Rather than propping up failing companies, the scheme should help to unlock funds that will allow viable firms to continue with their investment plans. In linking funds to only ‘low carbon’ related projects, the government is encouraging the industry to make transformational investments to position the United Kingdom as a major player in a future low carbon economy, which is welcomed by the CBI.\textsuperscript{22}

As Mr David Smith said:

if we want to seriously have a low carbon vehicle industry in the United Kingdom we are going to have to invest in it. The Germans are investing hundreds of millions of pounds in their vehicle technologies and there are similar investments from the Japanese, the US and certainly the French. We either choose to make these investments now or we do not.\textsuperscript{23}

16. In contrast, Mr Culloty, Chief Engineer of Leyland Trucks, pointed out that low carbon vehicles might be important, but there were wider issues to consider and that “We would encourage a broad perspective to include advanced safety concepts, road-friendly concepts and more beyond just low carbon vehicle initiatives alone.”\textsuperscript{24} He also called for “better focused and targeted grant support for real added value technical projects. It would not just be low carbon and electric trucks that may or may not happen, it would be optimising the practical real solutions that we know will be on the road in the next four to five years.” We agree that it is sensible to use government support for the automotive industry to foster innovation, and that the emphasis on low carbon technology is appropriate. This approach is a key part of the package. However, it is not all that is required; other innovative technologies, such as those relating to safety, should also be eligible for support.

17. Witnesses were also concerned that the eligibility criteria were set too high, both in terms of the turnover required of companies involved, and in terms of the size of the project proposed. The Enterprise Finance Guarantee Scheme, which provides guarantees for SME lending in all sectors, covers companies with a turnover of up to £25 million, but

\begin{itemize}
  \item \textsuperscript{19} NAIGT report, p 17
  \item \textsuperscript{20} Ev 88 [Semta], Ev 83 [GLA], Ev 89 [SMMT]
  \item \textsuperscript{21} Q 60
  \item \textsuperscript{22} Ev 74 [CBI]
  \item \textsuperscript{23} Q 85
  \item \textsuperscript{24} Q 236
\end{itemize}
only deals with loans of up to £1 million. While the Department had said it would be flexible about the threshold for applications, many witnesses felt there was an unhelpful gap between the two schemes. Mr Ian Gregory of the new Department for Business, Innovation and Skills (BIS), told us there was a concern that setting a lower threshold:

might swamp the scheme with a lot of very small applications, but we are entirely happy to discuss projects smaller than that, and I know the Minister wants me to look at any flexibility on that.25

The new Minister emphasised that:

The message going out today is, “Don’t let that £5 million barrier prevent you from approaching the scheme.”26

However, at the time of writing, the information on the BIS website says quite clearly “Projects must be for a minimum value of £5 million.”27

18. As noted above, the NAIGT report drew attention to the “hollowing out” of the supply chain in the United Kingdom. It warned that:

a competitive UK supply chain is essential to retaining an increasing investment by vehicle manufacturers in the UK, as well as maximising the added value in that supply chain. Supply chains, rather than individual companies, compete on the international stage.28

Our witnesses agreed that the supply chain needed to be strengthened and supported. We ourselves are concerned that if the threshold for projects which can be supported under the AAP is too high, supply chain companies will not be able to access vital support.

19. We also heard that the criteria for support might mean the most innovative companies were excluded. Semta, the Sector Skills Council for science, engineering and manufacturing technologies in the United Kingdom, told us that “given the focus on innovative low carbon investment” there was disappointment “that smaller companies, which are developing exciting new technology in this area, are not able to access the funding”.29 Mr Gately of Multipart told us that the companies too small to qualify were “where the innovation starts”30 and “if you are going to do something real you have got to push it hard by looking at those small organisations that will be innovative and drive change”.31

20. We understand the Government’s initial concern that if eligibility criteria were set too low the scheme would be swamped. However, there is too great a gap between eligibility for the Enterprise Finance Guarantee Scheme, and eligibility for the Automotive Assistance Programme. We recommend that the loan guarantee threshold

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25 Q 395
26 Q 395
28 P 49
29 Ev 88 [Semta]
30 Q 209
31 Q 212
for the Automotive Assistance Programme should be lowered urgently to £1 million. Moreover, the Government has said that under exceptional circumstances it may make direct loans to automotive companies. There should be no lower limit on such loans.

**Other assistance**

21. Witnesses also warned that assistance to the automotive industry was required urgently, and that in the short term more was needed. Professor Parry-Jones told us:

> The speed of response of the various initiatives that have been requested by the industry has not been quick enough. Time is of the essence during this crisis because this industry probably more than most has been hit by the double whammy of collapsing consumer confidence and therefore collapsing demand and of course the shortage of credit availability for industry. The cash flow issues that rapidly plunging demand have imposed on the industry have really high fixed costs. It is very difficult to cut cash requirements in this industry. That has been exacerbated by the fact that credit lines cannot be extended.\(^{32}\)

22. Like other witnesses, Professor Parry-Jones suggested that other types of help were also needed. He suggested help was needed to provide access to finance for car buyers, and finance was also raised by other witnesses. There was support for some sort of scrappage scheme. Both these issues are discussed later in this Report. **Companies need to survive this recession in order to help produce the low carbon vehicles of the future. Some will need help with their current range of products. We expect the Government to show a pragmatic approach to ensuring the future of the industry; its help needs to be swift, and it needs to deal with current problems. The AAP should be flexible enough to support industry in other ways than simply through guaranteeing loans to support investment in low carbon technology.**

**The scheme in practice**

23. Despite the high hopes for the AAP, the scheme has been slow to produce results. When we took evidence from the Department, the Chairman asked how many projects had been supported so far:

> **Ian Lucas**: I think it is a round figure.

> **Mr Gregory**: It is a round number; it is none.\(^{33}\)

On 17 June, in response to a PQ, we were given the following information:

> We are currently in detailed discussions with a number of businesses about their applications for funding under the Automotive Assistance Programme (AAP).
There have been more than 70 further requests for information on the scheme with the AAP team working with companies resulting in around 15 approaches being developed into detailed discussions with BIS for serious applications.

The details are commercially sensitive and subject to agreement. However, some details about the support provided under the AAP will become available in due course.\textsuperscript{34}

24. The Department has made reasonable attempts to publicise the scheme. Officials have tried to reach out to the industry, approaching the SMMT to use their networks to publicise the scheme and briefing RDAs about the support available.\textsuperscript{35} Given the importance we place on the supply chain, we were particularly pleased to learn that they had used a Jaguar Land Rover supplier seminar to ensure that suppliers were aware of the scheme and were in talks with other OEMs\textsuperscript{36} about the possibility of working with them to reach their supplier base.\textsuperscript{37} In addition, Ms Whewell told us:

I think one other point to flag is that Ian Pearson\textsuperscript{38} has also written specifically to the supply chain via the manufacturers on more than one occasion setting out a complete list tailored to the automotive sector of all the support available. That has been sent to the manufacturers, who have undertaken to send it to their entire supply chain and we have evidence that it has been getting through.\textsuperscript{39}

25. It was also clear that not all the delays arose from the Government side. Mr Gregory told us that at least two companies in negotiations with the Department had asked them to be delayed to allow time for them to approach the banks and that:

We have been proceeding in almost every case at the pace which has been dictated to us by the company. The last thing I want to do is to cut across their commercial relationships with other customers or with banks and queer that pitch.\textsuperscript{40}

26. There are particular difficulties in that a loan guarantee scheme depends on the existence of loans to guarantee. The SMMT told us that “the banking sector is currently in many cases reluctant to provide credit to companies within the automotive sector”,\textsuperscript{41} The Government has attempted to address this. It has involved banks in publicising the AAP, and ensured that they attended the supplier seminar in March.\textsuperscript{42} Indeed, Mr Gregory went further:

a bank might take the view at a corporate level that it wishes to be helpful to the sector. It is very difficult to translate that on the ground into a particular person in a

\begin{itemize}
  \item 34 HC Deb, 17 June 2009, col 416W
  \item 35 Q 351
  \item 36 Original Equipment Manufacturers – essentially, vehicle producers.
  \item 37 Q 50
  \item 38 The Minister previously responsible for the automotive industry.
  \item 39 Q 353
  \item 40 Q 389
  \item 41 Ev 83 [GLA], see also Q 71
  \item 42 Q 391
\end{itemize}
bank thinking about lending to company X for project Y. Where we can, we will get involved in those relationships. We want to be step by step with the bank as they are considering the proposition. As the Minister has already said, if it proves that the bank is simply unwilling to finance, we do have in extremis the ability to make a direct loan and it seems to me in that case the additionality argument is quite strong because clearly the bank is unwilling in a particular proposition to loan.43

27. The Government ascribed the delays in advancing help under the scheme to individual companies’ desire to deal directly with their own banks. Nonetheless, the industry considered that although the AAP was “exactly what we were looking for”,44 administration of the scheme was imperfect. There was a fear that the criteria were not as flexibly interpreted as they might be, or might be elsewhere.45 There is certainly a widely held view that the scheme is slow and bureaucratic.46

28. The SMMT told us:

Some companies have found it initially difficult to gain access to relevant information and to meet all the eligibility criteria. The process has been improving but such initial obstacles have had an impact on take-up.

Even though the AAP directorate has proved helpful in assisting and directing companies through the application process, for many of our smaller members the application process remains confusing and unclear and all the companies who have shown an initial expression of interest have found the process longer than anticipated.47

General Motors pointed out that the delay was inherent in the way the scheme worked:

To be able to apply for AAP support companies must provide evidence of support from a bank. The AAP requires a company to have approached a bank (most will already have exhausted all opportunities before approaching the AAP) for support and if rejected, enquire whether support could be achieved through an HMG loan guarantee. Although we understand that BERR must ensure enough evidence is provided to satisfy requirements that tax payers money will be protected the balance between the time to undertake this and the rate at which the industry is continuing to decline must be considered.48

29. Moreover, where negotiations had started, progress appears to have been slow and difficult. It does not seem to have taken account of strategic priorities. Professor Parry-Jones told us:

43 Q 391
44 Q 69
45 Q 82
46 Q 218
47 Ev 89 [BERR]
48 Ev 79 [General Motors]
The large car sector in many ways is an even more important sector to develop the technology for lower carbon vehicles than the small car sector. That may sound surprising and counter-intuitive. Large car customers are more affluent than small car customers. In the early stages of deploying new technology it is inevitably more expensive for two reasons. One is because it is early we have not learned how to make it cheap yet and the second is it is small scale so we have not benefited from economies of scale. [...] Jaguar Land Rover first of all needs to reduce the carbon emissions in its fleet to be competitive with Mercedes, BMW and Lexus and, secondly, it provides the industrial base opportunity for Britain to participate in that in real time with regard to piloting in the premium sector. If we miss that opportunity it will be really difficult to piggy-back on it for the volume applications later.49

30. Despite its strategic importance, and although the Government considered that Jaguar Land Rover was a “top priority”, the company told us it had proved impossible to conclude negotiations between the company and BERR about the terms of a guarantee,50 even though it had “already received loan approval from the EIB for a substantial facility, £340 million, against our future technology investments. To unlock that we have to have the loan guarantees in place from the Government”.51 The premium car sector and its supply chain is likely to be the source of many of the innovations which, used more widely, will aid the transition to low carbon vehicles. The fact that the United Kingdom has the second largest premium car industry in the world should be seen as a key strategic strength. Jaguar Land Rover has already secured funding for its future technology investments; all that is under discussion is the Government’s guarantee. As at 7 July 2009 there has been no indication that there will be such a guarantee: we are astounded that it has taken so long to arrange this, particularly since the support needed is so limited.

31. It is clear that the Government has taken a number of sensible steps to make the AAP successful. It is working with a wide range of people within the industry, it has not forgotten the need to reach the supply chain, and it is trying to involve the banks in the scheme. However, we cannot discount the industry’s complaints about the delays in agreeing support measures, and we are profoundly disappointed that to date not one single penny has been advanced through the scheme. We hope that this will change rapidly.
3 Other support for the automotive industry

32. The AAP is not the only source of government support for the industry. As the government memorandum said:

Amongst the wider automotive interventions are the Enterprise Finance Guarantee (EFG), Automotive Access to Finance, Scrappage, and the Trade Credit Insurance Top-up Scheme. The EFG scheme is available for viable companies with a turnover of up to £25 million, and for loans up to £1 million, that in normal circumstances would be able to secure lending from banks but who cannot secure bank lending in the current economic climate. The AAP also sits alongside the Government’s wider commitments on Ultra Low Carbon Vehicles, and Investing in a Low Carbon Britain. 52

We have asked the Government to quantify the support received from other measures, if it was possible to do so. The supplementary memorandum published with this Report gives some idea of the range of help offered. The programmes directly relating to the automotive industry are:

- £300 million for the Scrappage Scheme;
- £250 million for ultra low carbon vehicles and infrastructure;
- £7.7 million taken forward by the Centre of Excellence for Low Carbon and Fuel Cells;
- a £20 million Department for Transport public procurement programme; and
- more than £45 million for the Premium Automotive R&D programme.

In addition, the industry can also access more general government support through the Enterprise Finance Guarantee Scheme (supporting up to £1.3 billion of bank loans), the Working Capital Scheme (supporting up to £20 billion of short-term bank lending for companies with a turnover of up to £500 million) and the Capital for Enterprise Fund, which has £75 million of equity. 53

Support for LDV

33. At the beginning of the year it became clear that LDV, a Birmingham-based van manufacturer employing 850 people directly was in severe financial difficulties. Although it refused the company’s request for a £30 million loan, 54 the Government made available a £5 million bridging loan to allow time for Weststar, a potential buyer of LDV, to secure

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52 Ev 64 [BERR]
53 Ev 103 [BIS]
54 BBC website, 23 February, 2009
finance. In the event, only part of this was drawn down as the company ultimately decided that it would not be able to secure the funding to run the business. Ms Whewell told us:

The company has been loss-making since 2002. It clearly needs major investment. It has very considerable debts. It is important that it has long-term commitment from a new investor. There was more money available to be drawn down to give longer for decisions to be taken. They chose not to draw that money down.\textsuperscript{55}

The Minister assured us that:

I think the trade unions are on record as saying the Government was very committed and did an awful lot to try to resolve the situation with LDV. As far as I am concerned, speaking personally, I have an open door if there is any individual case, and certainly from my discussions with officials so far we are extremely committed to helping in any way we can.\textsuperscript{56}

On the basis of the evidence available to us, we conclude the Government responded appropriately to the situation.

**Scrappage Scheme**

34. We announced our inquiry before the Government had implemented its Scrappage Scheme. There was strong support for such a scheme in our written evidence, which drew attention to the German scheme in which there was a premium of €2,500 when cars of over nine years old are scrapped and replaced by a new or nearly new used car meeting at least Euro 4 exhaust emissions standards. The British scheme, announced in the Budget on 22 April 2009, provides a subsidy of £2000, half from the Government, half from the manufacturer, to those who trade in a car more than 10 years old to buy a new one. As well as temporarily supporting demand for new cars, the scheme should reduce emissions and increase road safety. Some witnesses regretted that the scheme had been altered at short notice to reduce the amount of support from the Government. However, on 15 June, BIS announced “Over 60,000 orders have now been taken by manufacturers since the subsidy of £2,000 was announced in the Budget to scrap vehicles of 10-years-old or more.”\textsuperscript{57}

Despite its relatively late introduction, there are encouraging signs that the Scrappage Scheme has been effective, and we welcome its success. We expect the Government to keep the scheme under review and to respond to any new evidence about its effectiveness.

**Automotive finance**

35. While witnesses welcomed the help that had been given, there were calls to provide further support for motor finance. This finance does not simply fund customer credit, but provides inventory and other funding lines for dealers. SMMT suggested that the “Bank of England’s Special Liquidity Scheme (SLS) and/or the Debt Management Office (DMO)”s
Credit Guarantee Scheme (CGS) should be extended to asset-based lenders to help address the problem—including on level playing-field grounds. Although the government memorandum said “Ministers are working with the motor finance industry and other stakeholders on options to improve funding to car finance companies”, no visible progress has been made. Ms Whewell told us the scheme was probably the most complex piece of work she had ever been involved in:

It involves extremely complicated financial instruments. Progress has been made, but I agree it has been quite slow. Where we are now is seeking to construct a financial instrument which would give access to the liquidity they are seeking, but we have been told very clearly by the industry that they must have legal certainty, and that is a perfectly reasonable thing to ask for but that will require us to go to the European Commission for clearance of what we would propose to do so that they can be satisfied it is not an unreasonable state aid, and they have told us that that will take several months.

However, Mr Culloty noted that the state aid hurdle had not been raised until late in negotiations which had begun six months before, and warned that “even if the scheme was put on the table tomorrow you are talking about the thick end of a year from […] the discussion commencing and the solution being delivered”.

36. Over twice as many people are employed in automotive retail as are employed in automotive manufacturing. We appreciate the difficulties in setting in place a scheme to support automotive finance. However, we also note that the French Government already appears to have provided a €2 billion refinancing facility for automotive finance companies. Once again the Government has held out the possibility of action but has not yet delivered. We seek clarification of the Government’s intentions.

**Short time working and Train to Gain**

37. Automotive companies in the United Kingdom have responded to the recession by temporary lay-offs. Workers’ wages are reduced, but they do not lose their employment and their companies retain their skills. Indeed, when we visited Leyland Trucks, the assembly line had only just restarted after such a shut down.

38. In many European countries there is state support for wages if companies need to reduce costs by laying workers off temporarily, or reducing working hours. The SMMT told us that support for short-time working was a key element of the package they had put forward for government support last December. Unite the Union told us:

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58 Ev 93 [SMMT]
59 Ev 64 [BERR]
60 Q 398
61 Q 263
62 Q 160
63 Presidency de la Republic, Pacte Automobile, Dossier de Presse, Palais de l’Elysee, 9 Feb, 2009, pont 2
64 Q 113
In sharp contrast to the United Kingdom, the state in a number of EU member nations has played an active role in providing financial subsidies to ensure that the wages of the workers affected are maintained at or close to their normal level.65

The Union’s memorandum summarised arrangements in four states:
<table>
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<th>Country</th>
<th>Short time working scheme</th>
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<tr>
<td>Germany</td>
<td>State funded payments: 67% of last monthly net wage (workers with children) 60% for single employees. Payments available for up to six months normally but can be up to 12 months in exceptional circumstances affecting specific sectors or regions or 24 months in very exceptional circumstances affecting the entire labour market.</td>
</tr>
<tr>
<td>France</td>
<td>State funded payments for up to 1000 hours per employee on short time working: 60% of gross hourly wage (80% for the chemical industry).</td>
</tr>
<tr>
<td>Belgium</td>
<td>State will pay blue collar workers 75% of maximum wage but not more than 2,206 euros per month for single earners with or without children for six months and 2,056 euros per month for the next six months.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>State will pay 75% of the worker’s wage for the first two months and 70% for the next four months up to a maximum of 183 euros per day. In return companies undertake to (re)train the affected workers.</td>
</tr>
</tbody>
</table>

Source: Glassner, V. and Galgoczi, B. Plant Level Responses to the Economic Crisis in Europe. ETUI 2009, Ev 98 [Unite the Union]

39. Ms Whewell told us:

other countries are indeed making […] extensive use of this system, but in almost all cases this has in fact been a fundamental part of their social security system and both manufacturers themselves and in many cases workers themselves have been paying into a system almost a form of insurance, you could say. So they are now getting paid back what they have paid in, and indeed in some countries the very, very high social charges about which employers and companies complain bitterly […] So we are not comparing like with like with a system into which companies and sometimes workers themselves have been paying in for sometimes many years and now they are paying out. So it is apples and pears.

A paper for the Employment Committee of the Council of the European Union notes that some states have extended their short time working schemes, and others have introduced such schemes; more states may follow this lead. Mr Lucas pointed out that the amount of funding available through the Train to Gain scheme had been increased from £60 million to £100 million.

So I would say that the Government is putting money into supporting employees who are on short-time working to use it as an opportunity to train them. That position is happening in England at the moment and I think there has been quite a flexible and positive response from the Department of Innovation, Universities and Skills in respect of Train to Gain in putting forward Train to Gain as a scheme which could be used in this context.

66 Q 415, see also Q 114
67 Brussels, 26 May 2009, 100015/1/09/ REV 1, ADD 2
68 Q 413
40. The Welsh Assembly Government has introduced ProAct, a scheme to support businesses which introduce short time working. Their website describes it as follows:

The scheme provides training for employees who are on short time working, and helps keep skilled staff who may otherwise be made redundant.

ProAct is available to businesses which have introduced short time working and face the threat of redundancies. It is initially available for 12 months to March 2010. It is flexible, but broadly offers:

- Training Costs up to £2,000 per individual
- Wage subsidy up to £2,000 (£50 a day) per individual during this training (up to 12 months).69

41. Additional help from Train to Gain was welcomed by our witnesses, and it was felt the system was effective. There were also other sources of training, such as regional development agencies—indeed two of our witnesses, Leyland Trucks and Bentley spoke warmly of training support that had been offered through this route. However, it was clear the industry did not consider Train to Gain as a complete substitute for support for short time working.

42. The Government tells us that “The British system of tax credits already provides an automatic increase in incomes to families when wage income is reduced as a result of a reduced working week.”70 We do not understand how the tax credit system can be described as automatic. It depends on workers identifying that changes in their working patterns may increase their eligibility and making sure that HMRC has the right information. Recipients would need to work at least 16 hours a week to qualify.71 We have seen no publicity for the use of tax credits in this way, and none of the witnesses in our inquiry seemed aware of the option. We are surprised that if it is a solution, it is not better publicised.

43. We accept that government financial support for short time working is not an integral part of the United Kingdom welfare system, and that help is forthcoming through Train to Gain. Nonetheless, we also note that some countries have increased the level of support they offer through their schemes, or are considering introducing such support. If British industry is to remain competitive, it will need to retain skilled workers. The Government should be doing far more to help it do this. We do not believe the tax credit scheme is the way to support short time working. We believe there is scope for more ambitious and innovative approaches, like the ProAct scheme adopted by the Welsh Assembly Government.

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69 www.business-support-wales.gov.uk. See also Ev 102 [Unite the Union].
70 Ev 103 [BIS]
71 HMRC website, available at: http://www.taxcredits.inlandrevenue.gov.uk/Qualify/WhatAreTaxCredits.aspx as at 10 July 2009
4 Government support for the industry as a whole

44. One of the themes of the NAIGT report is the need for Government to support the automotive industry. The NAIGT identifies "a supportive host Government—in policy, rhetoric, tone and responsiveness" as key to the sector’s success. Professor Parry-Jones told us that the United Kingdom Government was not seen as supportive, although, in general:

The evidence that we have collected suggests that this [...] is more a problem of perception, by repetitive actions or inactions. More recently I think the issue has been one of inaction rather than lack of response to specific opportunities.73

45. New Industry, New Jobs calls for “a more strategic approach to the Government’s role as a market shaper” and warns:

the Government will not achieve this goal unless there is a machinery and a culture in place that considers and acts on the wider industrial implications of Government action. In future, when regulating in ways that will affect demand in the UK, policymakers should assess the potential supply chain opportunities for UK-based businesses and their employees as an integral part of planning work. This practice cannot be limited to one or more Government Departments: it must be replicated across all Departments.74

However, the Government approach to industrial activism appears inconsistent. Mr Williams of the Retail Motor Industry Federation told us that changes in vehicle excise duty had cost the industry £80 million per year.75 Conversely, Leyland was disappointed that strategies to support the market focused on the car industry and neglected the van and commercial vehicle sector, where government intervention could also both support the industry and reduce pollution, such as Reduced Pollution Certificates where lower excise duty was charged on a low emission vehicle.76

46. SMMT told us:

there needs to be a more joined up approach when thinking about the impact other government measures are having on the industry and the need to better balance environmental objectives with support for British built cars during the downturn. At the top end of the market, any benefits from BERR’s attempts to help the industry are more than likely to be offset by the negative impact of changes HM Treasury
announced in the budget such as removing the £80,000 cap on car list prices used to calculate the taxable benefit arising from company cars.\textsuperscript{77}

Professor Parry-Jones similarly warned that “if we legislate for too rapid and too punitive a reduction of carbon on premium vehicles, we will not give time for our indigenous manufacturers to respond to the international agenda”.\textsuperscript{78} \textbf{It is important that the entire Government shares a strategic approach to the UK automotive industry. This means that matters such as taxation, environmental targets and support measures should be considered together to ensure they do not inadvertently conflict.}

47. The impact of the lack of a strategic whole government approach is likely to have been increased by the current economic situation. The United Kingdom automotive industry may be fragile, but as Mr Everitt said:

over the recent period UK facilities have been well invested in, the workforce have demonstrated a capability, flexibility and determination to win business when up against plants across Europe and elsewhere, and we have succeeded on a number of occasions in a number of competitions to retain, and indeed grow, the model line-up here in the UK. I believe we entered this period probably stronger and more resilient than at any time in the past. The key issue for us is being able to sustain our industrial capability through the recession so that we are able to take advantage of the upturn as and when it comes.\textsuperscript{79}

Professor Parry-Jones warned that the UK Government had appeared less willing to support the industry through the current crisis than governments elsewhere:

I believe that we have given less support and that our responsiveness has been more delayed. This is not just a short term issue to keep the industry healthy and prevent acceleration of this hollowing out we talked about earlier. It is also an issue of perception. International investors sitting in these foreign countries will look at what is going on and they will say, “It looks like the Germany, French and Japanese Governments really want companies to make cars in their countries. I am not sure about the UK.”\textsuperscript{80}

48. We share the concerns that the Government has not acted as quickly or decisively as other EU governments. For example, the £2.3 billion of the automotive assistance scheme and the £1.3 billion of the EFG compares with French support of over €9 billion for the automotive sector alone\textsuperscript{81} (with a further €5 billion in loan guarantees to companies in any sector)\textsuperscript{82} or the €100 billion “Germany fund”,\textsuperscript{83} to provide financial help, including loan guarantees.

\textsuperscript{77} Ev 89 [SMMT]
\textsuperscript{78} Q 19
\textsuperscript{79} Q 59
\textsuperscript{80} Q 37
\textsuperscript{81} Pacte Automobile: €6.5bn to help finance development programmes, €2bn for automotive finance and €600m for modernisation.
\textsuperscript{82} Pacte Automobile, pont 3 ; €4bn SMEs ; €1bn any sector.
\textsuperscript{83} Bloomberg, 10 Jan 2009
49. The Minister and the officials who gave evidence were clearly committed to the industry and working very hard. However, it takes more than a few dedicated individuals to demonstrate government commitment. The industry must believe that the entire Government is dedicated to it. That is clearly not the case. Witnesses complained that government structures were fragmented, and that help was hard to access, even when it did exist. Mr Hughes, of the Northwest Development Agency, noted:

skills and innovation […] are the two key things over the medium and long-term. There is a wealth of resources, a wealth of money available across Government in those areas, it is just not coordinated enough and delivered at the right level enough. You can look at billions that are spent and made available for skills development and similar numbers available for innovation, but they are not channelled through an industry window and in a particular way.84

Witnesses told us there were no incentives which would lead an international company to place R&D in the United Kingdom. Even where help was being channelled to the industry, the Government did not appear to give it high priority. Mr Everitt told us:

It is true that the Automotive Unit is relatively small and dealing now with a significant number of major schemes. Equally, they have been allocated new resources but it is as and when they can as opposed to, “This is a key and essential series of programmes that have to be resourced as soon as we can to the best that we can”. They are trying their best within the resources that they have.85

50. Witnesses from the industry considered that support for the automotive sector was not a matter of picking winners, but working collaboratively with the industry to have a strategic relationship and long-term commitment to create an environment in which the sector could grow and prosper. They emphasised that this approach was already taken by competitors.86 The danger is that without a clear government strategy, and sufficient support, valuable skills and capacity will be lost to countries which more clearly demonstrate their readiness to support the industry. In some cases this will be as much about rhetoric and perception as about real levels of support, but the effect will be the same. As Professor Parry-Jones said:

All we are asking for is that the British Government gets behind the industry in the same way as the Japanese, the German and the French Governments get behind the industry. We are not asking for a completely laissez faire, “You get on with it and may the fittest survive. We will go and do something else.” If we pursue laissez faire, I am afraid the Germans, the Japanese and the French will win.87

51. We believe the Government is committed to the future of the automotive industry in the United Kingdom. It has provided substantial assistance to the industry, and we welcome the fact that the Minister told us he was ready to intervene to help companies in difficulties. Nonetheless, the help given has been slower than in other countries.
Worse still, there are perceptions that the Government does not have a coherent and supportive policy for the industry. This is not just a problem during the current economic difficulties; government support for the industry will determine its long term success. The Government must not only support individual companies, but be seen to support the industry as a whole, and act with more urgency and consistency than it has done so far.
Conclusions and recommendations

The future of the industry

1. If the problems identified by the NAIGT can be solved, then we believe UK industry could and should flourish. As well as the reliability, high productivity and good labour relations identified above, the UK industry is diverse, has globally competitive vehicle and power train R&D, and strong premium brands. But its long-term future depends on Government taking the right actions now to ensure that the industry is sustained through this period of crisis. (Paragraph 12)

Criteria for AAP support

2. We agree that it is sensible to use government support for the automotive industry to foster innovation, and that the emphasis on low carbon technology is appropriate. This approach is a key part of the package. However, it is not all that is required; other innovative technologies, such as those relating to safety, should also be eligible for support. (Paragraph 16)

3. We understand the Government’s initial concern that if eligibility criteria were set too low the scheme would be swamped. However, there is too great a gap between eligibility for the Enterprise Finance Guarantee Scheme, and eligibility for the Automotive Assistance Programme. We recommend that the loan guarantee threshold for the Automotive Assistance Programme should be lowered urgently to £1 million. Moreover, the Government has said that under exceptional circumstances it may make direct loans to automotive companies. There should be no lower limit on such loans. (Paragraph 20)

4. Companies need to survive this recession in order to help produce the low carbon vehicles of the future. Some will need help with their current range of products. We expect the Government to show a pragmatic approach to ensuring the future of the industry; its help needs to be swift, and it needs to deal with current problems. (Paragraph 22)

The scheme in practice

5. The premium car sector and its supply chain is likely to be the source of many of the innovations which, used more widely, will aid the transition to low carbon vehicles. The fact that the United Kingdom has the second largest premium car industry in the world should be seen as a key strategic strength. Jaguar Land Rover has already secured funding for its future technology investments; all that is under discussion is the Government’s guarantee. As at 7 July 2009 there has been no indication that there will be such a guarantee: we are astounded that it has taken so long to arrange this, particularly since the support needed is so limited. (Paragraph 30)

6. It is clear that the Government has taken a number of sensible steps to make the AAP successful. It is working with a wide range of people within the industry, it has not forgotten the need to reach the supply chain, and it is trying to involve the banks
in the scheme. However, we cannot discount the industry’s complaints about the delays in agreeing support measures, and we are profoundly disappointed that to date not one single penny has been advanced through the scheme. We hope that this will change rapidly. (Paragraph 31)

**The Scrappage Scheme**

7. Despite its relatively late introduction, there are encouraging signs that the Scrappage Scheme has been effective, and we welcome its success. (Paragraph 34)

**Automotive finance**

8. Over twice as many people are employed in automotive retail as are employed in automotive manufacturing. We appreciate the difficulties in setting in place a scheme to support automotive finance. However, we also note that the French Government already appears to have provided a €2 billion refinancing facility for automotive finance companies. Once again the Government has held out the possibility of action but has not yet delivered. We seek clarification of the Government’s intentions. (Paragraph 36)

**Short time working and Train to Gain**

9. We accept that government financial support for short time working is not an integral part of the United Kingdom welfare system, and that help is forthcoming through Train to Gain. Nonetheless, we also note that some countries have increased the level of support they offer through their schemes, or are considering introducing such support. If British industry is to remain competitive, it will need to retain skilled workers. The Government should be doing far more to help it do this. We do not believe the tax credit scheme is the way to support short time working. We believe there is scope for more ambitious and innovative approaches, like the ProAct scheme adopted by the Welsh Assembly Government. (Paragraph 43)

**Government support for the industry**

10. It is important that the entire Government shares a strategic approach to the UK automotive industry. This means that matters such as taxation, environmental targets and support measures should be considered together to ensure they do not inadvertently conflict. (Paragraph 46)

11. The danger is that without a clear government strategy, and sufficient support, valuable skills and capacity will be lost to countries which more clearly demonstrate their readiness to support the industry. In some cases this will be as much about rhetoric and perception as about real levels of support, but the effect will be the same. (Paragraph 50)

12. We believe the Government is committed to the future of the automotive industry in the United Kingdom. It has provided substantial assistance to the industry, and we welcome the fact that the Minister told us he was ready to intervene to help companies in difficulties. Nonetheless, the help given has been slower than in other
countries. Worse still, there are perceptions that the Government does not have a coherent and supportive policy for the industry. This is not just a problem during the current economic difficulties; government support for the industry will determine its long term success. The Government must not only support individual companies, but be seen to support the industry as a whole, and act with more urgency and consistency than it has done so far. (Paragraph 51)
Formal Minutes

Tuesday 7 July 2009

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Brian Binley
Michael Clapham
Miss Julie Kirkbride

Mr Lindsay Hoyle
Lembit Öpik
Mr Anthony Wright

Draft Report (The Automotive Industry in the UK), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 51 read and agreed to.

Summary agreed to.

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

Ordered, That the Chairman make the Report to the House.

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 14 July at 10.00 am]
Witnesses

Monday 18 May 2009

Professor Richard Parry-Jones CBE, Chair, New Automotive Innovation and Growth Team

Wednesday 20 May 2009

Mr David Smith, Chief Executive, Jaguar Land Rover, Mr Paul Everitt, Chief Executive, Society of Motor Manufacturers and Traders, and Mr Graham Smith, Senior Vice President, External Affairs, Toyota Motor Europe

Mr Paul Williams, Chief Executive, Retail Motor Industry Federation

Thursday 21 May 2009

Mr Chris Gately, Managing Director, Multipart

Mrs Andrea Paver, Managing Director and Mr Denis Culloty, Chief Engineer, Leyland Trucks Limited, and Mr Steve Barfoot, UK Country Manager, PACCAR Finance International Limited

Mr Mark Hughes, Executive Director, Economic Development, Northwest Development Agency

Wednesday 10 June 2009

Mr Dave Osborne Unite National Officer for Vehicle Building and Automotive and Mr Roger Maddison, Unite National Officer for Motor Components, Unite the Union

Mr Ian Lucas MP, Parliamentary Under-Secretary of State, Jane Whewell Director, Automotive Sector and Mr Ian Gregory, Director, Automotive Sector, Department for Business, Innovation and Skills
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HC 32

Second Report’  
Pre-appointment hearing with the Chairman-elect of Ofcom, Dr Colette Bowe  
HC 119

Third Report  
Work of the Committee in 2007-08  
HC 175

Fourth Report  
Regional development agencies and the Local Democracy, Economic Development and Construction Bill  
HC 89

Fifth Report  
The Postal Services Bill  
HC 172

Sixth Report  
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Keeping the door wide open: Turkey and EU accession  
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Post Office Card Account: successor arrangements  
HC 1052

Thirteenth Report  
Companies House  
HC 456

Fourteenth Report  
Departmental Annual Report and Scrutiny of BERR  
HC 1116

* First Joint Report with Culture, Media and Sport Committee
** First Joint Report of Committees on Arms Export Controls
Oral evidence

Taken before the Business & Enterprise Committee
on Monday 18 May 2009

Members present
Peter Luff, in the Chair
Mr Brian Binley  Mr Mark Oaten
Mr Lindsay Hoyle  Lembit Opik
Miss Julie Kirkbride  Mr Anthony Wright

Witness: Professor Richard Parry-Jones, CBE, Chairman of the New Automotive Innovation and Growth Team, gave evidence.

Chairman: Thank you very much indeed for coming and kicking off this whole inquiry into the automotive sector. We are going on Wednesday to Birmingham and the North West on Thursday, and then taking evidence from the Minister after the recess. So it is a small and compact but useful inquiry.

Q1 Mr Hoyle: The idea behind this is to establish and put on record why the automotive sector needs to be supported. You have done the NAIGT report and it includes an assessment of the current state of the automotive industry and its relative strengths and weaknesses. I wonder if you could develop that.

Professor Parry-Jones: The auto industry needs help and collaborative work with the government because currently, although it is relatively healthy, it is not able to compete for investment with major overseas competitors in the sector such as Germany, France and Japan. Over the last 10 years, although it has been assembling about the same number of vehicles, if you look at the assembly number headlines, the industry has been hollowing out. What I mean by that is that any industry that is increasing productivity for the constant number of cars produced there will be less employment. That explains part of the hollowing out. We have been losing 10,000 jobs a year for the last 10 years and that cannot be explained by productivity improvement alone even though the improvement has been very good and has placed Britain fully competitive with all major industrial competitors on productivity. In addition to the productivity job losses we have seen the hollowing out factor. By that I mean that the suppliers are fewer in number with fewer T01 suppliers employing people to do core component manufacturing and development her and more and more suppliers are doing “just in time” assembly of complex, sub-assemblies close to the final production line. All the stuff that is in those sub-assemblies comes from abroad. That outsourcing of work has contributed to the job losses in the industry. It is our contention that unless we do something different we are going to continue to see job losses.

Q2 Mr Hoyle: In general, do you think there is an opportunity because of the pound reducing in its value and the euro strengthening and whether we could see a new car plant being established in the UK or a return of some of the businesses we have lost?

Professor Parry-Jones: I think it is extremely unlikely because it requires you to be a good forecaster of foreign exchange rates. If you were really good at that you probably would not be in the car industry. You have to be robust in your industrial investment decisions to a variety of different exchange rate and interest rate outcomes. The industry would not be confident enough that the exchange rate situation we have today will last long enough to justify an investment which is really one that will last at least 20 years. What Britain needs to do is to produce a compelling case to investors that goes beyond the short term, tactical opportunity, which is only a window, of the exchange rate. The exchange rate could act as a lubricant or catalyst but it is not powerful enough to change fundamentally investment decisions. Britain unfortunately, fairly or unfairly, has a poor reputation internationally for manufacturing investments amongst international investors and particularly poor in the automotive industry. Why is that? Because the history of British Leyland, the more recent history of Rover, the perception that the UK government is at best ambivalent and not particularly supportive to the industry and the fact that historically productivity, reliability and Labour relations have been challenges in the UK. That history lasts a long time in international investors’ minds, even though today it is out of date. Today we have the most reliable cars in the world. We have world class productivity. We have extremely good labour relations but of course international investors are sceptical because of the history.

Q3 Mr Hoyle: When I look round, we seem to be at the top end of the market. The middle market seems to be disappearing and yet the lower end, like Nissan and people like that, seems to be holding its own. I do not know where you quite put Mini but it is a small rather than a mid range car. Where do you see the future of those two going, the small to medium...
and then the large? I think the large will remain. I do not know what your views but do we have a future in small and medium production long-term?

Professor Parry-Jones: If you look at what the industry in the UK does, we make three million engines a year which is as good as you could ever hope for in any given country. Most of those are small engines for small cars and most of them are exported. We are in a strong position and that is an opportunity for further strengthening. On the vehicle assembly itself, that you are right. Because of the historical problems I have described, we have kind of re treated to an assembler of global, mass-market vehicles and a developer of niche premium products such as Land Rover, Jaguar and Aston Martin. Interestingly enough, we are still the second largest manufacturer and developer of premium vehicles in the world. Germany if dominates but number two, surprisingly, is Britain and after that Japan and America. We have strengths in the premium sector but they are a little fragile at the moment and the sooner we get through the current challenges there will be a significant opportunity for those to be part of the long-term picture and on the smaller vehicles it is how can we claw back more of the value chain.

Q4 Mr Hoyle: Within your report, you quite rightly say we are very strong in construction plant but in fairness JCB have opened in India, with two in China. Looking around the world, is it a consequence that we could lose that strength within the construction market or do you believe that we will be able to hold that percentage share?

Professor Parry-Jones: I think we will be able to hold the percentage share because the growth rates in the market in the areas where JCB is investing are very, very rapid and most of the investments being made they satisfy local demand. There is a degree of portfolio balancing. I am sure that smaller excavators will be made in India and exported elsewhere but the complex ones will probably still continue to be made in the established economies.

Q5 Mr Hoyle: Do you think the construction market is replicating the car industry where we were a volume small/medium sized manufacturer? More or less the prestige market is going very well and that is where a lot of jobs are. Is the construction market replicating what we have seen in the car industry?

Professor Parry-Jones: At this stage I need to issue a health warning. I am not an expert in the construction industry. Although we took evidence, we did not take anything like as much detailed evidence in that sector as we did in other sectors simply because of their relative size. However, we did have a member of JCB on the group and I did acquire sufficient knowledge to know that international competition in the construction industry market is not as brutal and fierce as it is in cars and trucks. I do not think the pattern will be replicated in anything like the same way or at the same speed.

Q6 Mr Hoyle: It does not look like we are going to get another volume manufacturer in the UK so can we exist as a major car player with what we have? I think I am right in saying that we are about 12th in the league of car manufacture. What are we in sales into the UK? What is the percentage of the market in global terms? It seems to me everybody wants to deliver cars to the UK so it is obviously a good place to do business. What percentage do we fill of the UK market from the UK?

Professor Parry-Jones: The UK market is about 3% of global demand, around two million units, and global demand is around 60 million at the moment, going on towards 80 million over the next few years. We manufacture 1.7 million so we are in deficit by 300,000 at the moment. That deficit of course will increase if the hollowing out that I have described continues. Does that answer your question?

Q7 Mr Hoyle: Is there anything we can do?

Professor Parry-Jones: Yes.

Q8 Miss Kirkbride: I wanted to ask you about R&D and what your views are on it which appear to be largely that there has to be a significant, indigenous carmaker in order to attract sufficient international foreign investment. I wondered if you could expand those views.

Professor Parry-Jones: I believe the relatively lower levels of R&D in the UK within the automotive sector are contributors to the hollowing out process. What we absolutely need to do to make the industry more robust as a contributor to the UK economy and a source of employment is to reverse the trend in reducing R&D in the UK. One of the main areas where we have lost R&D is the T01 and the T02 supply base. By a T01 supply base, I mean of course the people who deliver directly to the vehicle manufacturers. T02 are the people who deliver to T01s. We have lost a lot of those R&D facilities. The reason why they tend to agglomerate in Germany and Japan is that if you are a T01 supplier like Bosch or Continental EU will basically look at your investment portfolio, your R&D locations, and you will say, “Where are the centres of gravity where cars are developed?” America, Germany and Japan. I have exaggerated slightly to make my point. Obviously there are a few in Italy and France but the big centres of agglomerated production where the trends get set are where people follow and they tend to be in those three areas. If you have limited resources and you want economies of scale, you will tend to put your core R&D facilities close to the majority of designer facilities and then you might want satellites to support less important customers remotely. You have to have satellites because many engineers need in day to day contact. The high value added R&D is the core staff, not the satellite staff. That is the picture we found in our study. The reason we proposed some countermeasures is to try and provide these large T01 suppliers with really compelling reasons to come back and invest in the UK.
Q9 Miss Kirkbride: It is not too late then?
Professor Parry-Jones: I do not believe it is too late at all. The window of opportunity is the electrification of the car. In the process of technology, incumbents will have less of an obvious advantage than they have over the existing technology where the incumbents are so well entrenched it is almost impossible to dislodge them. Where the technology is changing significantly, new skills are required and the incumbents do not have a strong position. They still have a strong position but at least it is somewhat weakened compared with the traditional technology.

Q10 Miss Kirkbride: What do we need to do? You say the electric car is the chance for that.
Professor Parry-Jones: I did not say that. A small correction: the electrification of the car. That is a very different concept to an electric car.

Q11 Miss Kirkbride: What do we need to do to get that R&D here based on that electrification?
Professor Parry-Jones: In our report we have developed a technology road map for the industry. This is a first. This technology road map is the consensus view of all the major players in the UK industry and the automotive sector. For the first time there is a coherent, single answer to any question a researcher or a government resource allocator wants to ask about what the industry needs to work on. Instead of Nissan saying this, Ford saying that and BMW saying something else, we are as an industry saying, “This is the important stuff.” What we would like is to have this technology road map used as the guide by all the different bodies—and there are rather a lot of them—in charge of dispensing government allocated resources on particular projects. We have already started working very closely with the TSB who joined our group half way through to start to pick up some of the ideas that we have identified most of them. What we are currently in the process of doing—because although we have issued our report we want to carry on working until we hear the government response to make sure that we do not lose momentum—is working together with the department and Ricardo to identify, of these technologies, which ones are the most sticky.

Q12 Miss Kirkbride: The indigenous car industry here is of course Jaguar Land Rover. How do you feel they fit into your R&D plans and what the government might do given that there are some negotiations going on with JLR?
Professor Parry-Jones: Jaguar Land Rover were members of our team and played an important role. The large car sector in many ways is an even more important sector to develop the technology for lower carbon vehicles than the small car sector. That may sound surprising and counter-intuitive. Large car customers are more affluent than small car customers. In the early stages of deploying new technology it is inevitably more expensive for two reasons. One is because it is early we have not learned how to make it cheap yet and the second is it is small scale so we have not benefited from economies of scale. Initially, this low carbon technology is too expensive for Fiesta, Focus and even Passat customers to afford. The industry will have to deploy it on the premium vehicles. Britain really only has Jaguar Land Rover and Aston Martin as opportunities to be the pioneers and pilots for this new technology. Jaguar Land Rover first of all needs to reduce the carbon emissions in its fleet to be competitive with Mercedes, BMW and Lexus and, secondly, it provides the industrial base opportunity for Britain to participate in that in real time with regard to piloting in the premium sector. If we miss that opportunity it will be really difficult to piggy-back on it for the volume applications later.

Q13 Chairman: It was put to me by a major tier one supplier for this industry and other industries too that JLR is of fundamental importance to the automotive supply sector here in the UK. To lose JLR would be a devastating blow to the major suppliers. Do you share that view?
Professor Parry-Jones: Completely. A lot of suppliers that have deeper competences that go beyond the just in time assembly of final assemblies close to the line site are dependent very heavily on Jaguar Land Rover business. If Jaguar Land Rover goes under, they have no business model. It is important in its own right but it has additional, hidden implications. If you are a big, global investor like Toyota or Nissan or Ford, one of the criteria you are looking for to continue making investments in a host country is a capable supply base. If the answer is, “Whoops, it looks like it is hollowing out or collapsing” the hurdle over which the investment decision makers have to jump will be that much higher. I do not think it is an exaggeration to say that the loss of Jaguar Land Rover might well be a tipping point in tipping a critical mass of supply base in this country into a situation where it is very difficult for other major manufacturers to continue to operate at the same level they do today.

Q14 Chairman: We are taking evidence in Birmingham from JLR on Wednesday. We are doing another inquiry and we shall be writing up the report soon on the higher value added economy. There are only three industries in the UK of significant scale which offer higher value added opportunities: aerospace, pharmaceuticals and the automotive sector. I know your background is automotive but do you think the automotive sector is that important any longer in the UK? Is it one of the three? Is it that important in broader, macro terms?
Professor Parry-Jones: Naturally, I have a slightly coloured view of this having spent 38 years in the industry. If you can set that aside for the moment, the facts speak for themselves. The gross value added per capita of the auto industry compares very well with other industries. I would not argue whether it is in the top three or four but it is certainly in the
top five. Within that, the R&D portion and core components are a critical contributor to the high value added position it enjoys.

**Q15 Chairman:** I mean the manufacturing sectors.

**Professor Parry-Jones:** It is very hard to separate manufacturing and R&D. What are the core processes in any manufacturing industry? Stamping metal, forming it, joining it, machining it, forging it and casting it. If you do not have those five competencies in your country, it is very hard to be an internationally effective manufacturing economy. Those five core processes of manufacturing are all underpinned by the auto industry. The auto industry has been the innovator in all five of those over the last 100 years. Most other manufacturing industries have piggy-backed on the innovation developed by the auto industry.

**Q16 Mr Oaten:** Your report talks about this ambitious road map. In terms of how that is going to be brought to life, it is going to require a fair amount of government investment according to the report. Are you concerned at all about the level of government involvement and the danger presumably that, if the government does get involved, the government will have to decide where to invest and the government will be picking winners?

**Professor Parry-Jones:** Yes, I am. That does not mean we should not be doing it. It just means we have to be very careful how we do it. One overarching principle is the government cannot avoid picking winners. It just has to be careful how it does it. In the environment and transport area, they should only pick outcomes. They should incentivise design outcomes. A design outcome is how much carbon do you emit per passenger kilometre. How it is done the planet does not care. When it comes to business and science and education, we do not have the luxury of only worrying about outcomes. We have to worry about which areas we decide to support. At the moment I see government confusing the issue too much and we see leakage between thinking about desired technologies back into the transport and environmental agendas. That is not a good idea.

**Q17 Mr Oaten:** The government sets the outcomes that it is hoping to achieve. The government then has to put the money in to obtain those outcomes but it has to decide who is best suited to achieve those outcomes, which is where the difficult judgments come in picking the winners.

**Professor Parry-Jones:** Exactly, but that is not picking winners for delivering the outcomes. The outcomes will happen anyway. The Germans will supply the low carbon cars if we do not.

**Q18 Mr Oaten:** I am not following you.

**Professor Parry-Jones:** If the government says that in the future carbon emissions have to be 100 rather than 160 grams, at the moment we import about 80% of our cars. If we do not provide the answers, customers will buy cars with fiscal and other incentives from government that achieve 100 grams. They will just do it because they will have to. The separate question of how does the British economy participate in that transformation is where you have to pick some winners. The transport and environmental objectives can be met completely without any involvement from British industry.

**Q19 Mr Oaten:** What you are saying is, if we hit some outcomes as a government, in effect we may not be helping our industry. We may be helping some other country’s industry who can better achieve meeting those outcomes.

**Professor Parry-Jones:** Absolutely. For example, if we legislate for too rapid and too punitive a reduction of carbon on premium vehicles, we will not give time for our indigenous manufacturers to respond to the international agenda. We may exacerbate their difficulties.

**Q20 Mr Oaten:** There is a danger that one government department could be moving ahead with one agenda which would completely counter the agenda of the other government department?

**Professor Parry-Jones:** Absolutely.

**Q21 Chairman:** Or the European Union?

**Professor Parry-Jones:** The European Union is far less dangerous because the European Union will be dictating the agenda and the timing of all the major competitors. More dangerous is a local, national initiative which beyond Europe and which jeopardises our indigenous industry.

**Q22 Mr Oaten:** Are these the kinds of issues that you would expect the Automotive Council to be involved in and engaged in? The bit I do not get is again your report seems to think that it is government that should be using that initiative. Surely a big, grown up industry with all the expertise should be getting on and doing this anyway. Why does it need government?

**Professor Parry-Jones:** They will. The question is where. All manufacturers except Jaguar Land Rover and Aston Martin have headquarters that are not in the UK. They are international in Munich, Stuttgart, Cologne and Tokyo. They are going to invest. Our job is to make Britain an attractive destination for their investment decisions.

**Q23 Mr Oaten:** Only government can put the pressure on them to make that—?

**Professor Parry-Jones:** It is not pressure. The recommendations in our report are make Britain a more attractive place to invest. The second one is use the technology road map to guide R&D decisions. A third one is set up a test bed UK to attract R&D into the UK because we will be able to learn things here that you cannot learn anywhere else in the world. The fourth one is to strengthen the supply base with the Training and Technology Institute. Those are the things, by the way, that all our major automotive,
industrial, competitive nations are already doing. All we are asking for is that the British Government gets behind the industry in the same way as the Japanese, the German and the French Governments get behind the industry. We are not asking for a completely laissez faire, “You get on with it and may the fittest survive. We will go and do something else.” If we pursue laissez faire, I am afraid the Germans, the fittest survive. We will go and do something else.”

Q24 Mr Oaten: You said a moment ago that there would be no incentive for these guys to get together and do it themselves because their headquarters are all around the world. I cannot really see what incentive there would be for them to come together just because the government said, “We are going to set up this council. Join it.” What is in their interests as big, global players to do anything to really help this particular market, given that they are playing across a whole field of markets?

Professor Parry-Jones: The British market is important, although it is only 5% of the world market. In the UK we have the opportunity if we so decide to use it not to make necessarily Britain a far better place to invest than Germany but to make a competitive place to invest. By doing that we need to strengthen R&D. R&D has been weakened over the last two or three decades, so in order to kick start its recovery we cannot rely on the free market, in my opinion. We need to be more proactive and catalyse people thinking in a different way about the UK as a place to do R&D. Of all our recommendations, test bed UK is probably the most important one in terms of being a catalyst for that rethinking. We need to be able to configure it in a way that Bosch, Continental, Toyota and others say, “I would not normally invest in the UK for R&D but this looks really interesting and if I miss out on this I might miss out on some important learning that will damage my competitiveness.” Once you get one in the boat, the others feel they have to jump in. If Bosch comes in, Continental will say, “We cannot let Bosch get the jump on us.” I am not exaggerating here. I think maybe just a few R&D resources initially. I am not saying 1,000 people but start with 20 and have a good experience. Re seeding R&D in the UK is part of the idea here. We are not asking for massive increases in government money. The Automotive Council will exist to provide continuity. Every five years we have a strategic look at the industry. Recommendations come out like they did six years ago. There is a flurry of enthusiasm and then a loss of interest. The Automotive Council is there to provide continuity in implementation but more importantly to provide a forum for government and the industry, rather than taking pot shots at each other or reacting, to work together to create the best framework we can to make the UK a good place to invest.

Q25 Mr Binley: I am getting a sense of déjà vu and Vic Feather and all that sort of thing. Do you remember the industrial councils?

Professor Parry-Jones: Not really, no.

Q26 Mr Binley: Have you looked at their history?

Professor Parry-Jones: No.

Mr Binley: I reckon that you ought to before making a proposal of this kind. I am immensely concerned. Of your 24 recommendations as set out in your report, 14 are either dependent upon or involve government. Are you not concerned, as a free enterprise man, a capitalist, about saying to government, “You can do it better than us. You can have a bigger hand in this than we can”? What makes you think the 90% of car industry owned by foreign companies will go along with this, other than if there is a glint of money there? Where is the evidence?

Q27 Chairman: Here is your free market opportunity.

Professor Parry-Jones: Participation in the study was primarily by foreign owned manufacturing representatives.

Q28 Mr Binley: They were not around in Britain in the sixties.

Professor Parry-Jones: When you say what makes me think these people will go along with it, the answer is they were part of the group that made the recommendations.

Q29 Mr Binley: Is it about money and paying Dane geld?

Professor Parry-Jones: At the end of the day, if you want to make Britain a more attractive place to invest in the auto sector, you have to restore the dependable returns to the level that the international industry can get in other major, industrial country competitors. Of course a degree of this is about returns on investment and predictability of those returns on investment.

Q30 Mr Binley: Is it about government investment too? They are pretty involved.

Professor Parry-Jones: If you look at the amount of government investment here, we are talking about £100 million a year. If you look at the total investment made by the auto industry globally, per year, this is smaller than a drop of drizzle in a thunderstorm. It is not about using that money to change the profitability of the returns; it is about the significance of that investment, because it can be catalytic if it can be used to tip the balance on decisions that are being weighed up in the automotive sectors.

Q31 Mr Binley: You have said a figure. That means you have done some research on the figure. Could you send us that figure and relate it to your table of recommendations?
**Professor Parry-Jones:** It is in the document.

**Q32 Mr Wright:** You set out the long term view and you recognise that the industry is in crisis now. Do you consider that the government is doing enough now to sustain it over the coming months and weeks ahead?

**Professor Parry-Jones:** No.

**Q33 Mr Wright:** What more do you think they could do?

**Professor Parry-Jones:** I think the speed of response of the various initiatives that have been requested by the industry has not been quick enough. Time is of the essence during this crisis because this industry probably more than most has been hit by the double whammy of collapsing consumer confidence and therefore collapsing demand and of course the shortage of credit availability for industry. The cash flow issues that rapidly plunging demand have imposed on the industry have really high fixed costs. It is very difficult to cut cash requirements in this industry. That has been exacerbated by the fact that credit lines cannot be extended. In fact in many cases they cannot even be renewed. The major help that the government could provide is finance, access to finance for car buyers. Most cars are bought on loans, as you know, and the freezing up of the credit market for loans for cars has made a major dent in demand for new cars in the UK. The scrappage programme is helpful but it is not as ambitious, as far-reaching or as well funded as the scrappage programme of some of our industrial competitors.

**Q34 Chairman:** It has hit a snag today, by the way. Ford, Fiat and Honda are having problems with the VAT arrangements under it.

**Professor Parry-Jones:** It is not as strong as it needs to be to stimulate demand. The third issue is companies that are experiencing liquidity problems which were previously very healthy, which had good business plans in normal industry conditions are experiencing difficulty renewing their loan arrangements and should receive some guaranteed help from the UK government.

**Q35 Mr Wright:** I heard a report last week that Nissan have created another 150 jobs on the back of the scrappage scheme on the basis of the orders coming through. Is that not evidence that it is filtering through?

**Professor Parry-Jones:** I cannot comment on Nissan’s internal decision making process, but it seems to me it was a calculated gamble. The order rate from what I have been able to see for the industry in general was not picking up at the time they made that decision. They obviously tried to preempt the demand turning up by making the investment in taking people back on. If they are right, we will all be happy but at the moment the only benchmarks I can use are the UK’s response versus the German, French and Japanese response. The UK is smaller and is less likely to have as big an impact on the domestic industries as the other three countries I have just mentioned.

**Q36 Mr Wright:** Would you say that from all of the motor manufacturing countries we have given less support to the particular industry too late?

**Professor Parry-Jones:** I believe that we have given less support and that our responsiveness has been more delayed. This is not just a short term issue to keep the industry healthy and prevent acceleration of this hollowing out we talked about earlier. It is also an issue of perception. International investors sitting in these foreign countries will look at what is going on and they will say, “It looks like the Germany, French and Japanese Governments really want companies to make cars in their countries. I am not sure about the UK.”

**Q37 Mr Wright:** You did mention the carbon schemes, the AAP’s emphasis on low carbon schemes and on supporting demonstrably new programmes. Do you think that is correct or should the government provide broader support in that area?

**Professor Parry-Jones:** At the moment, the various initiatives on low carbon cars are, it seems to me, rather diffuse. Each department has a piece of the action and they are not necessarily well coordinated together. One of the proposals in our report is that we take this money which is deployed at the moment in the Department for Transport, the Department of Education and Science, the Department of Business and Regulatory Reform, and pull it together so we can use it more effectively. Personally—I think at the moment, at the going rate of £100 million a year for all of the above, that is enough money. I do not think the problem is that the government is not providing enough money. I think the problem is how effectively that money is spent and how good the results are.

**Q38 Mr Wright:** Do you consider that one of the problems is the support methods that the government puts in place are too complex or do you consider that measures such as the business support simplification programme will address that complexity?

**Professor Parry-Jones:** I think it is a step in the right direction. The complexity is an issue and further simplification is required. There is a bigger problem than that and that is the basic problem of government departments working seamlessly together for an integrated, holistic strategy.

**Q39 Mr Binley:** What happens if this does not happen?

**Professor Parry-Jones:** If the recommendations do not get adopted?

**Q40 Mr Binley:** Yes.

**Professor Parry-Jones:** I cannot see any alternative to the continued hollowing out of the industry in the UK. It seems to me that without some significant government help and collaboration with the industry—this includes the industry collaborating with itself, with the government acting as a broker to a certain extent—I do not think we will see a
significant change to the hollowing out process that has been going on for the last 10 years. I think we will be increasingly at risk from the growth—

Q41 Mr Binley: Are we not going to see one of the Vauxhall plants going? Are we not going to see Luton going anyway?
Professor Parry-Jones: I have no idea. I do not have the inside story on Luton.

Q42 Mr Binley: I am concerned about your faith in government bodies collaborating and what I see as a rather quaint and attractive view of how government acts in the best interests of its people. I do not quite see that. I see a lot of in-fighting and departmental struggles. I see a lot of silos and I see that in local government, let alone in national government. Is it really practical to get the cross government operation you want? For example, you want this to be led by BERR but you want the Treasury involved and you want the Department for Transport involved. BERR is a junior operation certainly next to the Treasury. Do you really see that happening in the way you want?
Professor Parry-Jones: I have worked in a number of foreign countries where the auto industry is quite strong and they seem to be able to pull it off.

Q43 Mr Binley: Tell me where.
Professor Parry-Jones: Germany is an excellent example.

Q44 Mr Binley: The German character. You might be right. I was talking about this country because that is where you want this to happen.
Professor Parry-Jones: That is true. I do not pretend to have all the answers about how you overcome some of the practical difficulties of making this operational. If we benchmark international competitors, we may have to have a unique method of doing it in the UK because of our cultural and constitutional history, but it seems to me that the outcome again has to be more competitive than our major competitors who are, by the way, winning this war at the moment. They are winning the game. If we want to reverse that, we have to think of a way of collaborating better than we are today across departments and between government and the industry.

Q45 Mr Binley: Are they not winning the game because they are bigger and have had more money for the last 25 years?
Professor Parry-Jones: The international competitors?
Chairman: They make very good cars as well.

Q46 Mr Binley: Because they are bigger and have more money.
Professor Parry-Jones: There are some things that we cannot easily reverse or change. A very significant factor in their success has been the unwavering and very strong support the host country has given to those industries. In discussions I have had with politicians, I think they underestimate the influence they have over international investment decisions.

Q47 Mr Binley: My final question is about what the report states as a criticism of the present complex, arbitrary and often punitive fiscal regime for vehicle ownership and use. Do you not see that regime worsening from an industry perspective rather than getting better?
Professor Parry-Jones: I admit to not being of the extremely sceptical persuasion that there is no point making recommendations about this stuff because they will never be adopted anyway. We have gathered the evidence, analysed it, used our experience and our knowledge to produce recommendations that are our best shot at what we think should happen. I have not encouraged the group to dilute their recommendations on the basis of, “Oh, that will never happen. Nobody will ever do that.” I have rather reached out for what should we do if we want this industry to be competitive.

Q48 Mr Binley: Professor, you made that statement in your report. Let me rephrase my question. Instead of looking at the rather negative way I put my question, what would you like to see in terms of that statement, “the present complex, arbitrary and often punitive fiscal regime for vehicle ownership and use”? I believe that in order to make progress on an equitable basis towards a low carbon personal transportation system—and as we said in the report personal transport accounts for 90% of all passenger kilometres, so it is going to be around for a heck of a long time—what we need to do is, instead of having bands that are changed every few years, different bands in London as was one of the proposals, municipal authorities having the power to impose congestion charging based on anything they want, we should have a harmonised regime, first of all, so that everybody is using the same rules for fiscal incentives and disincentives. Within that framework, every gram of carbon emitted per kilometre should be treated to the same penalty, irrespective of the technology used to release it, irrespective of the fuel used, irrespective of the purpose the journey was put to and irrespective of the type of vehicle used to get there. Every gram of carbon has exactly the same impact on the planet.
Mr Binley: Are you frightened about an over-mighty government?

Q49 Chairman: I think what you are frightened of is an arbitrary government, if I am right.
Professor Parry-Jones: There is an opportunity to work constructively with government. We need to be very careful. You are quite right about that. There are plenty of failure modes that could be incurred along the journey, either government getting too powerful or none of the recommendations being taken seriously and put into action. I understand all that but I think we have nevertheless a duty to put forward what we think are the right recommendations.
Chairman: The technology neutrality of what you are saying is really important. The former Mayor of London had a preference for hybrid cars but cars which emitted less carbon paid a higher rate and there was a certain inconsistency. I think that is the point. I think sensible rather than over-mighty government.

Q50 Lembit Öpik: I am tempted to raise the segway as a personal transporter, but the one question I had was do you think there is any way that the government can drive the survival of the supply chain, which obviously employs hundreds of thousands of people, or is that too big a challenge? Is it unfeasible to do that?

Professor Parry-Jones: No. As you phrased it with “drive”, I think that is too tall an order. Can they help? Can they facilitate? Can they mitigate? Can they tip the balance with all the other efforts that are going on? I think their role is very decisive and very influential. We should be encouraging the government to do everything they can within reason to make sure the supply base does not continue to be hollowed out.

Q51 Lembit Öpik: If you could give a 30 second piece of guidance to government on how to do that, what would that guidance be?

Professor Parry-Jones: Implement the recommendations of our report.

Q52 Chairman: When I was working as a special adviser at the DTI in the 1980s, we had a policy of tracking of every international, mobile investment to the UK. We had Honda, Toyota and Nissan all coming to the UK setting up plants. That was the industrial policy at the time. We used our influence very strongly to get that. It was government to government stuff. Are there specific examples in recent history when government has underestimated its influence in this area?

Professor Parry-Jones: Maybe not specific examples. The evidence that we have collected suggests that this is a more pervasive problem. It is more a problem of perception, by repetitive actions or inactions. More recently I think the issue has been one of inaction rather than lack of response to specific opportunities.

Chairman: Professor, this has been an extremely valuable session. I am enormously grateful to you. Your journey down here today has been difficult to organise but I can honestly say it has been pure gold as far as we are concerned. It has set a fantastic and really helpful context and helped us understand your report. When I read it again properly, I will now know what you meant even more clearly than the excellent wording in the report when I read it in the first place. This has been absolutely invaluable and we are very grateful to you.
Wednesday 20 May 2009

Members present
Peter Luff, in the Chair
Mr Lindsay Hoyle
Lembit Opik
Miss Julie Kirkbride
Mr Anthony Wright

Witnesses: Mr David Smith, Chief Executive, Jaguar Land Rover; Mr Paul Everitt, Chief Executive, Society of Motor Manufacturers & Traders, and Mr Graham Smith, Senior Vice President, External Affairs, Toyota Motor Europe, gave evidence.

Q53 Chairman: Gentlemen, welcome to this second evidence session of our Committee’s inquiry into the Government’s support for the automotive sector. We are grateful to some of you for making journeys to Birmingham, which we have done today. We took evidence on Monday from Professor Richard Parry-Jones from the New Automotive and Innovation Growth Team which reported last week and that was very useful evidence. We are going to Chorley tomorrow to take evidence in the Northwest from a variety of interests, particularly the truck and parts sectors. We are very grateful to have you with us. Thank you for your written evidence. Can I ask you, as I always do, to begin by introducing yourselves for the record?
Mr David Smith: David Smith, the Chief Executive of Jaguar Land Rover.
Mr Everitt: My name is Paul Everitt. I am the Chief Executive of the Society of Motor Manufacturers & Traders.
Mr Graham Smith: My name is Graham Smith. I am Senior Vice-President of External Affairs for Toyota Motor Europe.

Q54 Chairman: Thank you. I think it is fair to say when we began our investigation it was quite narrowly focused on the Automotive Assistance Package and the other measures the SMMT were calling for, like scrappage, but the debate has moved on and the publication of the NAIGT report has broadened the focus of this inquiry. I just want to begin by asking you two strategic questions about the automotive sector in the UK. I quote from the report. It says: “over the past decade the industry’s contribution to the UK economy has been declining as the industry has not been expanding as fast as the overall economy. This reduction is not due to temporary economic downturn, but a long-term trend as the consequence of competing in a mature industry which has seen a drastic shift in a manufacturing footprint over the past decade towards sourcing from low-cost countries”. Can I ask that strategic question to you, Paul, first? If this expansion is happening elsewhere, if manufacturing is moving elsewhere, if expansion in the consumer markets is happening in Eastern Europe, China and India, for example, are we right to even try to secure the automotive sector in the UK? Are we fighting a losing battle?
Mr Everitt: No, I do not think we are fighting a losing battle. It is absolutely key for the UK and the UK economy going forward that we do have a productive and highly competitive automotive industry. One of the limited number of very positive outcomes from the current crisis is a recognition that we cannot live by financial services alone and that to succeed long-term and to generate wealth, prosperity and jobs in this country we need the manufacturing sector. The reality is there are relatively few globally competitive manufacturing sectors in the UK: automotive, aerospace and pharmaceuticals are absolute leaders. Not acting, and particularly not acting in a strategic and long-term way, is a huge risk for us as a country.

Q55 Chairman: Both to address the short-term issues and the longer term ones which the NAIGT report identifies?
Mr Everitt: Absolutely.

Q56 Chairman: I do not know whether either of you want to add anything because you are both foreign companies now. I want to ask Graham in particular what it is that can make the UK continually attractive for foreign automotive businesses to invest here, particularly to invest in enhanced R&D.
Mr Graham Smith: There is a range of issues that determine manufacturing and R&D locations. We certainly like to manufacture and establish a footprint within the region where the vehicles are sold. Our region is not just all of Europe, it goes all the way to Russia, to the Urals, and therefore we locate our manufacturing facilities, and we have a number across Europe, strategically in relation to that total market. Serving the market, serving the customer, being close to the customer, is issue number one. Secondly, the availability of skilled and educated workforces is also a very, very important factor as well. The UK, when we established here in the Derbyshire area, provided that workforce. We have settled our operation here successfully. We employ over 4,000 people between Burnaston in Derbyshire and North Wales. We do not undertake R&D in the UK. We do in Europe, but it is outside of the UK, so I cannot really comment on factors in relation to R&D. The last thing I do want to say is how important the supply infrastructure is. Manufacturing operations depend on large numbers of components. We have approximately 250 suppliers across Europe, a good number in the UK, and without that supply infrastructure, and, again, close to the manufacturing operations where
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logistics make sense, we would not be as successful and would not have the same capability and that is part of it.

Q57 Chairman: We will be asking you at some length about the supply chain a little later on as you would expect. David, your company is the single largest investor in R&D in the UK automotive sector. That is correct, is it not?

Mr David Smith: Yes. We invest about £400 million a year in R&D, so we are actually in the top ten UK R&D investors. What I would say about the industry is that over the last 20 years we have seen good and bad news. The industry has improved its quality and productivity hugely in the UK and now has some important strengths especially at the premium end of the business. Jaguar Land Rover is probably one of the biggest firms in that part of the market in the world. Very importantly, the UK has the second biggest premium car industry in the world after Germany. We also have a strength in engine manufacturing with our plants in the UK and still very good capability on research in our universities. There are important strengths in the UK industry that have not gone away and, in fact, have been strengthened over the last 20 years. What we have seen, however, is a hollowing out of the supply base and I know you want to come back to that.

Q58 Chairman: We will come to that, yes.

Mr David Smith: In my view, what the NAIGT report is really all about is saying given those trends what can we do moving forward to take advantage of the strengths and actually create some new capability. We are in a very, very important period now where we are just about on the transition to low carbon vehicles and if the UK does not take the opportunity now to invest in industrialising that technology we will find over time that there is a very significant negative impact on our balance of payments, on employment and value-added in the UK. This really is an essential period where we have to make that investment. Very consistent with the Government’s view on industrial activism, the NAIGT report has essentially laid out a roadmap for how to make that investment in the future.

Q59 Chairman: If we have time at the end we will be able to explore the NAIGT report at some length. It depends how fast the other questioning goes on the shorter term issues. Paul, there are companies planning to bring new models to the UK, and Toyota is one of them indeed, is it not. There is still good news for us in the automotive sector in the medium-term, is there not?

Mr Everitt: Absolutely. The key for us like the rest of the global automotive industry is we have faced an unprecedented set of circumstances. The global credit crunch and the contraction of credit allied to significant reduction in demand has created unusual circumstances that we are doing our best to cope with. Picking up on what David said earlier, certainly over the recent period UK facilities have been well invested in, the workforce have demonstrated a capability, flexibility and determination to win business when up against plants across Europe and elsewhere, and we have succeeded on a number of occasions in a number of competitions to retain, and indeed grow, the model line-up here in the UK. I believe we entered this period probably stronger and more resilient than at any time in the past. The key issue for us is being able to sustain our industrial capability through the recession so that we are able to take advantage of the upturn as and when it comes.

Chairman: Thank you for that scene setting, as it were.

Q60 Lembit Öpik: Just one question. On R&D, without sharing any competitive secrets, do you have a narrative to that research? Do you decide, for example, to focus on the environment and try to be a world leader on that or on improving added-value on the premium range? I am interested in how you organise that R&D and the purpose for asking that is because it seems to me that by doing so one can create a particular specialism and maintain an advantage.

Mr David Smith: Clearly Jaguar Land Rover has been successful in operating at the premium end of the business and we will continue to do that. Our investment is certainly about developing design capability, technology and features at that end of the business. There is a huge commitment over the next few years, over £800 million, which for us is a large investment in the future, in green technologies. As a business we have made a commitment that will improve our fuel economy and reduce our CO₂ tailpipe emissions by 25% over the next few years. That is a very big commitment that we are making jointly with our suppliers and the universities in the UK. Environmental innovation is absolutely critical to our future, which is why in this very difficult economic situation that we find ourselves in anything that reduces our ability to make those environmental innovations is quite serious for the long-term future of the business.

Q61 Lembit Öpik: In terms of electric technology, is that something which (a) you are considering and (b) is it feasible for you to do as an individual manufacturer?

Mr David Smith: By the time we get towards the end of the next decade, so 2025, we will increasingly see electrified vehicles as pretty commonplace. Clearly it is well-known that we have to make big improvements to the electrical infrastructure, to renewables and distribution, but on the vehicle side there is a lot of technology coming that over the next few years will probably be more focused on improving conventional technologies. Increasingly we will see further hybridisation, the use of plug-in hybrids and then a move over time towards more electric vehicles as well.

Chairman: This is an issue we might return to at the end if we have the opportunity to do so.

Q62 Mr Wright: At the back end of last year and certainly the beginning of this year the automotive industry would say it was very grim in terms of the
short-time working and extended Christmas period. Is it still as bleak as it was at the beginning of the year or are there any signs of recovery? Indeed, are there any proposals to reduce production even further?

**Mr Everitt:** Certainly at this particular moment in time you would not find too many people who think things are getting better. Probably as we finish the first quarter of the year the sense is that things are not getting worse and that is a positive development. We are all looking at what is going to be probably a very long and slow recovery. What we have seen the industry try to manage during the last quarter of 2008 and first quarter of 2009 is to adjust to these unusual circumstances and, as a consequence, we have been working through some of the things you have mentioned. Sadly, a lot of people have let go of their temporary and agency workers, people have introduced extended shut-downs and short-time working. We have seen some voluntary but also, sadly, some compulsory redundancy schemes and, what has been unprecedented, we have seen pay freezes, indeed pay cuts, from the top to the bottom of businesses. I would say the sole focus for most companies is ensuring that they keep the valuable staff they have, or as many of them as they can, because we are confident that we can succeed into the future and the only way we can do that is by having that industrial capability and the people are a key part of it. What we have endured is a very difficult time and we continue to face major challenges but perhaps things have stopped getting worse.

**Mr Graham Smith:** If I could reinforce that. Approximately 85% of what we produce in the UK is exported, so it is not just the state of the UK market but the state of the wider European market that drives the level of demand. Where there have been scrappage schemes, like in Germany, the market is actually up year-on-year. Overall, particularly our version of Europe, which does include, as I have already mentioned, Russia, is down about 25%, very similar to the UK experience. A 25% decline in demand inevitably means adjustment to manufacturing processes. We have attempted to do all the things that Paul has said. First and foremost we want to retain the skills and the understanding of our production processes. The Toyota production system has got, if you like, global recognition. It is something that is not just about process, it is also about culture so, therefore, it is about the people, the relationship, the way we work with member representatives, which we do very positively and successfully. We have tried to manage our adjustments whilst retaining all of our permanent employees, as we have in other parts of the world. That is absolutely critical and is very painful. Across all of our operations we are sharing that burden. I and all of my colleagues, certainly in terms of pay freezes, no bonuses, not being paid for certain days during the course of the year when we are not manufacturing vehicles, et cetera, and then we have got days that are either collective shutdown or whatever, have taken many, many steps to make the adjustment and do it in such a way that we retain our capability. The other aspect of the European situation is when the market starts to decline of course you attempt to review the situation, understand how far that decline is going to go, how serious will it be, and that is very difficult to forecast so, therefore, there is a tendency to maintain for a period of time levels of manufacturing, levels of output. The result of that was there was a rise in inventory and that has probably been fairly universal across all vehicle manufacturers across all of Europe to a greater or lesser extent. That has been managed down and it is probably fair to say there is a closer fit between levels of inventory and the current reduced level of the marketplace. Again, reinforcing Paul’s point, it is not getting better but when you are reducing inventory you are building at a lower rate than the market demand, you are below the level of demand to bring down your inventory. It is that process that is, to some extent, beginning to be worked through but it has been desperately difficult and painful, hence the production adjustment. That is the condition for Toyota. It affects not just the UK operations but our wider European and global operations as well.

**Mr David Smith:** I agree with Graham. We are an export business at heart. We export about 80% of our production. We are seeing our world markets down about a third overall. In fact, the premium end of the business has been impacted generally a bit harder than the volume end. As a consequence, in the first part of last year we were riding high, we had some strong sales, we were making money and then we were hit very, very hard in the second part of last year. We have seen those conditions unabated through the first part of this year. Apart from maybe China and the UK being slightly stronger than we expected a little while back, we are still seeing a lot of weakness. Germany and the Continent are very, very weak. The US market is very fragile as well. We have made the same inventory adjustments as all other manufacturers which has resulted in production down 50/60% over the last few months. That has hit the supply base very hard and it has hit our employees very hard. We have had all of our plants now on single shifts with significant impacts on working time, four day weeks for months now. The average guy on the line has probably seen his pay impacted by anything up to 20%. It has been a very severe impact across the business. I do believe that Graham is right that we are through, or very close to being through, this de-stocking period now. Fundamentally, demand is still about a third below where it was a couple of years ago and I do not see that improving that quickly. I think we are going to see these market conditions continue through this year into next year and it will probably be two or three years before we return to more normal market conditions.

Q63 Mr Wright: Do you think we are at the bottom of the trough at the moment and are just going along waiting?

**Mr David Smith:** I would say individual markets are going in different directions. There are still some markets, especially on continental Europe, which
are going backwards if you allow for the scrappage schemes, looking at the underlying trends. Others may be improving a bit. We are going to bump along the bottom from here. This is not just about consumer demand and volume. The big impact on the industry as well as having to cope with that has been having to cope with almost a complete withdrawal of funding into the sector and, therefore, the whole issue around availability of credit from banks for the industry, suppliers and consumers, has made this very painful adjustment period extremely difficult to cope with. All manufacturers are having work very cautiously at the moment with their cash flow.

Chairman: I want to take up this question in some detail a little later on, so can we bank that thought for the time being.

Q64 Mr Wright: My last question is in relation to Nissan. Just recently they announced they were taking on 150 extra staff because of the increase in demand that they saw. Do you think they have jumped the gun or is their situation somewhat different from everybody else?

Mr David Smith: As I understand it that was partly due to the scrappage schemes that they are supplying especially on the Continent and now we have the UK scheme starting. As a business we will start increasing our production as we get through this de-stocking period but, as I say, it is still running at very low levels and, therefore, we will not move off the short-time working until we are confident that we see strong demand coming back into the market.

Q65 Mr Hoyle: David, obviously you are getting rid of your stock and production is going to increase. Is that across the two sites? That is the first part of the question. The second is recognising how important the market is, all the evidence we used to receive from you was the problem with the UK is the pound is too strong and the euro too weak, now that has reversed are you seeing the benefits of that coming through? Have you changed your stance? Toyota was always very strong on the euro in the past. Have you seen any benefits now we have seen that reversed and Britain is actually a good place to do business?

Mr David Smith: I am a great believer in Britain being a good place to do business.

Q66 Mr Hoyle: Hear, hear!

Mr David Smith: In answer to the first question, yes, all of our plants will start seeing some improvement in production because we are through the de-stocking period. This is an important year for both Land Rover and Jaguar. We have seven major product launches this year and we are just beginning to launch our products at Solihull and the new XJ at the end of the year at Castle Bromwich, so important new products. I will let Paul comment on the sterling issue, but for us it is an improvement in our margins certainly and the critical issue is the demand is not there at the moment and until that returns in key export markets like the US, Europe and the Middle East then the impact is going to be subdued for us. We are also seeing an increase in import prices rolling through still. I know it may seem like the commodity price boom peaked last year but a lot of those price increases are still coming through the supply base, so there are still a lot of import base cost increases coming through as well.

Mr Everitt: The general point on exchange rates is from a manufacturing point of view, yes, it makes things slightly better, the problem is at the moment the levels of demand globally are not great so you do not get a great deal of benefit from it. The key is about stability and the longer term outlook for exchange rates. One of the reasons in the first question about why has there been this hollowing out has been because of the sustained level of relative high disadvantage in terms of exchange rates. We all know today that the pound has hit the highest level for some considerable time and apparently that is because everyone is in favour of feeling confident about the banking sector.

Q67 Mr Hoyle: I thought you were going to say the Speaker!

Mr Everitt: I will leave that for you. The short-term issues are directly intertwined with the longer term strategy that the country wants to have in terms of manufacturing because that longer term is what people need, the certainty and stability going forward is what is going to determine how attractive the UK is for increased investment.

Mr Graham Smith: If I could just pick up on your comment, Mr Hoyle, about us being fairly strong about the exchange rate. Let us be very clear, we have been very strong about the benefits of stability in relation to exchange rates and if you are part of a currency union or currency zone then that stability is guaranteed. What we have always said, however, is that the pound, the euro and all of that is a matter for the UK Government and UK citizens, not a matter for Toyota. We have not commented on whether there should or should not be any realignment, so let us be clear about that. Having said that, again I refer to the integrated nature of our operations. We have a wide model range and we do not manufacture all of that range in the UK. We have very, very important manufacturing in relation to two models and a major engine plant. Things are moving in both directions: we are importing certain components and exporting vehicles, et cetera. There are swings and roundabouts in relation to the exchange rate. Stability planning and degrees of certainty are what are helpful to manufacturing and we could not run our business based on, if you like, opportunistic responses to a particular exchange rate for a period of time that could easily swing in a different direction and cause a judgment to be inappropriate.

Q68 Mr Hoyle: So I could say you are smiling a little more now than you were two years ago.

Mr Graham Smith: The instability in the exchange rate remains unhelpful, that is all.

Mr Hoyle: I understand.

Chairman: You have got what you want, but not when you can use it basically.
Q69 Miss Kirkbride: The Automotive Assistance Programme is obviously something we want to talk about and perhaps all of you would like to comment on my first question. Are loans and loan guarantee schemes the right way forward for your industry?

Mr Everitt: When we set out the package of measures that we were looking for in October/November time of last year, loans and loan guarantees were absolutely what we were looking for. The industry has always sought the ability to help itself through this difficult situation and for us the problems were getting access to credit and finance to allow us to sustain our businesses. The loans and loan guarantees were specific requests that we made to Government both in terms of supporting European Investment Bank funding that was being made available but also funding directly here in the UK. The Automotive Assistance Programme and its line was as close to being what we had asked for.

Mr Graham Smith: From our point of view, the important comment is first of all we are members of the SMMT and absolutely subscribe to the position taken by the SMMT and are very supportive of it. Indeed, during this period I was President of the SMMT, so I was very engaged with Paul in all of those discussions. I am here today as Toyota Motor Europe and the comment I think I must make is that the particular situation of every company is different. Some are regional companies and others, like my company, are globally established and, of course, there is a range of financial strength, of balance sheet strength, credit rating, and that will depend on access to the availability and cost of funding. Not every company has needed to access the schemes that we have been calling for—EIB, Automotive Assistance—and often is able to secure funding possibly at the lowest costs as well. To be fair, my company falls into that category but what I want to do is to speak up for the supply base. I know we are going to come back to that, but this is an issue that is particularly relevant to the supply base and it is for the smaller companies, the supply infrastructure. We have heard the words “hollowing out” as a description of the trend that has taken place but, however you want to describe it, it is fragile in the UK at the present time and strategically is probably the biggest single threat to the world class industry and the world class manufacturing operations that we have here at the vehicle assembly and engine manufacture level.

Q70 Chairman: I do want to stop you there on the supply chain because we will have questions on that later.

Mr Graham Smith: It is relative to the availability of credit. There is a range of issues for the supply chain companies but availability of finance and credit is one of them. The final thing I would say is that unfortunately there was a tendency, not necessarily by Members of this Parliament and not necessarily universally, to characterise the requests that we were making as some kind of a bail-out. This is commercial funding from banks, a guarantee facilitates that but it is not a grant, it is not cash to us, it is money that is borrowed on commercial terms that has to be repaid. We view lines of financing in that context: commercially available, it costs money and we try to minimise the cost of our borrowing obviously. It is not under any circumstances, as far as we are concerned, a bail-out or anything like that. That is the way all of the companies in the UK view it.

Q71 Miss Kirkbride: JLR is the jewel in the crown of our region. How do you feel about that?

Mr David Smith: Let us go back for a second to why I think the industry drew attention to this. We said two things in October/November. Firstly, we needed demand boosting methods and, secondly, we needed to address the issue that we could see coming very quickly in the supply chain liquidity. Two things happened. Firstly, the commercial banks were very cautious about lending into the sector, if lending at all. Secondly, we saw the withdrawal of trade credit insurance, which had been an important part of the factoring arrangements that suppliers made between themselves. The Government responded to that with the announcement of the AAP which has two parts to it. It has the support, as Paul was saying, for the EIB clean transport facility and, secondly, support for commercial lending into the sector, both through loan guarantees. At the time that was announced the industry identified some potential issues with that and we can come back to those in some more detail. At the time the Government addressed those saying they would try and be as flexible as possible in the operation of the scheme and accelerate its implementation. The frustration for everybody, and I am not saying this is just manufacturers because I think the supply chain and Government as well are somewhat frustrated with the pace at which we have been able to implement this. We have done a lot of things in our supply chain. For instance, a couple of weeks ago we had a summit in the West Midlands with our suppliers supported by the SMMT and BERR and others trying to go through the principles of the scheme again. We are still suffering difficulties getting it moving though.

Q72 Chairman: When you say “we”, do you mean JLR or the industry?

Mr David Smith: JLR certainly but the whole industry. I am not aware of anybody having received any support through the AAP yet. I do not think anything has come out at the end of the pipeline.

Q73 Miss Kirkbride: The start date was when?

Mr David Smith: The scheme was launched at the end of February and received European clearance at about that time as well.

Q74 Miss Kirkbride: So it has been 10 weeks.

Mr David Smith: This is really about how we can accelerate this and get it moving more swiftly. This was an urgent need back in October/November and this is what we need. For JLR in particular, we have already received loan approval from the EIB for a substantial facility, £340 million, against our future technology investments. To unlock that we have to have the loan guarantees in place from the
Government and, unfortunately, I am not able to discuss too much about those negotiations with the Committee but—

Q75 Miss Kirkbride: Can you give us a flavour as to why it is taking so long?
Mr David Smith: Until we can unlock those loan guarantees we cannot get access to the EIB money and, therefore, we need that to happen as swiftly as possible and that is why we are asking the Government to conclude those discussions as quickly as we can.

Q76 Miss Kirkbride: Those discussions are taking place between you and the Treasury?
Mr David Smith: Between ourselves and BERR, yes.

Q77 Miss Kirkbride: So those are the only two parties at the table who are having difficulty agreeing?
Mr David Smith: The negotiations are happening between ourselves and BERR.

Q78 Miss Kirkbride: It is 10 weeks on, an urgent situation, and it still has not happened?
Mr David Smith: That is correct.

Q79 Miss Kirkbride: The money that will be forthcoming, hopefully at the end of this period, what will be used for and how vital is it to JLR?
Mr David Smith: As I said, we are investing about £800 million over the next few years in green technologies and that is a wide range of things: lightweight vehicle structures; new engine technologies; hybrid technologies; a whole variety of different things. The money is against those individual projects. It is very important to us because clearly we need to make those investments to be competitive. To be honest, if JLR does not make that research and development and industrialisation commitment in the UK we probably will not have a low carbon vehicle industry in the UK which will have very severe implications down the road for the ability of the UK to sustain a viable industry. It is essential that we do make those investments. Unfortunately, there will be severe consequences down the road if we cannot make them now. The sooner we can get this money unlocked, the better.

Q80 Miss Kirkbride: I understand the sensitivity of what you are saying because the company’s future clearly is quite dependent upon this and the green technology aspect is very important for UK plc, but given what we have heard from ministers recently about the need to invest in new green technology and given that you are going to be at the hub of all this I find it incomprehensible that this is taking such a long time. This conflicts with everything we hear from ministers at the Despatch Box. Is there a tetchy civil servant or something?
Mr David Smith: I cannot discuss the details of the negotiations but we want it wrapped up as quickly as we can.

Q81 Miss Kirkbride: Do you think it is right that the Government has gone down the road that this money, in its own words, is about, “Projects that deliver demonstrably new activity and investment that would not otherwise happen without the provision of Government support”? Has that also been the right way forward for these loan guarantees?
Mr Everitt: Perhaps I could address that from an industry perspective.

Q82 Miss Kirkbride: By all means.
Mr Everitt: This is the key question of what is termed as additionality and it does create some significant problems. As we have already alluded to, the problem for most companies is not having the available finance to invest or sustain their businesses. In those circumstances, without the loan guarantees the investment would not happen. One of the challenges is that is not always as fully understood or as flexibly interpreted as we would like and perhaps the approach is adopted in other countries. For us, without the loan guarantees most projects will not happen but that is not necessarily the approach adopted once you get into the details of schemes or individual projects. I would caution here that certainly our understanding from the feedback we have is that Government by and large, and the civil servants, do try to interpret as flexibly as they can but sometimes issues still arise. One of the difficulties obviously is we are in a pressured situation and people want to get these things done.

Q83 Chairman: Can I just interrupt Julie’s questioning for a second? We had very compelling evidence on Monday from Professor Richard Parry-Jones. I know all your members are important to you, Paul, but his compelling evidence was that JLR is the key to the future of high value-added automotive manufacturing in the UK and that without JLR the game is basically up. I have heard very big Tier 1 component suppliers also say to me that their business in the UK depends on JLR. Do you share that view?
Mr Everitt: Clearly JLR’s Chief Executive is sitting next to me! It is very important. However, I would also say there are a number of other significant investors, particularly in R&D here in the UK and potential investors in R&D. It is large and very important because it is perhaps the largest single one, but Ford, as an example, is a very significant investor in R&D here in the UK and Nissan, whilst not quite as substantial, is a company that is growing in terms of its investment and potential investment here in the UK, and there are a variety of others. I would not want to give the impression that only one company matters. David will be able to talk for himself, but I do not think it is helpful in some respects to focus all of our hopes on one single company. It is probably an unhelpful burden for any one company to bear and we have been there before, as you will probably recall, particularly here in the West Midlands where we focused all attention on one particular company. We are a strong and diverse
Mr David Smith: It is still in the process, if you like, but everywhere else across Europe and certainly the world is facing very similar circumstances. The judgment is in a number of other countries it has been easier for companies to access finance and perhaps whilst at the moment that may not be such a huge issue, it certainly sends a very conflicting signal to the global investors who are important both in terms of vehicle manufacturers but also, as you mentioned, the Tier 1 and Tier 2 companies as well.

Mr Graham Smith: If I could add a couple of comments. First of all, there is no company more focused on environmental technology on a global basis than Toyota and our full hybrid technology has been in the market for 10 years-plus as an indication of that. The development of low carbon markets is important to the future. It is important in relation to higher level emission targets that this country and others have to meet and from wider societal points of view. Therefore, the focus on green technologies and the development of low carbon intensity products of the future is vital. I come back to the supply base. The environmental focus is also important in the supply infrastructure, but the balance between the environmental focus and specific projects, new investment—again, the additionality issue—versus working capital and funding to maintain operations despite the 25% reduction, often more, in terms of level of demand they have experienced is equally pressing. I am not saying that the environmental focus is not appropriate in the supply chain; what I am saying is that they have got possibly more basic needs in terms of working capital to enable them, frankly, to survive, funding to enable some of them to consolidate to maintain a presence in the UK and to not end up restructuring around sister plants in other countries. Quite a lot of the supply base has an international dimension to it.

Q88 Miss Kirkbride: How effective has the programme been in stopping things that you all might be doing from moving abroad or just being abandoned altogether?

Mr David Smith: There is a gap between some of the schemes that needs more flexibility.

Q89 Miss Kirkbride: My last question was should it just have been based on green technologies and in a way your answer was that it could have done with looking a bit wider in other respects.

Mr Graham Smith: In relation to the supply chain especially some of their needs are more basic for working capital, et cetera, without necessarily the green technology link, that is the point I am making.

Q90 Miss Kirkbride: Would the others agree or have another dimension that it should have gone down?

Mr Everitt: Our understanding, and certainly in practice, is that there is a reasonable level of flexibility in how that is interpreted which by and large should be okay. There are probably some bigger issues to do with the effectiveness of the programme than the focus on green technologies.
Miss Kirkbride: Like how long it takes.

Chairman: We are coming to that very shortly.

Q91 Mr Hoyle: Obviously Julie has said the jewel in the crown is JLR, and you are one of the jewels of the crown in the Northwest and what we have got to do is look at the four regions, Northwest, Northeast, East Midlands and West Midlands. What we are talking about is green technology and JLR, and it is very important, but I think you would reflect as well you are the premier division in the motor industry and there are other parts that are just as important in the UK. With what you have said today, and I am not trying to push you, David, I understand everything is very sensitive, what one message do you believe we should put into the report and take back to Government that has not come out yet to help you?

Mr David Smith: It is about accelerating the release of the EIB and the other cash that is required by the industry and us.

Q92 Mr Hoyle: Paul, have you a message?

Mr Everitt: I have got several probably. For me, the key is Government needs to remain focused on the existing mechanisms and ensure that sufficient resources are put into them so they do deliver. What we do not want is another mechanism, if you like. We have some that could be effective, we just need to work them.

Q93 Miss Kirkbride: What do you mean by “resources” there? Are you talking about manpower to do it or the amount of money in the pot?

Mr Everitt: Everything. Certainly to ensure that they are adequately resourced and where there are needs they are addressed.

Q94 Chairman: This is an important point. Are you saying you think there may be a shortage of Civil Service resources actually dealing with the scheme?

Mr Everitt: My impression—

Chairman: Do not be shy, please. This is an important point.

Q95 Miss Kirkbride: This is your chance to put the point.

Mr Everitt: It is true that the Automotive Unit is relatively small and dealing now with a significant number of major schemes. Equally, they have been allocated new resources but it is as and when they can as opposed to, “This is a key and essential series of programmes that have to be resourced as soon as we can to the best that we can”. They are trying their best within the resources that they have.

Q96 Mr Hoyle: Do you think expertise could have been brought out of the Development Agencies and put into Government to help this situation? I just wonder because there is good expertise in these Development Agencies, the RDAs, and there is a shortage of understanding within Government whether we could have brought some of that in to speed up the delivery.

Mr Everitt: I made a number of comments that people did or did not agree with. I characterised the situation towards the end of last year and the beginning of this year as a national emergency. From an SMMT point of view we offered our resources to Government to assist them in the areas that they needed and we ran a number of seminars and other things to try and communicate what was available to people who needed it. Certainly more of that has been required in a variety of different aspects to try and get things done.

Q97 Mr Hoyle: Have you got a message, Graham, or are you happy with the message?

Mr Graham Smith: I have repeated it enough times. Our concern is the integrity of the supply chain and the application of the schemes to the smaller companies often of international parentage.

Chairman: Before I move on to Tony Wright, Lembit has a supplementary and I have a point to make. We are going to the Northwest Development Agency tomorrow. I should say we are very grateful to Advantage West Midlands for their hospitality and facilities. I did not say it when we began and I should have.

Q98 Lembit Öpik: I do not want to push you on this, Paul, but it is really for the avoidance of doubt. Our objective is to do something useful for your business. I would like to pin you down on this, and you are not going to be making enemies either in this Committee or the Government. Is it your view that if the Government invested in greater human resources to apply this scheme the cost of that investment would be paid back in the net return economically to the country?

Mr Everitt: That is quite a difficult judgment. We have moved on quite a bit in the process, so we are talking about how quickly did a team get established, how resourced were they and are they able to deal with the issues. It is not a straightforward issue because some of the concerns that we have with the programme actually have nothing to do with Government and are really to do with the appetite within the banking sector to do business with the automotive industry. We certainly have a number of examples where the Government and team have done their job in getting a project through the various mechanisms only to find there is not a bank willing to support the business.

Lembit Öpik: We do not want to make a recommendation that is pointless. We will be coming back to credit later on, Chairman.

Q99 Chairman: Funnily enough, that was the entreé to my question. One of the major themes of your written evidence, and I think this is the right moment to ask you, was this catch-22 situation, the circularity of the programme. You emphasise it is a guarantee, you have got to have commercial lending in place, or the EIB lending, yet the banks are not lending you the money, so if there is nothing to lend there is no guarantee available. Talk to me about the situation with the banks.
Mr Everitt: I can only give you the impressions that I have had from a number of companies particularly within the supply chain who have worked the process who do feel they have viable propositions to make only to find that their banks are not interested in coming forward. This is a broader theme, it is not just around the Automotive Assistance Programme because a number of the other more general schemes that Government have also effectively rely on the bank coming forward to support the company and to be involved. Certainly the feedback we have had is that it is not even a question of how much it costs, the impression companies have is that banks at large have taken a view to reduce their exposure in the automotive sector and irrespective of the viability of the business they are not going to be involved.

Q100 Chairman: That is very important, irrespective of the viability of the business they have taken a view, and this is a short-term view they have taken or a medium-term view of the sector?

Mr Everitt: It is difficult for me to know. My sense is it is certainly a medium-term view. It is not a question that they might come back in a couple of months and see if you are still there, they are saying, “This is not the sort of business we want”.

Q101 Chairman: That is quite a big statement actually.

Mr Everitt: I have had a number of conversations with RBS and Lloyds who genuinely say, “We want to do what we can. We want to help, it is part of our lending commitment”, but on the ground that is not how people see it. They either see a reluctance or a set of conditions that they cannot fulfil. Even to sustain their existing arrangements most companies have to become involved in getting independent business reviews done to verify to the bank they are a going concern or their situation is okay, which costs a huge amount of money.

Q102 Chairman: I had probably a Tier 2 supplier in my constituency facing precisely that problem, very expensive bills for the business review, and the bank pulled the plug anyhow.

Mr Everitt: This is bad enough, if you like, but the strategic consequences of that are that vehicle manufacturers have to step in one way or another to actually finance those companies. That puts an added burden on the company, but also from a competitive and internationally competitive situation if it is cheaper and finance is more accessible in other countries then it is much more doable to support your supply chain in those countries rather than here in the UK. A strategic concern for us is that as the economy begins to grow and demand is created that situation will get worse because, in order to fulfil orders for vehicle manufacturers, companies are going to have to incur significant costs. They need working capital, as Graham has mentioned, and if that is not available then their ability to support the industry’s growth is going to be undermined.

Q103 Chairman: Given the importance you attached to this in your written evidence I wanted to give you a chance to talk about it in public. I hope you feel that puts your concerns on the record adequately.

Mr Everitt: Yes.

Q104 Mr Wright: I just turn back to the AAP loan and loan guarantee scheme. Do you think the eligibility criteria excludes too many companies? Should the required turnover be less or more than the £25 million and the project investment be less or more than the £5 million? Mr Smith, you briefly touched on that earlier.

Mr David Smith: I mentioned it and we did raise that issue right on the very first day with Ian Pearson and the answer we got was that they would be flexible around those things. There is a gap also between what the EFG scheme and AAP scheme covers.

Q105 Chairman: That is the Enterprise Finance Guarantee scheme.

Mr David Smith: Thank you. I was struggling with the acronym. There is potentially a group of companies stuck in the middle between those two as well, which is why we asked for the flexibility.

Q106 Chairman: It is quite a big gap, is it not?

Mr David Smith: It is. Basically the maximum under the EFG scheme is £1 million and the minimum under the AAP scheme is £5 million for projects, so there is a gap, which is quite an important gap because there are not that many suppliers with £5 million environmental projects. That is an area of flexibility we have asked for. I believe that the Government is responding to that in the way that it is looking at the applications. I just want to come back to a couple of things that Paul said. This issue of bank funding is a much broader issue still. If you look at the statistics for approvals under the EFG scheme, there are relatively fewer manufacturing companies getting approved than you would expect given the impact on the economy of manufacturing. I believe that is also because the banks are still quite reluctant more generally to lend into manufacturing. Plus, we have had this withdrawal of trade credit insurance that also takes away the other leg. I know the Government tried to address that in the Budget with their scheme but the problem is that only applies to companies that have not had their trade credit insurance withdrawn before 1 April, so probably most companies in the automotive sector cannot use that top-up trade credit insurance. It really is a very difficult situation for smaller suppliers. As Paul says, we and others—I am sure Toyota and others—are trying our best to help those that we can but it is putting strain on the whole system as we try and do that.

Q107 Mr Wright: Just returning to the flexibility of the AAP scheme. Is the industry happy that the Government is accepting that there is going to be flexibility, they are not going to stick rigidly to the £25 million and £5 million figures?
Mr David Smith: I am happy about that. I do not see the individual applications going through and as we have not really seen any come out the other end yet it is unclear what flexibility is being applied in practice. They have certainly made that commitment.

Mr Everitt: My understanding is that is being followed through, there is some flexibility there.

Mr Graham Smith: My message is that is very important, this whole issue of the flow through of funding and financing into the supply base by finding the flexibilities that are necessary, by encouraging banks as far as that is possible to be a little more positive towards the sector, to not penalise in terms of number of bases points of costs to an unreasonable extent. There are a number of different ways where either access to availability of credit, cost of credit, even with flexibility, is not necessarily hitting precisely the right mark in relation to the various issues that exist across the supply chain. I think you are hearing a fairly consistent theme about where the fragility is and it is in the supply infrastructure as much as anywhere else in the industry.

Q108 Mr Wright: The CBI were quite scathing over the length and complexity of the application form for the AAP. Is that a particular difficulty in terms of the application, the form, or is it the discussion after the form and the application has gone in?

Mr Everitt: For large companies that do have plenty of resources it is not a major problem, frankly, but as you go down into smaller companies the more complex it looks, the more difficult it feels and the less likely they are to get involved. One of the problems is getting in enough people to take it seriously enough to be able to get some results out of the process. There should be hundreds of companies looking to take up the opportunity. Our understanding is there have been 60-plus expressions of interest and there are probably somewhere in the mid-teens or early 20s of companies who have started that process and are likely to be at the larger end of the scale. Things that help people get through that process are quite important.

Mr David Smith: Whether I have or not, it is an urgent situation. Paul used the words “national emergency” before Christmas and that is where we are and that has not changed unfortunately.

Q110 Chairman: Six months ago it was urgent and nothing has happened in terms of loans and guarantees.

Mr David Smith: There is a huge amount of tension in the system and everybody is trying to help where we can. We are very concerned about the reluctance of the banks to step forward here. I do not think it is because of a lack of communication or lack of processes. I mentioned the forums that we have been having with our supply chain and I know other manufacturers have done the same thing, but the help is not getting through quickly enough. One thing I was going to mention is RDAs do still have an important role. You will be aware that I am a member of AWM and it is very important because they do have people on the ground and often they are better linked into the local banks and local banking representatives. That may be one of the reasons why the thing has been a bit slow off the ground because the banks have been handling it centrally rather than through their local offices. That is something the RDAs are trying to help with at the moment, certainly in the West Midlands.

Q111 Mr Hoyle: That was the point I was trying to get across. I believe they have played an important role so far as we have gone into this deep slide into recession. Without the Development Agencies I think we would have really sunk. I appreciate what you said because I believe the Northwest Development Agency do a very, very good job. It is a well-run organisation and the chief exec is excellent. We have touched on some of these schemes already, the AAP, TCI, but can I try another one on you, the CSS—the Car Scrappage Scheme. Just take a look at the Car Scrappage Scheme. I have been a big supporter; I got an early day motion down in Parliament and wanted to push for this. Am I bothered? Yes. Why am I bothered? I think it was too little and should have been greater, but also the incentive is for small cars, I understand that, but the fact is if you take a typical family in my constituency they could have two adults, two children, a dog and tow a small trailer or caravan and you cannot do that with a Nissan Micra. While I believe in backing UK manufacturing and the UK car industry, my view is I think we could have gone further and harder, a little bit more incentive than £2,000, maybe £4,000, but also to have something for family cars so that we suit the needs and requirements of the people we represent. Do you think we have missed a trick there?

Mr Everitt: Clearly we made quite a detailed proposition to Government around the Scrappage Scheme that mirrored more closely the scheme that runs in Germany which at €2,500 is a more generous scheme. In the end that was not deliverable and we can understand a range of reasons why that might be because we are facing a difficult set of financial circumstances for the Government as well as major
industry. Our task is to make the best use of the scheme that we have. I think if your constituents look across the vehicle manufacturers who are now all signed up and participating in the Scrappage Scheme they will find some very, very attractive offers in all segments of the marketplace. Most companies are offering far in excess of the £2,000 minimum on larger products and certainly on products manufactured here in the UK. We can spend a lot of time worrying about what has happened but we have a scrappage incentive scheme and that is incredibly important for our industry. I believe it will be effective. Early indications in terms of the uplift in consumer traffic through dealerships has been very positive. From my anecdotal conversations with various vehicle manufacturers there are significant orders already and, indeed, as we know, in some cases people have already had delivery of their new car and the scrapping of their old one.

**Mr Hoyle:** That is good. Thank you for that. Yes it is good and we could have made it a bit better if the Treasury had the finances, but in the end you are beginning to see the benefits.

Q112 **Chairman:** And the VAT problems are all resolved?

**Mr Everitt:** All problems are resolved.

Q113 **Mr Hoyle:** Let us leave it at that. I will say I went out to support my own dealership, Chorley Nissan in Chorley, because they said this is a real boost for our area, and I can see the benefits of that. Can I take you on to something that I have been a big supporter of? We have got short-time working and I believe we should actually subsidise short-time working because you are better off keeping people in jobs, doing the training within there ready for the upturn in the market rather than subsidising people at the JobCentre. I believe in training people at the JobCentre completely but we could have kept jobs in line if we had allowed companies to do more with short-time working and use the money we spend on those people who have gone to the JobCentre to keep them in employment. Do you think that could have been a winner and a big plus for UK manufacturing, such as Germany, France and even Wales have managed to achieve?

**Mr Everitt:** As part of the strategic package that we put to Government towards the end of last year, support for short-time working was a key element of it. We took the view that the balance should be towards using the time to upskill the workforce so that we could do everything we can to prepare people for the longer term both in the successful industry that hopefully we are going to have but also equipping people with more and better skills so that if the worst outcome happened they would be better prepared individually to have opportunities into the future. We still remain committed to some form of ePort. It is interesting that the two most effective schemes that Government has introduced are the Time to Pay from HMRC, a good opportunity there, but the other was the Train to Gain programme. In our sector it has been taken up very widely and has been very easy to use. It is of itself not the answer but it did provide valuable input. We had hoped that we would be able to build on that and increase both the value and volume of people to whom it was open.

Q114 **Chairman:** Would it be fair to say the Train to Gain scheme worked because it was a pre-existing programme that could be rolled out and applied, the experience was already there and had been road-tested already?

**Mr Graham Smith:** That certainly helps. There was knowledge of the scheme within our manufacturing operations; we were already using it. Additional funding or the criteria for applying it was widening and we were able to take almost immediate benefit from that. I have already expressed how important retention of the skills within our manufacturing operation was, and it will remain. Any step that facilitates that would be worthwhile. I made the point that we have not renewed some temporary contracts. Obviously we are adjusting to demand but the more skills, the more capability that we can return for when the upturn comes, the better. The extent to which some recognition of the cost of doing that and preparing for, if you like, a viable, vibrant future come the increase in demand, and it will come, that is not just an investment in skills and people and retention, it is also an investment in preparing for that future and being in the best possible shape to exploit it. That is something we think is important and why we were strong supporters of that kind of provision from Government when it was included within the submission put in by the SMMT.

**Mr David Smith:** Can I just add a couple of comments on short-time working. I believe it is very important that we have a scheme like this in the UK and Peter’s comment about there was not a pre-existing scheme being a problem was right. It is essentially embedded in the social security arrangements in other countries. The reason it is important is right now we have a very difficult situation where essentially UK manufacturers are competing against products that have been subsidised in their production in the domestic industries of Germany and other countries. We have got a situation where individual suppliers are taking a decision to shut down or close production in the UK and move production to overseas countries. It is the reverse of the thing that we pride ourselves on, which is flexible working practices in the UK, and in this situation makes industry more vulnerable. I would like to say I think over the past few months, certainly in Jaguar Land Rover and across the industry, we have seen a remarkable realism and pragmatism from the workforce and the unions and companies together trying to find their way to alternative arrangements around short-time working. Essentially we have all reached slightly different conclusions, but a great deal of credit to the unions and industrial relations improvement in this country in getting to those agreements, but at the end of the day unfortunately those agreements have hit the worker in the pocket and it is the workers in the companies that have taken the full brunt of this. I do think if we could have some sort of social security
arrangement in place, at least if we cannot do it this
time for the future, it is a very important thing that
needs to be part of our labour practice and social
security arrangements.

Q115 Chairman: This is a new point to me. Perhaps
it should not be, but it is and it is best to admit it.
Paul, I think we might talk to you about how we get
some more detail about that arrangement. It may be
a question of the EIF and the CBI and others, not
just an automotive point.
Mr Everitt: No, it is a broader issue. Certainly we are
happy to provide you with the information that we have.
Chairman: That would be very helpful.

Q116 Mr Hoyle: Obviously we are all of the same
mind that something built around a short-time
working subsidy would have been good for the
industry. Do you think there is still time? I believe
now is the time to actually bring it in and I am trying
to keep the pressure on the Treasury. Is that the right
thing for me to be doing?
Mr David Smith: Yes, I think you should keep that
pressure up.

Q117 Chairman: Before I move on to Lembit on the
supply chain, I am conscious of the fact that your
memorandum to us, Paul, contains many detailed
issues which we have not gone through orally today:
port rates, capital allowances, the impact on the
luxury market of the tax changes to company cars in
the Budget and so on. I do not particularly want to
go through those unless there is something you want
to highlight. The one I wanted to ask you about, and
feel free to broaden out your answer a bit, was I was
puzzled that the Government’s memorandum to us
on this inquiry refers to the “other wider automotive
interventions” apart from the AAP itself: the
Enterprise Finance Guarantee Scheme, trade credit
insurance top-up, which we have discussed, service
and Automotive and Automotive Access to Finance, as
if it were a scheme, AAF, in capitals. I know that Lord
Davies you and were working on this, but I was not
aware of any coherent system or scheme being in
placed. Have I missed something?
Mr Everitt: No, you have not missed anything. The
access of the vehicle manufacturing finance arms to
more and better priced finance was part of the
strategic package of measures we put to
Government towards the end of last year. It is a topic
that has consumed a huge amount of time and
energy from a variety of specialist people in the
vehicle manufacturers, within BERR and shareholder executive, the Treasury and, indeed, the
Bank of England. At this point in time we have not
made any substantive progress.

Q118 Chairman: Graham, did you want to come in
with Toyota’s perspective on the availability of
finance and what that means in practice?
Mr Graham Smith: Yes. Many—not all but many—
of the vehicle manufacturers have associated finance
companies, so alongside Toyota GB there is Toyota
Financial Services GB. They provide finance in two
areas: one, retail consumer finance at the point of
sale, but they also provide funding and finance for
our retailer networks, in our case Toyota and Lexus.
It is not just about the availability of retail finance.
There are a number of competing organisations.
This is an open and competitive market, it is not
captive to one finance company, there are
independent finance companies and banks active in
this area, but rather fewer now and some have
withdrawn. I think it is fair to say that consumers are
able to access finance and there are, indeed, some
subvented finance schemes in the marketplace as
part of the retail offer. The bigger picture also
includes the funding for inventory and other funding
lines towards the dealers. They employ large
numbers of people, they are businesses too and they
are independent, not owned in the main by the
vehicle manufacturers. The ability of those finance
companies to gain access to funding at competitive
rates in the wholesale market, and these are complex
areas around all of the issues that have been covered
in the press about banks generally, where we have
ended up is the banks have access to a Bank of
England Special Liquidity Scheme which gives them
availability of funding lines at lower cost in the main
than the vehicle finance companies, so the playing
field is no longer level. That is part of the issue. Of
course, the quantity of funding available to the
vehicle finance arms is constrained as well. We are
into near bank organisations, they are not banks in
the true sense of the word and are providing loans at
the point of sale. It used to be hire purchase or
various different loans or leasing arrangements, et
cetera. There is a tremendous amount of finance and
funding provided through that mechanism. That is
what is continuing to be discussed with the Bank of
England.
Mr Everitt: This is to clarify one of the points that
Graham made. It should be a competitive business
and obviously a number of people can borrow. One
of the things that is of particular concern to us is one
of the outcomes of the Lloyds-HBOS merger/
takeover is that the HBOS Motor Finance Division
is now basically shut for business and there is one
less competitor in the marketplace which means
from our industry position if we are trying to access
finance from commercial banks they are our direct
competitors when we are trying to supply to
consumers and if there are fewer of them in the
marketplace that puts us at a disadvantage.
Chairman: You could explain at greater length, but
that is a helpful summation. Thank you very much
indeed.

Q119 Lembit Öpik: One question for the sake of the
record and it is apropos a conversation we were
having earlier. Are you saying that you, as large
companies, are experiencing the same credit squeeze
from the banks as the SMEs in my constituency who
are suffering because their overdraft facilities have
been withdrawn? Effectively, is that what you are saying?
Mr David Smith: I can only speak for Jaguar Land Rover, but clearly that is what we have been saying from last October. Essentially this is about getting access to normal commercial facilities and what we have been asking for as a company is loan guarantees and Government help to facilitate that. It really is because banks have taken a commercial view that they are extremely cautious now about any lending into the sector, even if it is collateralised or securitised. It is a problem that is fairly widespread and for us as a company it has been our big inhibitor and the thing that we have been trying to solve.

Mr Everitt: You will get a different picture from different vehicle manufacturers because of their individual structures and either global or regional nature. What is clear is that the price and volume of finance is unquestionably not as competitive as it once was and it is more difficult than it needs to be.

Q120 Lembit Öpik: Thank you for that. Moving on now to the supply chain, and it has come up a few times already, to focus on this explicitly. My vested interest here is there are quite a lot of supply chain related businesses in Montgomeryshire and they are not looking great. From your perspective, how healthy is that supply chain? Mr Everitt: From an industry position this has been a very difficult period and the greater vulnerability is clearly within the supply chain because the scale of the businesses is smaller, their ability to access finance for a wide range of reasons and I do not want to be part of a further undermining of confidence in the sector but it is tough for everybody.

Q121 Lembit Öpik: Is the Government doing enough to support the supply chain? Mr Everitt: The two issues we have been talking about are linked. There are a variety of schemes out there with reasonable flexibility. There are things to help and support the supply chain but it needs quite a lot of coordination and in most cases needs a bank, or banks, to be proactive in supporting individual companies. There are some good things out there, but the cohesiveness of the collective effort, if you like, is not always where we need it to be. Mr Graham Smith: If I could just add, as far as we are concerned the supply chain is clearly more vulnerable and fragile now than it was two or three years ago. That is point number one. Number two, they have struggled in relation to access to funding and finance for a wide range of reasons and I do not want to get repetitive. All of the flexibility that Paul has referred to is going to be necessary to assist them in their really strong efforts to find a way through this downturn in demand, and for them it is very significant, and remain in the UK investing in employing people here in the UK. I am speaking now in relation to those of our suppliers who are based here. We have to recognise that many of them are international companies, not necessarily British plc organisations. Often it is a plant of an international company which has plants in other locations in Europe and, indeed, globally. The downturn in demand has taken place across the planet in our sector and so, therefore, degrees of consolidation are necessary as part of that survival. I am sure they will also quickly rebuild capacity and capability as demand starts to increase. The risk is constraints on availability of funding, difficulty in restructuring and increased costs associated with the challenge of maintaining their funding lines. These are the kinds of issues they have to confront and some, unfortunately, will go into administration, one or two have already, and some will consolidate and it may not be here in the UK. In other words, they remain in business, they continue to make the component but they might have three plants supplying a number of manufacturers in Europe, one of those plants may go and the risk, given the challenges they are facing, is it could be a UK-based plant. It is for these reasons that we call for maximum effort from the Government around the announced schemes, and I do agree that we do not want any more initiatives, we just want the current arrangements to focus very specifically. I do not want to get in the way of discussions that JLR are having, but from our point of view our emphasis is towards precisely your constituents and others who are in this sector supplying our vehicle and engine assembly plants in the UK.

Q122 Lembit Öpik: That is a very interesting analysis. It sounds to me that those are geographical considerations. Having a reasonably close supplier, is that a consideration? What other influences do you have when you choose your suppliers? Mr Graham Smith: Once again there are very many considerations. Geography is a consideration, although I would not want to say it is the dominant consideration. In our company it would be around consistent quality, consistent delivery, in other words meeting schedules on time every time because just-in-time manufacturing does not operate otherwise. Clearly it is around price and value. It is in all of those areas. If all those three were negative in relation to a particular supplier then being close to a manufacturing plant would not overcome that negativity. In other words, on logistics alone there is not enough variability in the cost. Bringing a part a little further will not overcome inadequate quality as far as we are concerned.

Q123 Lembit Öpik: Does that go for JLR? Mr David Smith: Clearly there are different kinds of supply arrangements in place and, as Graham was indicating, there are suppliers who are global who are providing us with technology as well as components and there are other suppliers who are much more localised and will be supporting a just-in-time delivery system. There is both a short and a
long-term issue here. The longer term issue is the kind of things we have been talking about in the NAIGT report, which is unfortunately we have very few Tier 1 suppliers in this country who are doing R&D now. A relatively small amount of the total R&D is done by suppliers, and we can come back to that. The short-term issue is much more acute and there are two aspects. Firstly, can suppliers survive through this period? Suppliers with poor businesses probably will not and unfortunately I think there has to be some restructuring, and Graham alluded to that. We will try and facilitate that to happen in the best way that we can as a vehicle manufacturer. What I worry about is those who have basically good business models who are really suffering through this slow period and then will have difficulties as we start ramping up because they have not got the credit lines to actually increase their production again. Clearly that is a major threat for us if we cannot do that. I do come back to trade credit insurance because it is not just about bank lending, it really is a pretty significant factor, especially when you get into the Tier 2 and Tier 3 supply base. Unfortunately, although the Government has tried to take action there, I know, the action that it has taken is not really going to help the automotive sector. The one thing I would like it to look at again is whether it can do something more on the trade credit insurance side for the automotive sector.

Q124 Lembit Öpik: It sounds to me you are saying the supply chain is suffering from the same bank aversion to lending that you as the large macro manufacturers are experiencing. Would that be a fair comment?

Mr Graham Smith: In many cases more acute.

Q125 Lembit Öpik: That is useful. Finally, obviously if some of these go to the wall you are going to carry on needing the parts, so would you consciously foster the relocation to near you of companies that were supplying you previously or would you simply outsource that from abroad, for example?

Mr Graham Smith: I do not think there is any vehicle manufacturer that would not try to find a way to help a quality consistent supply partner. David has alluded to it and I will say it for my company as well: we intervene, we try and help, we will even send some of our people to try and overcome particular issues and offer particular advice. We are not alone, others do the same thing. They are strategic partners and without that supply infrastructure, whether it is component supply, technology supply, or a combination of the two, they are absolutely critical to the successful continuation and rebuilding of the volume in our own assembly operation. From that point of view we would not lightly abandon, we will assist. We will try and find solutions that make the most economic sense for both the supply partner and ourselves. Logistics and proximity will be a factor but, as I have already said, not the only factor.

Q126 Lembit Öpik: I guess that goes for you too?

Mr David Smith: Yes, absolutely. We have already seen several examples over the last six months. Even where suppliers have gone into administration, vehicle manufacturers have worked together to try and find the right solution to those situations. It is very important that we do that. Clearly there are competitive considerations, there always have to be. We need to make sure that we come out of this recession with a very intact supply base or else the vehicle manufacturers who are here producing 1.8 million units in peak years will simply not have the support they need in the local supply base and we will end up importing a lot more components.

Q127 Mr Hoyle: Part of this has been about losing the supply chain but what can you do? I know that joint projects have been done in the past and it is about R&D. Do you work on R&D joint projects for the supply chain? Also, is now the opportunity to do that because just prior to the downturn the pound was weakening and there were signs that some companies were willing to come back to the UK, and have you seen any evidence of that?

Mr Everitt: I do not think I can say that I have seen a huge amount of evidence but what I will say is during the course of last year and certainly around the work that we were doing on the NAIGT I went to all of the vehicle manufacturers around the country and was quite surprised at the number of people on the ground who said, “Actually, if we could find some people or more local sourcing that would help us for a variety of reasons”. One of the strong recommendations out of the NAIGT is a greater sense of collaboration with Government but also across industry to take a more strategic view of what might be both short and long-term and more viable to be sourcing in the UK, but I do not think it is going to happen on its own.
a strategic relationship and long-term commitment to create an environment where that sector can grow and prosper.

Q129 Chairman: I would not want to lead my witness, but you would say presumably also that if we do not do it then others will.

Mr Everitt: Others already have.

Mr Graham Smith: Have and are.

Q130 Chairman: Name names.

Mr Everitt: If you go to Germany, France, Italy, Spain or Japan there is a much closer relationship. Indeed, in the US there is a much closer relationship between industry and government, not to try and pick winners or favour particular companies but to create an environment where all companies can prosper. We are in a race. On the way up I took the time on the train to read the recent announcement from President Obama. In Europe and the UK we are ahead of the US in terms of fuel efficient vehicles and fuel efficient technologies. On one level that will not last long and on another level it is a huge opportunity. It is a huge market in the US and if we have got the right products and technology we can win substantial business in that and other markets. It is about saying in the future we need to be making things, that is physically manufacture but also the design, technology and intellectual property that goes alongside that. There is no reason why we cannot retain and, indeed, grow the value of the global automotive industry that we have, but it will not happen on its own, it will only happen because there is a genuine commitment from industry and Government and, indeed, the finance sector to make it happen.

Chairman: I think that is a very good note on which to end this very constructive evidence session. Gentlemen, thank you very much indeed. If there are things that you wish you had said which are not covered in your written evidence, please drop a note to us afterwards. We are very grateful to you. Thank you very much.

Witness: Mr Paul Williams, Chairman, Retail Motor Industry Federation, gave evidence.

Q131 Chairman: Welcome. We have met informally in the past but I think this is the first time you have given formal evidence under my chairmanship. Can I ask you to introduce yourself, please?

Mr Williams: Yes. I am Paul Williams. I am Chairman of the Retail Motor Industry Federation which represents the retail arm of the industry. Representing over 8,000 bodies it is an industry that has 60,000 businesses and 580,000 people employed within it. In terms of its size it has twice the number of employees that the manufacturers have and contributes £33 billion a year to the Treasury in the form of taxes, so quite a large segment.

Q132 Chairman: It would be helpful to know your personal involvement in the industry.

Mr Williams: I am here as Chairman of the RMIF but I am personally the non-executive chairman of a large dealer group.

Q133 Miss Kirkbride: A very, very important sector. This week we have seen the introduction of the Car Scrappage Scheme and I wonder if you think that is the answer to the problems of your retail sector at the moment?

Mr Williams: No, I do not. It was never meant to be the panacea for the industry. I introduced it as an idea in November to Lord Mandelson when he came to see both the manufacturers and retailers. The scheme that I outlined to him that has since gathered momentum in various trade bodies was that there should be a contribution of £2,000 from Government and it should include nearly new cars, which are effectively demonstrator cars which are the same as new cars in terms of the advantages it would have. The aim of the scheme is to reduce the possibility of downsizing within the manufacturing industry and the retail industry so that we could possibly save some jobs. If there was an increase in sales then we could hopefully save some more jobs both in manufacturing and retailing. When the scheme actually came to fruition, and having accepted the concept it has taken rather a long time to come in, almost a week before the Budget, maybe even hours before the Budget, it was watered down to £1,000 from the Government and £1,000 from the manufacturers. The hope was that were it £2,000 from Government the manufacturer would put £1,000 in or thereabouts, and therefore it would be far more exciting to the consumer. I am somewhat mystified that it was watered down and, I have to say, somewhat disappointed. It will have an effect, and it has already had an effect. It has been a long time since any dealership in this country has had customers ringing them asking if they can come in and see them. I can categorically assure you that is not common. It has worked, but it is mystifying as to why instead of just taking the German scheme the decision was to reinvent the wheel. It was never intended to be the panacea. It has given a lift to the industry and it will continue to give a lift to the industry, it is just a little mystifying as to why it was changed.

Q134 Miss Kirkbride: Did you know that they were going to have the German scheme to begin with? Had you got it on good authority? Do you have any idea why it was changed, as you say, within hours or days of the Budget?

Mr Williams: I do not.

Q135 Miss Kirkbride: What is your speculation on it?

Mr Williams: One of the points Paul Everitt made was that the BERR Auto Unit had to second some people in there to get the scheme together, the actual
process. I believe it was the Treasury, and I do not know this, I have no more knowledge than you do of this, that actively watered it down somewhat, which still gives us something we can go to market with but it is just a shame that it did not get a little bit extra and, as Mr Hoyle has pointed out, had a structured tier to it so it is not just middle and smaller volume products that get going.

Q136 Miss Kirkbride: Do you say that the good news is that the phones have started ringing since it was introduced.

Mr Williams: Yes.

Q137 Miss Kirkbride: Can you give us more evidence as to what has happened and the quality of what has happened with its introduction this week?

Mr Williams: I just happen to know because of various contacts I have got. My own company has been incredibly busy.

Q138 Miss Kirkbride: Incredibly busy?

Mr Williams: Yes, incredibly busy. Our Hyundai dealerships are reported to be working seven days a week, they have to come in on Sundays to cater for the sales. They have products at the lower end of the market. They have some luxury saloons as well but predominantly it is the lower end of the market.

Q139 Chairman: Is this enquiries or sales we are talking about?

Mr Williams: Actual sales. To deal with the enquiries and they are selling more and more product. Bear in mind, it was only introduced officially and we could only release cars on Monday and even that got jeopardised somewhat for 48 hours, but nevertheless that is now happening. I know my own company had a great number of vehicles ready for release that we could not actually release because of the various manufacturers involved. Actual sales have been made. These are incremental sales, which is important.

Q140 Miss Kirkbride: The German scheme has been seen to be a big success. Do you think there is hope that it might be as good as that here in the smaller car sector?

Mr Williams: It has been a great success; so great they have actually extended it. This government said, “When the money runs out that is it”, but it has been so successful in lots of different areas that they have said, “We will continue it now”. You still have queues in dealerships over in Germany. When we did our original estimates for Government we based the Scrappage Scheme on their details. I do not think it will be as successful as the German one because it does not have the same size of offer, sadly. We will review it within three months and if we feel it is not capturing the imagination as it should we shall go back to Government and say, “Look, you really do need to have another look at this”. They accepted the concept, which is the annoying feature, but they have not actually done the rest of it.

Q141 Miss Kirkbride: In terms of helping the very important sector that you set out in your opening remarks, is this what it is all about? In this climate, in this recession, the only thing that Government can do is something like a Car Scrappage Scheme and they have done it but just not as well as you would have liked.

Mr Williams: It is quite a resolute part of the sector. We have various operations—new cars, used cars, servicing operations, parts, wholesaling, et cetera—so we have one or two trading arms, but if you continue to drain profit from those companies then they will have to have a look at their expenses and we all know in the real world when you look at expenses the first expense that is downsized is people, always.

It was for that reason that we have been looking at things. Certainly when I later wrote to Lord Mandelson after the scrappage incentive scheme we raised issues on vehicle excise duty, which came in in April of this year, which has cost the industry over £80 million. That was never intended.

Q142 Chairman: This is the refunds on expired licences, is it?

Mr Williams: Yes. I do not think DVLA or Customs & Excise would turn round and say, “We’ll penalise the motor industry for this amount”, but that is a consequence of what they have done. They did it to stop people cashing in their licences just before a Budget so they could have a cheaper licence. It has resulted in our industry losing up to £80 million because we can no longer cash in a tax disc as we used to, you can only do that if you are the registered owner and obviously to go through the whole trauma of becoming a registered owner would be a nonsense. We asked for that to be deferred to 12 months. Not scrapped, we knew the Government would not do that, but to be deferred, and we were told quite politely, but I am still in correspondence I hasten to add, that would not be possible. Not scrap it, just defer it for 12 months to give this very important sector some breathing space. Business rates relief is a debacle in terms of our industry because all companies have had to close dealerships—small, medium—and those sites used to get business rates relief.

Q143 Chairman: It is the void rate relief.

Mr Williams: That no longer occurs. Government and the Treasury seem to be of the view they have cured that problem, but when I gave them the information that the average cost of a site to a motor dealer is about £1.2 million, £1.3 million, the increase they gave in the last Budget is not worth the paper it is printed on. We have suffered quite significantly as a result of that.

Q144 Miss Kirkbride: So the exceptions that they made on void rate relief are not viable for you because your properties are more valuable?

Mr Williams: I will not mention names, but the minister I spoke to on this had no idea whatsoever on the average value of a motor dealership, which is why this Automotive Unit needs to gather some momentum so we can make people aware of what an
enormously large industry it is in terms of employment more than anything else and GDP. The automotive industry contributes something like almost 6% in GDP to this country, which is vast. The guys before told you what would happen if attention is not paid to that. Make no mistake that the retail arm is as equally as important because without somebody to sell the product that they manufacture they might as well shut the shops and we shall not have any manufacturing base at all then. The other item that we spoke about was capital allowances where we asked for a 12 month period and would the Government look at giving 100% capital allowances on medium vans and trucks. We have been in correspondence and they tend to believe the action they have taken has done that. We are in continuing dialogue with them but I think we have missed the boat because it would have been ideal to have introduced that in April. The overall point I am trying to make is we did not ask for these things to be knocked on the head or to be abandoned, we asked for 12 months’ respite just while the industry sees its way through. All that will happen is if companies continue to lose money on this basis they will actually lose staff and the cost of people when they leave us and take on state benefit will be far greater than any one of the capital allowances or, indeed, the reintroduction of business rate relief. There are one or two other issues that we have been taking up as well.

Q145 Mr Hoyle: Thank you for what you have said, I think we are both on the same idea that this is about helping industry and helping ourselves in the UK. You said that you agreed it was a bit short-term, one-size-fits-all on the subsidy and we could have done better if we could have had a bit more idea about the small car, family car, maybe even larger car, so we could have helped right across the industry. If we look at where we produce most cars it is in the middle, the family size cars.

Mr Williams: Yes.

Q146 Mr Hoyle: We can agree on that. Should we have gone for 10 years? I know you could pick any year, but would eight or six have been better? The benefits are you are getting rid of all the cars and for the environment it is a win-win and the fact that we can have younger cars in the country operating has got to be good for business but also for the environment. Do you agree with that?

Mr Williams: I think if you had a room of five people and asked that you would probably get five different responses: seven, six, five, nine, 10. I think the nine or 10 year-old car was about right in as much as it is not just the CO2 scenario but the one thing we kept on reminding politicians and ministers alike was the safety features. If you look at the road safety features on a 10 year-old car compared to what they are now, it is light years on. If somebody is trading in a car that does not have those safety features it must be good for the death rate on roads, et cetera, one would have thought. Whether or not that would be the same for an eight year-old car, a six year-old car or whatever, obviously it would not because they were a bit better designed. I think about nine or 10 years was about right.

Q147 Chairman: Just a couple of questions from me on the Scrappage Scheme. When do you think the money is going to run out at current rates of demand?

Mr Williams: I think they have said February next year or before if the pot runs out. They have put 300-odd million into the pot and I suspect it will not actually run out before next February.

Q148 Chairman: You think it is probably enough money to sustain itself?

Mr Williams: I think it is. It will not have the impact that the German scheme had. The paper we did actually said it would cost about £170 million to Government over an 18 month period. If you work out the sums that does not automatically tie up, but what you need to take into account is we believe there will be something in the region of 225,000 extra vehicles sold in that 18 months incrementally so there would be a VAT revenue, but if you then took the cost of the scheme, you take off the VAT increment, the cost is about £160 million over 18 months, which I would suggest is a lot cheaper than retailers and manufacturers having to lay people off over an 18 month period, the cost to the UK.

Q149 Chairman: To what extent are you worried that the scheme may simply bring forward purchases that would have been made in the future anyhow and in February next year could lead to a new dip in the market?

Mr Williams: That is one of the reasons why we said 18 months, so it did not become too protracted. It will give a demand dip, there is no question about that, but I do not think that is really likely. Anyone with a 10 year-old motorcar up to February next year, or when the pot runs out, will find it a little more difficult. I would suggest, to go and buy a new car on the basis that they will not have the £2,000/£3,000 discount. It is a market that we never had a great impact on anyway. I suspect that the dip will not be as great. There will be one, there is no question, but that is why we have kept it to 18 months.

Lembit Öpik: I have to confess no amount of incentive will get me to part with my 15 year-old Vauxhall Cavalier 1.7 diesel; probably the finest car every built. I make that as a rhetorical observation.

Chairman: It is a challenging thought and we will take you up on it later.

Mr Hoyle: You polluter?

Q150 Lembit Öpik: 59 miles per gallon. There are others, of course, who are involved who will be considering issues of credit. To what extent are sales being constrained by the availability of credit? We have heard a different aspect of it from the manufacturers and now we are looking at the consumers. What is your experience of that?
Mr Williams: I am glad because the media seem to have got this whole issue of credit totally wrong. There were one or two headlines some months ago now and our members were really suffering from it because people stayed away from the showrooms. One of the headlines was “No credit in the showroom” because they had picked up from an SMMT briefing or a briefing from somewhere that credit was very, very difficult. I think what they get confused with is the different lines of credit. Certainly the motor manufacturers who were meeting with Lord Mandelson asked, as they have already told you, about this line of credit. What the media did not seem to realise was that there are these different forms and what we are talking about is consumer credit. I was amazed at the furore that came from the dealerships because consumer credit is still readily available. As we speak today it is readily available. When I say “readily available”, if you have got a lot of county court judgments or something like that then maybe you will find it as difficult now as you did then. In terms of obtaining credit for a new or used car you are probably asked for a bigger deposit now, 5% may now be 10% and 10% may be 15%. Although the finance companies will tell you that they have not actually altered their scoring mechanism on which they base their loans, I would like to tell you I am pretty sure they have, but I do not think it has been dramatic because, in mind they still need to do business. From within the dealership network the exterior sources, ie not the manufacturers like Ford Credit, GMAC, those associated with the manufacturers, there is no shortage of credit availability.

Lembit Öpik: That prompts a final question really. Do you think the Government needs to do something to improve credit flow? From what you have said there it sounds to me that the industry is not overly concerned about consumer credit because while the deposits are slightly higher it is not a controlling issue in the market.

Q151 Chairman: The previous witnesses said inventory credit was an important issue.

Mr Williams: I am talking about consumer credit now, for somebody to go in and buy a car on a conditional sale over two or three years. When you look at the manufacturers’ side I think that is a totally different story. The way that it affects our industry, as Graham may have pointed out, is that the retail motor industry is quite dependent on the manufacturers for stocking loans, and I mean quite dependent. If a manufacturer, because of its inability to get funds, had to withdraw those stocking loans then a lot of retailers would struggle badly.

Q152 Lembit Öpik: Can I impose upon you just to explain how that works.

Mr Williams: The manufacturer actually stocks the used car for you effectively. You have the car on sale or return. Effectively they build a car, they release it and you have the vehicle on sale or return for X number of days depending on the manufacturer. That is one form of credit you are getting effectively. By far the bigger one is most manufacturers will offer you the facility—not everybody takes it up, they go elsewhere—to fund your used car stock up to 80% of its value.

Q153 Lembit Öpik: How do they do that?

Mr Williams: They take the value of your used car stock and give you 80% as a loan. It is quite a large amount of stock holding and most dealerships will need that and always have taken advantage. A lot of companies do not use the manufacturers for that, they go to exterior banks or lending sources. If these manufacturers’ sources of credit dries up, as these guys alluded to, then that could cause a major problem to our industry because the dealerships would then have to go to the banks and say, “Can we have a stocking loan, please?” and a great number would face a lot of difficulty in doing that. Their problem is our problem in that field.

Q154 Lembit Öpik: You are talking about it as a future situation. Have you seen anything like that happening to date in terms of the used car stocking loans?

Mr Williams: Not to date, no.

Q155 Lembit Öpik: Is there anything you think the Government specifically needs to do now to improve credit flow or is it a watch and wait situation?

Mr Williams: Anything the Government can do in terms of the manufacturer loan guarantee scheme can only help them which in turn will help us. I think the guys have been incredibly politically correct and, having accepted the concept of it, the Government needs to get on and do it. The longer they wait, the more difficult things get and if it does it will be too late both for the manufacturing sector and the retail sector in that particular area of credit.

Q156 Lembit Öpik: It is upstream, but as far as the consumer directly is concerned that is not an issue that particularly affects them?

Mr Williams: At this point in time, no, it is not.

Q157 Chairman: Manufacturers offer this facility to you for your inventories, new and used.

Mr Williams: Yes.

Q158 Chairman: Presumably you would not have to rely on manufacturers’ support for that, you could get it from other sources of finance. Is that other source of finance readily available and, if so, is it on significantly different terms from those offered by manufacturers?

Mr Williams: I think in a past life it used to be but I suspect you would not find many retailers now who would like the source of funding for manufacture chopped up and say, “Right, you now need to go into the open market to borrow” because I suggest they would find it very difficult.

Q159 Chairman: Finally from me, you listed some other issues concerning the Retail Motor Industry Federation in your answers to Julie Kirkbride just now but there were a number of issues you did not touch on. We have not had the oral evidence on this,
we are going to see Bentley privately tomorrow, but they are very concerned about the Budget change in terms of company car taxation, for example. At the margin that is another issue of concern. Are there any of these issues that you would like to share with us or do you think you have got everything off your chest that you wanted to?

Mr Williams: The guys here mentioned the Automotive Unit within BERR and that is quite important, recognition within Government that this industry is as big as it is and wields the influence that it does in terms of employment.

Q160 Chairman: How big did you say your industry was compared to the manufacturing sector?

Mr Williams: We employ twice as many people.

Q161 Chairman: I have got a bigger figure than that. The SMMT said you were over three times bigger than manufacturing, three and a half times bigger probably.

Mr Williams: Maybe manufacturing has shrunk a lot more than I thought.

Q162 Chairman: You are getting some new figures from behind you.

Mr Williams: About 580,000 people that the retail sector employs.

Q163 Chairman: And less than 200,000 in manufacturing.

Mr Williams: Is it less than 200,000 now?

Q164 Chairman: Yes, so you are a really very huge part of the total picture.

Mr Williams: In terms of GDP, which is perhaps the most important factor, it is almost twice that. Again, the amount of taxation that is poured into the coffers is very important from our sector too because all of the people employed in this country pay income tax and the companies pay corporation tax whereas a lot of the profits the manufacturers get are siphoned off to Europe or wherever else the cars are manufactured.

Q165 Chairman: The ones they make here that get exported.

Mr Williams: That is right.

Q166 Chairman: I think as far as the Committee is concerned we have covered the issues we wanted. Do you feel there is anything you have not said?

Mr Williams: No, I do not think so. The other issue that causes an awful degree of angst within our membership is the reaction of the banks and the relationship with banks.

Q167 Chairman: We heard the SMMT say they thought there was a general reluctance by banks to lend to the automotive sector. Do you see that or do you think you are experiencing the same problems other small and medium-sized businesses are experiencing?

Mr Williams: Again, I think they are masters of understatement. The behaviour of the banks has been quite atrocious. I have to say both myself and a lot of the members I represent are quite mystified, if you take into account the amount of power that the Government now have over the clearing banks, that more is not done to persuade the banks to give more assistance. Every time I go to a seminar of a firm of accountants or economists or whatever else, somebody in the room stands up and outlines an horrific incident they have had with a clearing bank in terms of their overdraft review or something else. That is every time I go. It really is a national scandal.

Q168 Chairman: Let me just put the case for the defence briefly before we finish off. I was meeting a chairman of a major high street bank only this morning and he said two very important things. First, there is the same amount of money, more money out there available to lend, they have got the money, and, second, 85% of their renewed arrangements are on the same terms as their existing arrangements, only 15% are going out on more adverse terms. Then he said the real difficulty is finding high quality businesses and sustainable businesses that want the money from them. Is that perhaps where the difficulty arises, the definition of what viable businesses actually are?

Mr Williams: I do not think it is. I do not know who you were speaking to but I would challenge that and I would like to be in a room with this gentleman on my own because I could cite him at least two or three practical examples.

Q169 Chairman: With 15% you would get a lot of examples. 85% is fine but 15% is still quite a lot of businesses.

Mr Williams: The experience I am getting back from the membership and people I speak to with very profitable, very, very low geared companies is horrific in terms of overdraft reviews where the fees for the overdraft review have gone up three or four times without any explanation. Forget the taking away of overdrafts, which has happened, this is just the overdraft review, “Yes, we’ll do it, but instead of the £10,000 it was last year it is now £30,000 or £40,000”.

Q170 Chairman: You do not buy the argument that (a) the cost of capital of the banks has gone up because they have to put capital aside under Basel II now to fund overdrafts not drawn down by the clients, for example, so their cost base has gone up, and (b) the withdrawal of foreign banks from the British market means British banks are lending more than ever but the total pot has reduced in size because of the withdrawal of those foreign banks from the market?

Mr Williams: There may be a valid argument there. You asked me what I believe Government can do and look at and I am saying the groundswell of opinion in this part of the industry is exactly that.

Chairman: Bankers, politicians and used car salesmen are three of the most unpopular people in the country at present.
Lembit Õpik: And some journalists.

Q171 Chairman: Many journalists too. I do not want to be too unfair on the banks because we are all in this together.

Mr Williams: I am telling you that the people on the ground floor are telling me this and I am passing it on for you to bear in mind when you put your report together. Indeed, if you want to make any personal enquiries of these people, please feel free to do so.

Chairman: Thank you. We might take you up on that.

Lembit Õpik: It might be useful to get a couple of case studies.

Q172 Chairman: If you can provide hard-edged evidence of the claims you have made, that would be helpful.

Mr Williams: As long as they are kept very, very private and confidential and not raised.

Chairman: Anonymised if necessary. Redacted, to use the phrase of the moment. Thank you very much. We are very grateful to you and we are very grateful to Advantage West Midlands for making this event possible.
Mr Gateley: No, it is exactly the same. In the defence sector we have contracts with the Ministry of Defence for heavy-armoured spares provision for the Challenger tank, the Rapier missile—not the missile but the launcher—and all of the MoD’s construction fleet throughout the world. We do exactly the same for the auto. We will go and think, “What do they need? What is the probability of something breaking down? Why has it broken down? What is the part to fix it?” because by six o’clock every night in the auto sector we have to have a part there pre-nine tomorrow morning, or in the defence sector it is 24/7 365 days a year.

Q175 Chairman: In the automotive sector your work is concentrated on commercial vehicles?

Mr Gateley: We have the TVR sports car but the rest are commercial vehicles around LDV, Isuzu trucks, Dennis Eagle bin wagons, and we have just won the Optare bus and coach contract and also the Modec electric van.

Q176 Mr Hoyle: First, can I say thank you for remaining in Chorley. You have got your new facility in Chorley.

Mr Gateley: We are very proud of it.

Q177 Mr Hoyle: It proves that you are investing in the future and the region. Thank you for that. What is the long-term future for the UK automotive industry as you see it? If you could just give us a quick overview of how you see the industry.

Mr Gateley: For the poor manufacturers or non-viable it is bleak, and it should be. I am a very strong believer in supply and demand and if a person cannot quite make it they should go. It is very difficult short-term for the stronger viable ones, but longer term I think it is a good future for the likes of PACCAR, et cetera. It is very disappointing for the small very innovative companies, like Modec, where they are investing in something green and new and probably do it very much on their own as opposed to getting any support. They have been hit with difficult times and are probably 20 years ahead of themselves in terms of the marketplace. For those who are struggling at the minute, they need to go. That will be good for those who actually have a longer term future because they will take that volume into their own account. For the small innovative organisations, and suppliers as well, the battery suppliers, as an economy that is where we should be investing.
Q178 Mr Hoyle: So has the Government got it right to actually support their vision for a low carbon vehicle for the future? Is that right for now?

Mr Gateley: I think it is right for now but you have got a very difficult future because as a culture and a country we probably want to buy on price and the best part, not quite the European philosophy and, as I know, if I take the battery side, when you look at the price of the battery side of commercial vehicles, Optare coaches, the costs are so prohibitive I cannot genuinely see any commercial reason why you would want to go and buy into a vehicle that does all the right green things but commercially is not viable at the moment. That is why I say you are probably 10 or 15 years ahead of yourself or pointing investment in the wrong area.

Q179 Mr Hoyle: Obviously there was great concern over LDV Vans, you hold the parts for LDV vans, and there is Team Leyland, which is the export van of LDV Vans. Do you think there is good news to come?

Mr Gateley: For LDV?

Q180 Mr Hoyle: Yes.

Mr Gateley: I put them in my first category of the company that deserves to go.

Q181 Mr Hoyle: Is recession good for you?

Mr Gateley: Yes, it is.

Q182 Mr Hoyle: That is what I thought. So you are one of the people who smile, in a sense, in a recession?

Mr Gateley: Yes and no. The reason we do not smile is because the commercial vehicle sales in our organisation are down by about 35% right now and that hurts, it really does hurt. The reason we smile is because most of the organisations that are in the outsourcing mode or frame of mind do make decisions. 24 months ago an organisation that was looking at half a million pound savings or a cash injection would have thought, “That is not a significant enough change for us to make a strategic change in how we do things”. The best example is Optare. It has taken us two years to land Optare. The first 18 months was just waffle and, “Yes, yes, it sounds good but . . . ” and when the recession has come through, when the cash injection has come, the real cash, because it is not easy getting money at the minute, half a million pound savings a year, they have much critical support to make a decision to outsource. This year we have won three major contracts. One is Optare, one is the HASP Ministry of Defence contract, and another contract that we have won is the Anglian Water utilities. Is recession good for us? Yes, it is, but only because we do not thankfully have major plants, major tooling to worry about, we are quite nimble on our feet and we think where do we take this core competency and worry about, we are quite nimble on our feet and we thankfully have major plants, major tooling to

Q183 Mr Hoyle: So you are slowly moving away from that.

Mr Gateley: Or attacking it in a different way. The problem we have with the automotive sector is our company relies on our clients and when LDV and Isuzu Trucks and Dennis Eagle start to suffer our hands are tied as to what we can do because you can only sell through their networks.

Q184 Mr Hoyle: The flip side of that is it is also about spreading the risk as well.

Mr Gateley: Correct.

Q185 Mr Hoyle: The old cliché, all the eggs in one basket, you can protect yourself better if you spread it. When we talk to people, instead of changing those two or three trucks they were going to buy they are hanging on and are now buying parts to refurbish.

Mr Gateley: No.

Q186 Mr Hoyle: You do not see that either?

Mr Gateley: No. You are absolutely right, that is what we would have thought. In July last year we saw sales dropping quite significantly and the first thought was, “It will be all right because all the dealers are doing de-stocking to take working capital back into the account” and that happened. Round about September we thought, “They have got to start stocking now, surely to goodness”, and they did not. Our sales are now down. If you take LDV, our plant sales were 125,000 a day and the last five days were 60,000 a day. One of the most reliable VOSA statistics are the commercial vehicle MOTs where last month it was down 30% on the same time last year. Commercial vehicle drivers are deciding, “I’ll park my van up as I’ve nothing to do”, or they are saying, “I won’t actually take it for an MOT yet, I’ll just hang on in there because I haven’t got the cash for it”. I do not think it follows that we are benefiting as a consequence of people keeping their vehicles on.

Q187 Mr Binley: You said that you thought there might have been less sales in July of last year because of de-stocking.

Mr Gateley: Yes.

Q188 Mr Binley: What was it for if it was not for de-stocking?

Mr Gateley: It was.

Q189 Mr Binley: You proved that, did you?

Mr Gateley: Yes, absolutely. In Q3, July, August and September last year we saw an absolute trend in the industry for the dealers to de-stock, get their stock levels down, and the dealerships to generate cash. We thought once they had done, because once you have no stock in the showroom—
Q190 Mr Binley: Absolutely. *Mr Gateley:* But it did not happen, it carried on. As a consequence, what happened is the foot traffic into the dealers for bringing their vans in, commercial vehicles, dropped away significantly. As I said, we had planned—budgeted—for 125,000 a day and up until about five weeks ago we were hitting 75,000 a day, which is pretty dire for us, and in the last two weeks, and this is mainly LDV I am talking about, the LDV commercial van, that has dropped to 60,000 a day and we cannot get our heads round what has happened. Is that a complete loss of confidence in LDV or what? That is a significant drop. (a) they have de-stocked but (b), more worryingly, white van man are not repairing their vans or they are thinking, “Why go to dealers, too expensive, genuine parts, we will go to other factors or other avenues to get cheaper parts”. They are certainly not coming to the main dealers.

Q191 Mr Hoyle: Presumably they get down to the scrap yards and try to find scrap parts. *Mr Gateley:* If you have a 17 year old LDV Convoy or Pilot that is probably what you would do.

Q192 Mr Hoyle: Rather than buy a new part. You just touched on TVR which is obviously manufactured within the Northwest, Blackpool, and disappeared. How have you come through that and you are still the supplier? *Mr Gateley:* They gave us the contract once they had disappeared. That is important because TVR has always done it the TVR way, but they realised they had to do it a more professional way so they found an organisation like us to do it. The nice thing about the TVR driver is I think he is almost recession-proof. You are talking £3,500 or £4,000 sales a day. That person brings his car out this time of the year, dusts it down, cleans it, and will still spend £10,000 or £12,000 on an engine. He is all right. That will continue. TVR is small beer for us. It is nice to keep it ticking over. It is the commercial vehicles side that is important. Isuzu Truck sale parts are down by about 18% for us. That is a real player in the marketplace and thankfully they have not gone down as far as the LDV side probably because Isuzu Truck drivers/owners know there is a real future and, therefore, they keep their warranties and get paid warranty work. One of the interesting things about the drop in sales of LDVs is a significant amount of that, but I cannot tell you how much, will be because of warranty. Whereas LDV cannot pay their warranties, dealers are pushing warranty work away and saying “I am sorry, I know it’s an LDV van but you didn’t buy it from me, therefore I will not repair your engine or your bodywork, go away”. Quite a lot of our sales shortfall, 125,000 to 60,000, is because the warranty work is not now pushing out because limited dealers are doing warranty work.

Q193 Mr Hoyle: Obviously Dennis Eagle is a long-term contract that you have had, a good contract, good business, presumably that covers the dustbin wagons and fire engines. *Mr Gateley:* Yes.

Q194 Mr Hoyle: Technically because they are municipal, county vehicles or fleet vehicles they are maintained to the highest standard and that is why it is good business. Is that fair to say? *Mr Gateley:* That is absolutely fair to say. The only problems we have is in an after-market part business like us 2009-10 is tough and our problem will be in 2014-15 because all the vehicles that are not being sold today will not be there to go wrong in 2014-15. Our problem will come in the future. The issue we have with Dennis Eagle is Dennis Eagle are doing very, very well for all the reasons I have mentioned but they are starting to see a real slowdown in their order book for new vehicles. If you see Dennis Eagle, Mike Molesworth will tell you that it is a very good order book but now they are seeing a real issue going forward. That will be my problem in 2011/12/13.

Q195 Chairman: One of the reasons we were anxious to see you was you have an opportunity to comment and observe on the wider supply chain and how it is responding to the current crisis, not you as a company but as an intermediary between the manufacturers and suppliers. What is your view of the state of the automotive supply chain in the UK? You can speak mainly for the commercial vehicle sector but you have a wider perspective too, I expect. *Mr Gateley:* Yes. I am actually quite excited about it, to be perfectly frank, because up until the recession, certainly a year and a half ago, I would go so far as to say the bubble of Chinese parts in the past was falling away: quality, distance, it arrives, it is not quite right, send it back and for a few bob is it worth shopping in China? I believe that there is a great opportunity and certainly with the exchange rate falling as it is—it is a shame the economy is falling as well—it is an opportunity for manufacturers of parts to come back in some way. The demand supply chain in the UK is significantly harsher than it is, say, in mainland Europe. A real example would be Ros Roca bought Dennis Eagle around about two years ago and Ros Roca could not understand why Dennis Eagle chose to outsource its after-market to a company like Multimap or Unipart or whatever. They said because the service level requirements for parts next day and the quality of the parts has got to be absolutely 100% to ensure they do not go somewhere else. That is not an issue in Spain, once a week into the vans and people do not seem to worry about it. Two years on, what is interesting and happening for us, and we are quite excited by this as a company, is that Ros Roca are looking at the model in the UK thinking, “My goodness, if we do want to have a world class service as in the UK then maybe we ought to think about doing the after-market better”. For an after-market intermediary like me I am quite excited by that. I also strongly believe—forgetting the exchange rates because they are quite transitory—the issue for the BRIC countries is that the quality and distance will run against them in the short to medium-term once organisations who need those parts tonight for tomorrow morning’s delivery think Chinese parts
Mr Gateley: We employ 900 vendors, suppliers, in the United Kingdom.

Mr Gateley: 900 within your supply chain?
Mr Gateley: Yes. The likes of Isuzu we buy from Isuzu or from Japan, but LDV, TVR, Dennis Eagle, Ministry of Defence, all of that work is with 900 suppliers from JCB right through to Tom in the shed in Blackpool.

Mr Binley: That gives me a view of your pyramid thinking.

A lot of them in the UK?
Mr Gateley: Yes, absolutely. The vast majority are in the UK.

Have you seen the new Automotive Innovation and Growth Team report?
Mr Gateley: No, I have not.

They said: “The hollowing out and loss of high value jobs in the automotive supply chain has not been only to low cost countries such as China or Eastern European, many have been lost to higher cost economies such as Germany and France, therefore providing the opportunities described earlier. There is potential to stop this process and rebuild in the UK” and they propose a UK supply chain council of people involved in it to work out a policy framework needed to sustain the UK supply chain. Do you think we have lost jobs to mainland Europe and higher cost economies as well?

In my field I find it very frustrating. We do a lot of benchmarking exercises where we are up against Renault, Peugeot and the rest, BMW, et cetera, and there is something quite unique every time. You go there and their statistics are just as good as ours in terms of our first full measure of availability but most of those have got one source of supplier, which is Europe, where BMW build all the bits, put them in a massive warehouse usually in Belgium somewhere and then ship them across, whereas we are sourcing from 900 UK suppliers and we do the job and that is it. Most organisations moving here, and Isuzu are doing the same, are building a massive distribution centre in Antwerp. That will be an issue for my company because it is not six months’ lead time now but literally overnight. There seems to be a propensity for organisations to think they have to be in Europe, probably because of the much wider market, and we are right-hand drive, therefore a very small market, and they serve from there substandard service, whereas Hyundai-KIA have now made investment in the Midlands in a big distribution centre, which is good. Organisations like ours vying for the lower level quality vehicles like the LDVs and the TVRs will always have a good marketplace in the UK. Take LDV, the danger is (a) mainland suppliers will fall away and (b) will be obsessed by the LDV situation and that means there will be consequences for us.

Could you write to us on that? This supports in this country.

We took evidence from some big car companies yesterday in Birmingham and they were telling us quite convincingly about the work they are doing to sustain and nurture their supply chain because they recognise the importance of it. Do you think enough is being done to sustain and nurture the supply chain by the business itself? We will come to Government policy in a second.

Organisations like those and us understand even though it is tough to get cash at the minute the first people we pay are our suppliers because we have to keep all of those organisations on their toes at good prices and equally have a sustainable supply. That is absolutely critical.

That aspect of the supply chain is working reasonably well in the circumstances. What are the strengths and weaknesses of the supply chain? What are the issues that need to be addressed in the supply chain to make sure it is sustained?

I would have to give that some thought, to be honest.

Nothing immediately comes to mind. That is quite interesting in itself. It is not, “The problem is X”?

Could you write to us on that? This is a serious area and if you could write we would be very grateful.

The fact you could not immediately identify an overarching problem inherent in the chain itself is interesting. Let us move to the policy framework.
Mr Gateley: The reason it is difficult is because it is a very fragmented supply chain. I have only got five automotive CD clients yet I have got 900 vendors doing the jobs and those vendors have survived somehow because of the lack of scale of those clients, perversely enough. Whilst they are not Ford, and Ford are screwing the suppliers into a smaller number, the supply base I work with is far more niche, have got the only access to tooling to provide the services I need, to provide parts, et cetera, so we have to treat them well. Off the top of my head, I cannot think what a genuine solution would be from Government policy that would help those 900 suppliers.

Q209 Mr Wright: On that particular point, obviously the Government recognises there is a huge problem with the worldwide recession but specifically with the automotive industry they have brought together packages which have been welcomed, although guardedly. What do you consider the Government should actually do to change its policy?

Mr Gateley: I only really hear through the press where monies and guarantees are coming from and when I was thinking about this yesterday I feel you are not doing enough to help those innovative organisations which fall under your wire, maybe less than £25 million, and that is where the innovation starts.

Q210 Mr Wright: You think they should be more flexible?

Mr Gateley: Yes, I do.

Q211 Mr Wright: We heard that yesterday from the industry.

Mr Gateley: Or even more targeted rather than flexible.

Q212 Mr Wright: We heard from the industry yesterday that the message coming from Government is they are going to be more flexible on the £25 million and the £5 million in terms of the project funds.

Mr Gateley: Yes. Those are big amounts. Innovation comes from small companies. I feel you are putting massive amounts into organisations that can afford it and there is a contradiction. If you think of a major manufacturer, what interest has he got to go into something real you have got to push it hard by looking at those small organisations that will be there for 5–10 years and we tell them that, but we want contracts with organisations that will be there for 5–10 years and we check QA at the start and intermittently through the supply.

Q213 Mr Wright: Really what you are saying is be more flexible on the £25 million and also the £5 million project fund?

Mr Gateley: Flexible is one word, but I think you need to be more targeted. It is easy to sound flexible, but you should be out there looking for the organisations that need the help and probably do not shout for it.

Q214 Mr Binley: I just want to go back to supply chains and understand a little about how you relate to your suppliers with regard to quality, which is a vital issue for you.

Mr Gateley: Yes.

Q215 Mr Binley: Because of cash pressures, have you seen that quality diminish?

Mr Gateley: No. There has been no evidence in our organisation of quality diminishing. Quality is clearly important for us and our clients. We would not change suppliers without the clients saying, “That part is now genuine OE and serves the test of time”. We have not had to resource much. The issue we have got whilst things are difficult is our suppliers coming back with significant price increases on parts. The quality is not an issue but the volumes are dropping and the way they can recover is by saying, “The price has gone up by X per cent.”

Q216 Mr Binley: Can you give me an idea of how you monitor and maintain your supply chain quality?

Mr Gateley: In the auto commercial vehicle sector we effectively have QA underwritings by the supplier in our contracts of procurement. We have got our own internal audit team, QA team, to audit that. When parts come in they are visually checked on site. We have got an inspection part of the business where if there are any issues we quarantine those and follow that up with suppliers. It is quite a blue chip organisation making sure we have got processes in place to capture parts before they go into the bins to be sold that might not meet the quality criteria. We have got a contract supplier and we have probably got a contract for 5–10 years, so at the start the processes are quite cumbersome for our suppliers, they tell us that, but we want contracts with organisations that will be there for 5–10 years and we check QA at the start and intermittently through the supply.

Q217 Mr Binley: When on site do you do regular spot-checks in terms of quality?

Mr Gateley: No, it is mainly when parts come in. We do not actually have the resources to do that.

Q218 Mr Binley: That is helpful. Can I come on to Government policy now because you made some statements on that. I want to include the supply chains too because companies like your own without that supply chain, if that structure was not in place, would be in serious trouble. Can you be absolutely specific about Government schemes and how you and the word you have got from your supply chain find them? Can you tell me if there is a concern there how we might improve it? Finally, can you tell us any comment you might have about the systems being
operated by the banks and where we can improve there? Those are big questions, I recognise, but we need to get to the detail of this.

**Mr Gateley:** I think as a body you are seen to be slow—even when money has been agreed it does not seem to turn up for an awful long time—bureaucratic and difficult. There are all the right intentions but when it comes to getting money out of your wallet it seems to be a laborious process to physically do that. That is real experience. Not from me personally but from one of my major clients. Having read the paper over the last few days on the AAP I do not think it is that complicated and I have heard the comment that it seems to be. My issue is it is so well finely tuned that anybody who qualifies for it probably does not deserve to qualify, quite frankly. The organisations that need it will be excluded from the £5 million and £25 million for the, what was the fancy word that you used?

Q219 Chairman: We are scrutinising Government policy, we are not the Government. I must disassociate myself from that. Those are not our words.

**Mr Gateley:** That sounds a very defensive comment. You have to work hard to get it and when you think you have got it, it takes a long time to get it. I am not so sure the right horses get to the final end of the race. That would be my take on what I have read so far.

**Chairman:** That is very consistent with what we heard yesterday in Birmingham.

Q220 Mr Binley: What about the whole bureaucracy thing? Some people tell me it is there and other people tell me they did not find it too difficult.

**Mr Gateley:** That sounds a very defensive comment. You have to work hard to get it and when you think you have got it, it takes a long time to get it. I am not so sure the right horses get to the final end of the race. That would be my take on what I have read so far.

**Mr Gateley:** A massive problem.

Q221 Chairman: The money still has not been paid?

**Mr Gateley:** That is my reliable understanding.

Q222 Mr Binley: What would you do to improve it? The answers would seem to be obvious but sometimes the obvious does not appear.

**Mr Gateley:** Take a bit more risk.

Q223 Mr Binley: With Government!

**Mr Gateley:** I know. It is the target and risk, and that is what we do in business, we make a decision, we run by it and if we fail, fine.

Q224 Mr Binley: I agree with that.

**Mr Gateley:** Either you do not interfere at all, just get out of it and leave it to supply and demand or, if you are going to interfere, interfere in the right areas. That is my viewpoint.

Q225 Chairman: Brian was not in Birmingham with us yesterday and one of the major themes was that the banks were not prepared to lend to the automotive sector full stop, they are unhappy with the sector. Because most of the Government schemes are guarantees of private bank loans the scheme just could not work because you could not guarantee the loan would exist in the first place.

**Mr Gateley:** The saddest thing is last year I won the TVR contract, small beer, whatever, and this year we won the HASP contract, which has a fee structure of about £1.5 million a year, £7 million sales, and won the Optare contract at £2.8 million. We wrote to our bank and said, “Can we now have asset-backed funding?” and the email I got back was, “Congratulations, but unfortunately because your contract is with the MoD we cannot fund this contract, and because the Optare contract has got this and that we cannot fund that either”. You can imagine the response that went back to my bankers.

Q226 Chairman: You think there is good evidence that the automotive sector is being shunned by the banks?

**Mr Gateley:** I think the banks are shunning everybody. I do not think it is just the automotive sector. I actually consider Multipart has got a very good, strong, viable future and it is probably stronger now than it has been for the last 5/10 years, yet my funding comes from two sources. One is the lovely property that I have got which was valued in March last year at £19 million and under the terms of my agreement has to be revalued every six months and is now down to £12.9 million. That drop of £6 million in nine months reduced my facility by half, £3 million. I went to them and asked, “On the back of the Optare contract can you fund my invoicing discounts and on the HASP, Ministry of Defence”, and you cannot get a bigger blue chip client than that, “could I have the funding level on that as well?” and the answer was no in both cases. Where I am now, week after week I am in breach of my covenants. I said about 20 minutes ago the most important thing for me is to pay my suppliers and there are times when I choose from A to N will be paid this week and from N to Z the week after. There are lots of organisations in the auto sector, dealers especially, that have gone under who have never had an overdraft, always been very careful with their cash, who now have had the banks close the door on overdrafts for survival. That is why we get passionate as an industry that some organisations that do not deserve to survive might get some handouts.

Q227 Mr Hoyle: Just a final question. You were talking about LDV Vans and green technology. LDV Vans have looked into the electric van. Was that a mistake? Was the timing wrong?

**Mr Gateley:** Or an act of desperation.

Q228 Mr Hoyle: Sainsbury’s are running round with some of these electric vans I understand.

**Mr Gateley:** Yes.

Q229 Mr Hoyle: What is your view on that?

**Mr Gateley:** The best example I would give is Modec. There is an organisation that has not managed to sell many vans, has got a wonderful
21 May 2009 Mr Chris Gateley

Witnheses: Mrs Andrea Paver, Managing Director, and Mr Denis Culloty, Chief Engineer, Leyland Trucks Limited, and Mr Steve Barfoot, UK Country Manager, PACCAR Financial Limited, gave evidence.

Q232 Chairman: Welcome. First, a big thank you for taking us round your factory earlier this morning. We really enjoyed the tour and it was very valuable and educative. Thank you for that, and for the opportunity to have an informal discussion with you before you give formal evidence now. Although we know who you are, as always for the record I would like you to introduce yourselves.

Mr Culloty: I am Denis Culloty. I am Chief Engineer at Leyland Trucks.

Mrs Paver: Andrea Paver, Managing Director of Leyland Trucks.

Mr Barfoot: I am Steve Barfoot. I am Country Manager for PACCAR Financial. PACCAR Financial is the captive finance company for DAF Trucks.

Q233 Mr Hoyle: Thank you for this morning. Have you got a long-term future and is the future good for your company?

Mrs Paver: We absolutely have a long-term future. We have done everything possible to right-size our business for the economy, but part of that right-sizing is preparing for the u-turn and being ready for it and to take advantage of it.

Q234 Mr Hoyle: You are the leaders, you are number one in the UK and in Europe as well.

Mr Barfoot: Yes.

Mr Hoyle: That is good, you can see the commercial sector growing but what about the rest of the automotive industry? Do you think they are as well-placed as you are for the future?

Chairman: Not just the commercial vehicles.

Mr Gateley: I am surprised that banks are not bothering given in most cases you are offering 75% guarantees. I come back to the targeting side again. It really annoys me that the Government has bought into most of the banks and yet do not manage the beggars. Either do it or get out of it. As a small business guy, £75 million, and most organisations I know of are the same, getting hold of cash is very, very difficult even when you can evidence success. The biggest fear I have is if my property drops from £13 million to £10 million in September when the value comes up again I will be out of business, and yet I will have won two or three clients this year.

Q235 Mr Hoyle: No, across.

Mrs Paver: I would not want to comment on the automotive side. There is a significant difference between the automotive and commercial vehicle and my and my team’s focus is the commercial vehicle.

Q236 Mr Hoyle: Obviously you invest heavily in R&D and in particular low carbon vehicles. Do you think that is the right way to go? Obviously everybody would say so, but is it the way that you are leading the rest of the business and everybody is following you? Where do you see that going? How well-placed will you be because of the investment, and quite rightly, in some of the leading designs that you win awards for?

Mr Culloty: The investment in low carbon vehicles is a critical part of our portfolio going forward, a big investment in Euro 5, then enhanced vehicles in Euro 6, which is a critical cornerstone. Some of the good work on hybrids and electric vehicles is important, but I would make the point that there is more to our strategy than just low carbon vehicles. Maybe the Government support perspective is a little bit singular in that approach now. We would encourage a broad perspective to include advanced safety concepts, road-friendly concepts and more beyond just low carbon vehicle initiatives alone.

Q237 Chairman: I would like a bit more of a list on the other issues. I understand advanced safety. Road-friendly, presumably that is the impact on the road structures of your particular vehicles. Are there any other issues that you think would encourage high value-added manufacturers to address them more systematically?
Mr Culloty: I think the safety discussion is worth extending a little bit further if you get into total vehicle safety systems because right now vehicles have a number of add-on features that can be effectively integrated and can probably have some significant impact on road casualties which are still a significant issue. Beyond that, there are some material strategies which are worthy of further exploration. We still have a vibrant aerospace industry in the UK and it makes a good deal of sense to leverage on that to take that forward.

Q238 Chairman: Composite technologies?
Mr Culloty: Absolutely, yes, to take it into automotive composite components.

Q239 Mr Hoyle: As we know, we lead the world in aerospace technology in this region, Lancashire is by far the leader in composite materials.
Mr Culloty: Yes.

Q240 Mr Hoyle: I have been trying to say to BAE Systems that here we are, we rely totally on procurement to ensure these contracts go ahead and what worries me is that transfer of technology does not take place in the way that it should do. I never see an audit trail about BAE Systems developing something fantastic where we can say, “That’s what we did to defend and attack people, but here is the benefit for the civil application”. If you take the space shuttle, the one thing you can say is, “We go into space, but this is the spin-off. Look what we have created for society on the ground, not on the moon”. Do you think there is more we can do there or do they do it so quietly we never hear about it?
Mr Culloty: I am sure there is more that can be done. The application is obviously significantly different and we do try and link through the Northwest Development Agency into people like the National Composite Centre. There are thoughts around making that happen but some Government incentive or support to connect practical application of high-tech composites to the automotive industry would be a good thing to do.

Q241 Mr Hoyle: With R&D the company took a critical decision many years ago that you knew that was where you needed to be, you wanted your in-house R&D, you developed it very well, but do you think there is a skills shortage within your R&D and there is a danger because of recession that the right investment in R&D is not taking place?
Mr Culloty: I think there is a real risk of a skills shortage in R&D. Today with budgets cut right back in R&D there probably is not today, but as we look to expand next year and the year after to prepare for Euro 6 the people will not be available to come through and the graduate programmes are not necessarily bringing people through. Maybe the apprentice schemes are, but—

Q242 Chairman: We want to talk about skills more generally later.

Mr Culloty: There is a real risk of skills shortage to support the growth in R&D over the next two to three years.

Q243 Mr Hoyle: If there was one thing that you could say to us that would make a real difference to the commercial vehicle sector, what would it be?
Mr Culloty: My one wish would be better focused and targeted grant support for real added value technical projects. It would not just be low carbon and electric trucks that may or may not happen, it would be optimising the practical real solutions that we know will be on the road in the next four to five years. It would be making that real deliverable happen.

Q244 Mr Hoyle: I am asking you. I am giving you the genie and you have got to make that one wish. What would it be?
Mr Culloty: My one wish would be better focused and targeted grant support for real added value technical projects. It would not just be low carbon and electric trucks that may or may not happen, it would be optimising the practical real solutions that we know will be on the road in the next four to five years. It would be making that real deliverable happen.

Q245 Chairman: Can I ask you a bit about your supply chain. We discussed this at the factory, but for the record how many suppliers altogether do you have supplying your company?
Mrs Paver: For our product we have 130, of which about half are based in the UK.

Q246 Chairman: About half in the UK. How local are they to here? Do they cover the whole country?
Mrs Paver: The whole country, yes.

Q247 Chairman: Some of them are quite high value suppliers, the engines, the axles.
Mrs Paver: The engines come out of Darlington, axles come out of Glasgow, and then we have a fabrication base which is perhaps more local than that that is within a 50 mile radius.
Mr Culloty: Still a reasonable density of population in the West Midlands as well, that is still a supply area for us.

Q248 Chairman: How important is the geographical location of your suppliers in terms of the manufacturing process?
Mrs Paver: It is more critical to us that we have the right supplier. We discussed quality a little bit earlier and we go for the right supplier. Where it becomes a question mark in today’s environment is the currency that it is based in. The previous witness’s comments were it is an advantage in the UK to be a supplier now, and that is absolutely right. If there were more of them we could take more advantage of that.

Q249 Chairman: How big are your UK suppliers? Can you give us a sense of scale? You cannot tell me how many people they employ between them, you would not know that, but what is the balance of size between Europe and Britain? There are some big ones but a lot of UK suppliers as well in that.
Mr Culloty: Absolutely. The two suppliers you mentioned, Cummins in the Northeast and Albion in Glasgow, are big suppliers and then I would suggest the balance of the rest of our suppliers is
relatively small fabrication-type suppliers. In terms of growth, and specifically technically advanced companies, the centre of mass of those is probably in Western Europe rather than in the UK.

Q250 Mr Hoyle: Part of the issue would be that you have been heavily reliant on supply chains from Europe because of the euro/pound differential and a lot of investment went into receiving from there. Can you see that turning round because cabs that used to come from Coventry are now built in France and brought over to Leyland to go on the trucks? Do you see a manoeuvre within the company because the pound is down, the euro has strengthened, and we could actually see some of those supply chains coming back to the UK? When we talked to the car industry the one thing they said, which was very interesting, was that they want them next door to them because if you are operating just-in-time you walk across the yard and your supply comes in. If it is a truck seat or a cab it is there on site and it is within two miles or whatever. Is that what you see as the future and is there a chance that we can see some benefits from some of that supply coming back into the UK?

Mrs Paver: There is definitely an opportunity for suppliers to make that move from the Continent to the UK because of the currency issue. We will continue to scour suppliers that are in the UK. That is always our first port of call. We do not see that movement happening yet.

Mr Culloty: We have probably seen one or two examples of that happening in the last year, things going from Europe into the UK. To be ready to go, are there suppliers of this sort of casting in the UK or that sort of moulding, they are not ready to jump out of the blocks to support our needs. The UK is not ready to take the strain on some of these supply lines right now.

Q251 Mr Binley: Why do you believe that to be the case?

Mr Culloty: We talked about hollowing out before and I think many of those skills and developing capabilities drifted out of the UK 10/15 years ago, the centre of mass of technology for some of these components and manufacturing processes is Western Europe, so they are not in that particular business right now. There are good examples of components we are looking to upgrade in our vehicle and we are looking to move from ordinary technology to advanced technology. We are looking in the UK, looking at suppliers and we do not typically find that many people ready to support us right now.

Q252 Chairman: Apart from the quantity of suppliers available offering specialist skills, how do you assess the quality and reliability on the whole of the UK supply chain?

Mr Culloty: I do not think we would score a difference between UK and non-UK. We measure our suppliers very, very closely, we approve them and authorise them prior to placing a component with them. We measure their quality very, very assertively when it is with us and if there are any issues we push back on that. Our biggest challenges are probably suppliers in financial difficulties and sometimes that leaks in.

Q253 Chairman: That was the next question I was going to ask you. What is your assessment of the financial viability of your supply chain and what are you doing to help them?

Mrs Paver: We have a very detailed programme of continuing to monitor our supply base right now in terms of financial risk. We monitor things like Dun & Bradstreet type reports, things that are out there in the industry. We contact them and have sent out financial surveys asking them how they are doing, et cetera. We have routine visits into suppliers as part of our quality visits, purchasing visits, and are looking and talking to them and asking how they are doing. We are keeping a very close monitor on about 10 of our suppliers that we perceive to be at some form of risk at this point.

Q254 Chairman: Because that has implications for your own ability to continue producing trucks, does it not?

Mrs Paver: Yes.

Q255 Chairman: Very serious implications. I do not want to trespass on the questions Brian is going to ask about Government policy, but can we just look at the finance issue while we are here. We heard quite a lot of concern expressed yesterday in Birmingham about a lack of appetite in the banks for the automotive sector. The last witness said he thought it was more general than that, small businesses generally. When we were talking to you privately you expressed concern about the way that the Government policies to support lending were not focused sufficiently on some of these medium-sized companies in the supply chain. Do you want to articulate some of that financial background your suppliers are facing?

Mr Barfoot: I cannot answer that question in terms of the supply chain, but in terms of our end users or customers what they are telling us is basically the banks are not interested. There has been a lot of discussion in the media and positive reaction to the various Government support schemes but when it comes to accessing those various programmes they go to their banks, the brick walls come up and the banks are not really interested in helping them.

Q256 Chairman: The banks have got a very different story. I met a very senior banker yesterday and he said the problem is finding viable businesses to lend to, they have got the money, but the definition of a viable business is the issue. He also made the point that the withdrawal of the foreign banks from the British banks means that British banks are lending as much or more than ever but there is not the same amount of capital in the market. Do you recognise those descriptions?

Mr Barfoot: Some banks have identified very specific industry sectors that they are not prepared to lend to. The previous witness touched on the automotive
sector and certainly the feedback we get from our customers is that if you are in the automotive sector or transportation or construction, or the business of public houses, they will not lend to those sectors.

Q257 Chairman: We may have a share in the blame for that last one!
Mr Barfoot: There are some very, very clear industry sectors that the banks are just not interested in.

Q258 Mr Wright: On that particular point, what representations have you made to Government or, indeed, the banking industry in that respect? Has there been a representation or is it just something that people accept as a fait accompli?
Mr Barfoot: We did a mailshot to all our customers to encourage them to access these various programmes because it is very important to us that we have viable customers at the end of the chain. Basically what they told us was, “You are the only people we have heard from in relation to these programmes. We have not heard from our banks. We have not heard from any Government bodies. We have not heard from any of the business enterprise units or anything like that. The only people we have heard from is yourselves”.

Q259 Mr Wright: What have you done to make representations to the banks on behalf of these people? After all, if they can borrow the money they can buy your vehicles and everything goes round.
Mr Barfoot: We had a meeting a few months ago in our offices in Thame and we made some representations on our initial findings. The story there was a little bit earlier than where we are now, but we gave our local MP the sort of feedback we are talking about today.

Q260 Mr Wright: Are you aware that fed through to Government as well?
Mr Barfoot: I am not sure. I could not answer that question.

Q261 Chairman: I want to ask you about the issues for you in terms of financing your operations with the banks. What are the issues there? Is it finding customers to purchase the vehicles or keeping your inventories going? What are the issues you face in this environment?
Mr Barfoot: The issues really are quite multi-layered. Firstly, there is the issue of funding ourselves in terms of accessing securitised debt markets which would have been a very straightforward exercise if we turn the clock back one year, but in the last six months it has been very challenging for us to find the right forms of funding for ourselves to keep our own liquidity at the level it needs to be. That is the first issue. Secondly, moving on to our dealers, a lot of dealers have vehicles in stock which they do not have customers for, so we are funding those vehicles on behalf of the dealers, they have to make payments to us, so they are paying a considerably increased amount of money because previously those vehicles would have just been moved through to end users, end purchasers, but now they are currently parked in stock. The dealers’ liquidity is under strain from that angle. Thirdly, in the area of our customers, our customers are under a lot of pressure along the lines I indicated in the previous answer, they have not really been able to access the sort of funds that they need to. While certain programmes have been brought to the market to help customers, they have limitations. For example, the Enterprise Finance Guarantee Scheme, whilst a very useful scheme in certain respects, is not planned to fund asset purchases until the end of 2010. There are programmes out there but they have certain limitations and do not necessarily deliver the solutions that are needed.

Mr Binley: The way the banks are not putting into effect many of the Government projects that have been talked about and have raised such expectation is the nub of liquidity at the moment for many small businesses. That is part of the problem. Let me just give you my experience. If I go in there and kick a door down things change. That is what concerns me, that it needed an MP to go in and kick a door down. You go in at the top, all hell breaks loose, alarm bells ring right down through the organisation and things happen. That suggests to me there is something seriously wrong with the total attitude of banks and their inter-relationship with Government. The whole thing is not being managed.

Chairman: I do want to move on.
Mr Binley: Hang on, Chairman, you got into this area. You hang on a minute. What is it that you see as wrong? Is it bureaucracy? Where are the problems in actual practical terms?
Chairman: In the schemes or the banks?

Q262 Mr Binley: I am talking about a small business, one of your suppliers or end users, going to the bank and saying, “I’m in some trouble, I want some money”. 
Mr Barfoot: The problem that they will encounter in that situation is basically an inconsistent approach, for starters. We have feedback from our customers where different branches of the same bank have given different stories where, for example, one bank will say, “We’re not prepared to utilise the Government’s support programmes because we would require directors’ personal guarantees or some sort of asset security as mandatory”; another customer talks to a different branch of the same bank and gets an entirely different story. That is the first thing. Other things customers have said to us are that banks are saying there is too much administration involved in accessing these schemes and basically if they did it would not make any difference to the end result on their decision in terms of whether they were able to help or not.
Mr Binley: That is vitally important.

Chairman: We are doing a separate inquiry into the Enterprise Finance Guarantee Scheme. I want to focus back on the automotive sector now, please.

Q263 Mr Binley: I think this impacts massively on the automotive sector. We will not have a further row, let us move on. I got the feeling from our earlier conversations that you felt there was not a
particularly helpful view of the automotive industry and you have reiterated that today, you feel you are one of the industries on the blacklist, which is most concerning. You relate some of that to relationships with BERR. Is there a connection between money, the banks and the relationship with BERR?

Mr Barfoot: What I would say in that area is BERR needs to be more responsive and rapid in the solutions that it is providing. One of the schemes that is currently under discussion is in the area of asset-backed securities. This discussion has now been channelled through the Finance and Leasing Association and they have been making representations for the industry in general to BERR. That discussion has been running for nearly six months now. Recently another hurdle that has come up in terms of that discussion is in terms of how state aid can be provided in relation to asset-backed securities and whether the banks would be entitled to offer such a scheme in the first place, and that has taken nearly six months to come out. These discussions move at a very slow pace. If such a scheme was approved tomorrow, most lenders acknowledge they would need at least something like three to four months to set up a scheme. Even if the scheme was put on the table tomorrow you are talking about the thick end of a year from start to finish from the discussion commencing to the solution being delivered, and that is if a solution was provided tomorrow.

Q264 Mr Binley: The Chairman has drawn me to my duty as a member of this Committee. I must ask you certain questions. I want to ask about Government policy in terms of its targeting. Is there too much emphasis on the car and small van market? Do you feel left out?

Mr Barfoot: I would say yes to that question. The commercial vehicle, the heavy truck sector is regarded as an also-ran. It is considered as a second level player. A lot of the discussion from the associations, such as the Finance and Leasing Association, and to a certain extent BERR, does focus on the car and more recently, because of the LDV situation, the van sector, and commercial vehicles are not given the prominence that they deserve.

Q265 Mr Binley: I am grateful for that. Can I ask to what extent Government policy is having an effect in preventing companies from abandoning projects or, indeed, moving them out of the UK? Is there a concern there?

Mr Barfoot: Are you talking about commercial vehicles?

Q266 Mr Binley: I am talking about commercial vehicles.

Mr Barfoot: The trucks themselves?

Q267 Mr Binley: Yes.

Mrs Paver: The product.

Mr Binley: Have you seen that yourself?

Chairman: Not the product, the investments, the strategies and the future.

Mr Binley: Is there thinking that perhaps there is somewhere else to go amongst yourselves or your suppliers, “Maybe we ought to be situated in another place”? Will this add to that movement or not?

Mr Hoyle: To help Brian, you have got your Eindhoven plant, is the rationale that you move to Eindhoven or to your other plants, as you showed us on your world map? Are you happy with the UK? Is that right, Brian?

Q268 Mr Binley: Exactly.

Mr Culloty: There is nothing within Government policy that encourages further R&D spend in our facility, it is neutral. There is nothing that works against it but there is nothing in the programme that says, “Please do this here and here is some meaningful support”.

Q269 Mr Binley: There is a view among industry that Government should be neutral and they should not get over-involved. Is that your view or not?

Mr Culloty: Generally you can take that view, but in the current challenging climate I think industry needs some specific support for limited time duration.

Q270 Chairman: What we heard in Birmingham yesterday was in the car and small van sectors our competitors in Germany, France and other countries are actually making that investment faster and more quickly than the UK. Do you see that in your sector too? Can you make a comparison?

Mr Culloty: I would say we do. I cannot bring the specific facts to bear. The Dutch Government supported DAF and there was definitely a different strategy there compared with the UK.

Q271 Chairman: I also want to ask you about the complexity of the Government relationships you have. I know sometimes in my own constituency people complain about the number of agencies they have to deal with and the conflicting advice. Industry thinks there should be co-ordinating agencies, that there is a lack of confidence and lack of resources to the Business & Enterprise Department itself. What do you feel about the structure that lies behind your needs?

Mr Culloty: I think the structure is impossibly difficult and challenging. We have a couple of specific contacts who we leverage at NWDA and BERR and very often when we meet these people we say, “Before we start, please explain the intertwining structure of these different functions and how they fit together”, but even after an hour of that explanation we are not very much the wiser. It is incredibly complex, incredibly convoluted and could be simplified significantly.

Q272 Chairman: Brian wants to ask you about skills in particular. I was struck by the SMMT representation to our Committee, which you have probably seen and contributed to, which really said that the Budget did nothing to help your sector at all
Mr Culloty: Absolutely, yes.

Q278 Mr Wright: That leads me on to skills and training because it is well-known that those industries that can see their way through this recession by holding on to their skilled and trained workforce are going to come out much stronger at the end. If you are in a situation where you have to lay off a lot of the staff then quite clearly it is going to be difficult to get those back again. Do you think that the policies in place at the present time are the correct ones in trying to encourage companies to keep their trained workforce?

Mr Culloty: They do not do very much for us is the honest answer right now. We have a little bit of support from Train to Gain for some of our employees who are aspiring to higher things. We do not get very much support around our apprentices. We do not get much support around our graduates. We are in a position now where we have lost the great percentage of our workforce and we are at a pretty critical skills level now, so we do need to be sure that we have the right support in place to protect that skills level.

Q279 Mr Wright: So you are saying that there should be more emphasis on skills and training for the future as much as there is for the reskilling and retraining of the present staff that you have got?

Mr Culloty: Absolutely, yes.

Q280 Mr Wright: And help from Government would be helpful in that respect?

Mr Culloty: Yes, we still run a modern apprentice scheme. We have got 20 apprentices in that scheme. We have got 20 apprentices in that scheme and financially that is expensive. We intend to continue with that but, again, help or support to invigorate that would be really good. Typically we bring graduates in at the rate of four or five a year and we have even had to pause that in the current climate. Help to keep those skills streams coming forward for the future would be the right thing to do.

Q281 Mr Wright: We understand that you have been in partnership with the Northwest Development Agency over a particular issue. Has that been successful?

Mr Culloty: It has been very successful. It was an opportunity that came up at short notice. We ask the question and we have the right support in place to protect that skills level now, so we do need to be sure that we have the right support in place to protect that skills level.

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Q281 Mr Wright: We understand that you have been in partnership with the Northwest Development Agency over a particular issue. Has that been successful?

Mr Culloty: It has been very successful. It was an opportunity that came up at short notice. We worked very closely with some good guidance and we did a great job upskilling our professional staff within the quite precise rules laid down by the NWDA. It was very productive, very successful. If there was an opportunity to do something like that again for the next level, technician staff within the business, I would heartily encourage that. Yes, we are delighted with how that relationship and support came from nowhere. That is one of the good things we have seen in the last six months.

Mrs Paver: If I could just add to that. It came on quickly was Denis’s comment. We ask the question what is out there but sometimes it is good to get a push from Government on what is available. We can ask a question but it may not be the right question. We would want to take advantage of more of these
things. We acted on this one, it came across quickly and we jumped on it. We would like to have more time with that, to think through them and take advantage of more of them.

Q282 Mr Wright: I am a great supporter of the Regional Development Agencies, they have been a very good tool certainly during the recession and in regeneration. Would you consider that the focus should be more on the Development Agencies rather than central Government, so central Government would say to the Development Agencies, “There’s the funding, develop your strategies around retraining”? Would you find that would be a better strategy?

Mr Culloty: I would say yes. We would see more objective pragmatism and understanding of the business needs at that regional level rather than at the higher level. That is our experience and that has worked for us.

Q283 Mr Hoyle: Just following on from Tony, the Northwest Development Agency money is Government money and the reason they acted quickly was they were contacted by the MPs as well. If you look at your files there is quite a lot of correspondence from us and I wanted to make sure you knew that when you said there does not seem to have been anything from the local MP. I just want to get that on the record. We got this out of the car manufacturers yesterday—JLR. What I have been pushing for, and they totally agreed, and it is perhaps in their submission, is that instead of people being made redundant and the Government paying them at the JobCentre we should be supporting them through short-time working subsidy to help keep your workforce in place and that allows you to do the training there so you are not looking for skills when the upturn comes. Do you think that would have been an initiative that could have made a real difference for you?

Mrs Paver: That is definitely something that should be explored, yes.

Q284 Mr Binley: I have two very quick questions. I was disturbed by your comments about the graduate programme not bringing R&D skills forward. That concerns me enormously because we are putting a lot of emphasis on our graduate programme, I believe to the detriment of skills in NVQ3 and those sorts of levels. How do we improve that? The second concern I have, and the regional development people are not going to like this one bit, is my fear is that regions for many of the SME businesses are too far away and I want to shut them down and have it at county level or something of that kind. Is there an advantage there or do you see the region as being the place to be for you?

Mr Culloty: I would not comment on region against county.

Mr Hoyle: We are only 10 miles off two of the county boundaries, Brian.

Q285 Mr Binley: You are all right in Lancashire but I wonder if they would say the same in other counties.

Mr Culloty: You asked about graduates and what we should do there. The reality is we have taken our workforce down significantly, we have taken people out at all levels from the highest level down to graduate level as well. We have taken the hard decision that we cannot bring those people in in the current climate.

Q286 Mr Binley: We are going to look to the upturn, we are going to exploit the upturn and this is vital in that respect.

Mr Culloty: Absolutely. If there was some way of funding something for a year or starting a process off then that would be a massive boost for us because we really do need that. Any support there would be terrific, absolutely.

Q287 Chairman: I think that covers it. When we had our private meeting with you I think you identified five areas you wanted to talk to us about: the focus of the Automotive Assistance Programme; the focus on low carbon; the relationships between Government departments and the complexity of that; the issues around finance and lending; and particularly the schemes as they affect the supply chain. Those were the issues that you identified and I think we have got that all on the record. Is there anything else you feel we have not said to you that we should have asked you about? If you think about it afterwards you are very welcome to write a letter.

Mr Culloty: We did mention the RPC Scheme and Andrea asked me to restate that, the change to vehicle excise duty, but that is on the record. The question was what would we have looked for from the Budget and we would have looked for a reduced pollution scheme to slightly incentivise operators to buy new vehicles at a lower emission level. If that was something that could happen that would make a great deal of sense. It does not cost much money, but makes people think “You know, now is the good time to buy a truck”.

Chairman: Sitting in a chair that Mr Hoyle occupied 11 or 12 years ago I must give him the last question.

Q288 Mr Hoyle: I used to be the Mayor. I would have thought the other initiatives about trying to persuade people is the tax works the wrong way round from buying a new vehicle because it slides backwards. Should it be that you get your tax relief upfront when you buy a new vehicle? It is on a sliding scale and if you invest it tapers down over a couple of years. Should capital allowance have been put upfront in order to get people to invest in new vehicles?

Mr Barfoot: Certainly there were some improvements to capital allowances in the last Budget but that could have gone a lot further. We are in such a situation at the moment where any stimulus
to assist commercial vehicle purchase that could have been brought upfront would be to the greater good. It need not necessarily be across the board, it could have been specifically determined for commercial vehicles, for example.

Chairman: Thank you very much. If after this meeting you think of something you wish you had said, just get in touch with the clerk. The door is not yet fully closed. Thank you very much and our gratitude for this morning as well. Thank you.

Witness: Mr Mark Hughes, Executive Director, Economic Development, NorthWest Development Agency, gave evidence.

Q289 Chairman: Thank you very much indeed. Can I begin by asking you to introduce yourself and explain your role in the Agency.

Mr Hughes: My name is Mark Hughes. I am the Executive Director for Economic Development at the Agency. In this context I have got responsibility for the business support activities of the Northwest Development Agency.

Q290 Mr Hoyle: Obviously the Northwest is a big area for automotive, whether it is JLR, Vauxhall, Bentley, but more importantly amongst that is the commercial vehicle sector and Leyland Trucks which is a big employer in this area. Can you foresee any other sector replacing the automotive sector in this local economy or in the economy of the Northwest?

Mr Hughes: I would probably put the question round a different way. I do not think we need to foresee a future where the auto sector is not part of the Northwest economy. Currently it employs about 40,000 people in the Northwest and has approximately 500 businesses here. It has got very high productivity, a good competitive base and it follows through on a number of the R&D innovation programmes that each of the manufacturers is following. There is no reason to foresee in the future why we cannot continue to have a strong manufacturing sector within the Northwest.

To give another component to my answer, the Northwest is very fortunate in the current economic conditions in that we have a very diversified economy. We have significant growth taking place in other sectors, in defence, aerospace, nuclear, digital and creative environmental technologies and, as I said, we are fortunate to have that diverse base and there are crossovers between some of the activities taking place in auto and those in other sectors. We are diversified and have good growth, so I do not think it is about finding something to replace auto but continuing to support auto to grow again in the future.

Q291 Mr Hoyle: Do you see growth of the auto industry or do you see that this is the level it is going to remain at, or will it decline?

Mr Hughes: If you look to the future there is nothing to say that vehicles are not going to be part of our daily lives, as it were. There are massive legislative and environmental drivers for innovation within the auto sector, therefore there is a huge opportunity for the auto sector to grow again in the Northwest. Whether it will continue to maintain the levels of employment is a different question. It is very high value. If you look at the average GVA contribution within the auto sector it is double what the average is for the whole economy, so in that respect although it might be small—

Q292 Mr Hoyle: What is the percentage of the Northwest economy roughly?

Mr Hughes: Roughly it is about 3 billion. In GVA terms it is 3 billion in a 115 billion economy. If you look at the added value nature of that it is double the average for the whole of the economy. Small higher value would be the synopsis for it.

Q293 Mr Hoyle: Obviously you know the region very well and you know we have got leading skills within aerospace, there is no doubt about it, we lead the world in aerospace technology, but is there anything you feel you can do to bring those technologies together from a Fighter Attack Aircraft to a civil application into the automotive industry? Is there a way of knitting that together that does not take place now?

Mr Hughes: There are examples where we are doing that. The example of the Northwest Composite Centre has already been touched on by the previous witnesses and that is something the Agency funded obviously with central Government money. The structures are there or can be put in there. The businesses in which the technologies can reside, where is the near-term incentive for them because the transfer and commercialisation process is quite long and they need short-term return on profits, that is the issue. To maybe address that you have to look at the incentives that exist around technology development and R&D to then pull profit through that system. There are opportunities, but currently they are not as quick or as pervasive as we would want. In terms of auto you have talked a lot about low carbon growth and supply chains and there are opportunities in there around light vehicles, there is electrical and chemical development within auto in the future that relates to other sectors in the Northwest. There is a strong chemical sector in the Northwest and a strong electrical engineering background in the Northwest and the other benefit of returning and growing the auto sector in the Northwest is it actually connects with a lot of other sectors within the region in which we do have certain concentrations of expertise within our higher education institutions. We have talked about linkages, as you have, between aerospace and businesses and I think there is also a focus around linkages between higher education institutions and businesses and how that work can more effectively in the future.
Q294 Chairman: Can I just ask you one question of some importance. Our last witnesses talked very plausibly about the need to develop composite technology in the automotive sector, but the Southwest also has centres of excellence in composite technology. Are the Northwest and Southwest talking together about rival or comparable programmes?

Mr Hughes: This question has come up a number of times and existed previously. We work as an RDA family, particularly when it comes to sectoral interventions. We have a working group between the Southwest, SEEDA, Northeast and the West Midlands around the automotive sector. What you might find is initiatives called similar things in different regions but when you pull up the skin between those initiatives they are concentrating on different aspects of the problem and working complementarily underneath. I would have to provide details on where they link but I am pretty confident they are not competing. If I go to a different sector, the biomedical sector, we have biomedical research centres in the Northwest and similar centres in the Northeast which the RDAs are supporting and we spent a huge amount of time working with the Northeast RDA to make sure they were complementary rather than competitive.

Chairman: Rather unusually I am going to have to call the senior member, Mr Hoyle, to the chair briefly. I have an urgent matter I have got to deal with outside.

In the absence of the Chairman, Mr Hoyle was called to the Chair

Q295 Mr Wright: As regards your role as the RDA, what have you done to help sustain the industry during the present crisis?

Mr Hughes: I think when we look at that we need to look at two things really. One is what we do in terms of general business support and then what we are doing in terms of specific support for the auto sector. The auto sector does have opportunities for assistance beyond things like the Automotive Assistance Programme. If I just touch upon a few of the mainstream things for the moment. With the Business Link service, which is a key conduit for business support, we introduced an access to finance service in November last year and that has provided assistance to 800 companies in that period, of which a number are automotive.

Q296 Mr Wright: Is that just financial advice or financial help?

Mr Hughes: That is help and advice. There is a financial health check first of all and then actual assistance with accessing finance. Business Link itself does not give finance, the Agency is the granting body. The other thing that service has done, and I am sure we will come on to the banks, has been to work with the banks and reposition businesses with the banks so the banks will actually lend to them. Another component of that is with a number of the banks what they have offered is a review opportunity, so if they have turned down a loan facility or loan request from one company Business Link has been able to review that and go back to the bank and present another proposition and secure funding for them. That is core frontline, as it were, that is available to all businesses. Most of our grant offerings are available to all businesses, including the automotive sector. Government and RDAs have spent probably the last 18 months trying to tidy up business support and simplify it and make it more eligible for more businesses. We have a grant for business investment that is available for auto companies and grants for innovation that are available to auto companies. Again, I can provide detailed material on the take-up of those within the automotive sector. If we move specifically to auto assistance, we have put in place a number of initiatives. The training one is the one that gets discussed which is also being used by Bentley, and Leyland are obviously part of it, and one other manufacturer utilises that. That was a million and a half funding going into particular training. We also have a supply chain programme which is about a three million programme working with auto companies on their supply chain initiatives. We support something called the Northwest Automotive Alliance which works with the auto companies in terms of developing market opportunities. There are some dedicated auto assistance programmes, some of which have been in existence for some time and some of which have come into place as a direct response to the situation we are in at the moment. The other thing for us is to utilise any of the national schemes that are available and try to raise awareness. There were some comments earlier on about awareness and understanding of the national schemes and that is something we have been trying to work on with businesses within the region because it is still a bit opaque and unclear.

Q297 Mr Wright: You did mention the banking issues and how you are trying to help the industry with that. Quite clearly there is a specific problem with the truck manufacturers on the basis that it is the people who purchase them who cannot get to the banks. Have you made representations to the banks in respect of that difficulty? If you could release finance through that route then it resolves the problem at the other end.

Mr Hughes: Absolutely. No, we have not on that particular problem but we will have to after today. We meet the commercial banks on a regular basis. We had a meeting with eight of the commercial banks from the region last night on the access to finance question. It is one of those wicked, wicked problems. At a macro level, fundamentally what is happening is the amount of money in the system has been drastically reduced and the cost of that money is going up. Those are two fundamentals you just cannot get away from. We are in a readjustment process at the moment, we are not going to go back to where we were 18/24 months ago. Unfortunately auto businesses have to change their business models to adjust to a new reality and that is what is happening at the moment. The banks will tell a somewhat convincing story about the amount of lending that
they are making, but at the same time you have lots of examples of individual businesses who have been turned down or had their provisions renegotiated at the same time. Trying to get a very clear take on which one of those is the real world is actually quite difficult because they co-exist at the same time.

Q298 Mr Wright: What else is it that you think you could do if you had greater resources? Is there much more? There must be something where you think, “I really want to do this”.

Mr Hughes: I do not think it is necessarily in some respects greater resources for the total effort, it is the channelling and effective deployment of those resources. Previous people have talked a lot about skills and innovation and I think those are the two key things over the medium and long-term. There is a wealth of resources, a wealth of money available across Government in those areas, it is just not coordinated enough and delivered at the right level enough. You can look at billions that are spent and made available for skills development and similar numbers available for innovation, but they are not channelled through an industry window and in a coordinated way. I guess one hope I have is that the New Industry, New Jobs approach will actually lead to a greater industry focus for the channelling of the delivery of resources to businesses. That is the one big change that I would make.

Q299 Mr Wright: Within your organisation do you have someone specific to the automotive industry to take care of that?

Mr Hughes: Yes, I do. We also sponsor the Northwest Automotive Alliance as well, which is a dedicated industry body which gets that industry voice around one table to clearly explain to us the kinds of issues it has got and what it would like us to do and then we also use that as a kind of conduit to engage with national and European auto groups. I do have an auto person, want of a better word. Within most of our other business support activities one thing that we have been able to do is we have now sectorised them as well, so with UKTI and trade, the trade people in the region, we have got auto people and in Business Link we have got auto people. We have replicated that across our programmes and those teams get together on a regular basis to share intelligence and information. It is not perfect and it does not do everything that people would probably want it to do, but it is a significant advance on where we were three years ago.

Q300 Mr Wright: How do you see your long-term future through this recession and beyond? Do you see it playing more of an active role or just carrying on as you have done?

Mr Hughes: The RDA?

Q301 Mr Wright: The RDA

Mr Hughes: That will be determined by Government. If it was up to us we would continue to drive a sectoral approach to our activity and the auto sector is one of our key sectors set out in our Regional Economic Strategy. We are in the process now of developing a new single strategy for the region and I would anticipate auto continuing to be one of the priorities and, therefore, we would organise our resources to work with that sector. I just go back to the point around there is only so much we can do in the region and the big slugs of resources are managed nationally, particularly around the innovation and skills agenda, and it is how do you get those to have a sector focus and a local delivery focus. If we can get more of that in the system then I think we will get more direct impact on the ground.

Q302 Mr Binley: I have got a particular problem there about connection with the local level because that is where most SMEs operate and it concerns me, but I would like to come to that a little later. We have heard of the difficulties that at least a couple of businesses with sizeable supply chains are experiencing with regard to liquidity and their relationships with the banks. I have got concerns that expectations were raised too quickly and in too great a manner in terms of the schemes available. You have heard those problems, but how do you feed them back? What is your connection with Government in that respect?

Mr Hughes: It is varied. Clearly the RDA sponsor organisation is BERR and, therefore, we have direct channels both into the BERR team that manages the RDAs as a group but, as importantly, into the divisions within BERR, the auto group within BERR, the enterprise and finance group within BERR and the skills group within BERR. Also, outside of that, the RDAs have direct lines into DIUS. DIUS would be the other department that would be key within this arena. I think we have pretty good channels at the Civil Service level and it works reasonably well in terms of the opportunities to communicate well and what follows from that communication then takes time to work through.

Q303 Mr Binley: Do you feel BERR is too leaden to react quickly? Liquidity is about very quick action: you are great today, tomorrow you have got a £45,000 bad debt and you are in serious trouble.

Mr Hughes: BERR’s role is not a delivery role in that sense.

Q304 Mr Binley: No, it is not, but it is your major channel and they are a feedback in this respect. I wonder how we can make them react more quickly to news out here.

Mr Hughes: They react and acknowledge the issues quickly. I genuinely do feel that, but the issue comes, and the previous witness touched on it, as to how quickly can you turn round the recognition of an issue into the design and delivery of a solution. Then you get into the wonderful world of state aid, procurement, legal and where is there market failure, where should the Government intervene, where should it not intervene, and that is what jams the system up. It is the design and the implementation that jams it up in the first instance and, secondly, the initial deployment of the initiatives. If you take the Enterprise Finance Guarantee Scheme you had an...
announcement on that, the practical information on that flowed out a little bit later after the announcement, so the phone calls to Business Link went through the ceiling on the day of the announcement and the information might come through a little later. The description of how it works within banks is absolutely bang-on and we are dealing with most of them. There is a lot of legacy in the banks around the Small Firm Loan Guarantee Scheme. The Enterprise Finance Guarantee Scheme is completely different and is a major move on from the Small Firm Loan Guarantee Scheme and has many positive features. There is a legacy, a background, of negativity there. If you look at the number of relationship managers that the banks have to get to with his new information there are tens of thousands of them, so how do you get that information, and not only the information but the understanding of how it works, to 10,000 people across eight different organisations in 24 hours? It is just impossible. I do feel the acknowledgement of the issues is quick, it is the design and implementation that takes longer. Some of that is necessary because you have got to get the scheme right. The last thing you want to do is launch a scheme and then find out on day two you have got some serious problems in delivery.

Q305 Mr Binley: You are not referring to VAT and scrappage, are you?
Mr Hughes: No, not at all. Other things have worked really well. I will just throw this in because it is something that is not trumpeted enough. If you look at the HMRC reaction around extending Revenue and Customs payments, we have had around about £200 million in this region alone of rescheduled payments. I know at the end of the day they have got to be paid, but in terms of managing cash flow that has been a significant help. If you look at the level of Enterprise Finance Guarantee Loans deployed in the region, it is 40 million. If you look at the difference in those two things, there has been some significant aid that has worked very quickly and very smoothly but some of the other schemes are practically difficult to implement.

Q306 Mr Binley: I am grateful for that. Two very quick questions because time is now pressing. I am concerned about this getting down to lots of people if you have got a big region and I wonder how you deal with that and how you might deal with it if you had more resources. Secondly, I would like a quick view on your connections with universities and their relationship in promoting innovation and helping to develop it.

Mr Hughes: In terms of the region, I will not go into the huge debate about non-RDAs and everything else. I joined the RDA from the private sector and joined for a particular reason. I think we are a good place where economy of scale and scope come into effect. We understand policy but, most importantly, we understand delivery and if we can connect policy and delivery understanding together I think you get the optimum balance. I design interventions but I also get immediate feedback on how they are working and how we need to tweak them. Now I will move on to your question about universities. It is a difficult one. Universities are multi-headed beasts. They are major contributors to the local economies. They receive massive amounts of public sector funding and there are good examples where they make significant contributions to working with businesses. You do have to wonder at the extent to which they are not driven enough to the national economic interest of particular sectors and more could be done there.

Mr Binley: That is very interesting and helpful.
Mr Hoyle: Thank you for your time and thank you to the Northwest Development Agency for all that you do. Steve Broomhead and all of the team. I think you do a great job for the region. Thank you for what you have done for our local businesses. When I have needed you, you have been there and you also helped with the Leyland Trucks situation. Thank you very much for that and thank you for your evidence.
Wednesday 10 June 2009

Members present
Peter Luff, in the Chair
Mr Adrian Bailey
Roger Berry
Mr Brian Binley
Miss Julie Kirkbride
Mr Mark Oaten
Lembit Opik
Mr Anthony Wright

Witnesses: Mr Dave Osborne, Unite National Officer for Vehicle Building and Automotive, and Mr Roger Maddison, Unite National Officer for Motor Components, Unite the Union, gave evidence.

Q307 Chairman: Gentlemen, thank you very much indeed for coming in. We are going to take about half an hour with you, if we may, to discuss three particular areas of questions. We are very grateful to you for coming to give evidence to the Committee in what is a very challenging time for the automotive sector, to say the least. I am sorry we kept you waiting for 15 minutes due to a division in the House of Commons, but thank you for your understanding. It means we will keep the Minister waiting 15 minutes too, and I apologise to him as well for that discourtesy. Can I begin like I always do by asking you to introduce yourselves, please?

Mr Osborne: Thank you, Chairman. I am Dave Osborne. I am the National Officer for the Vehicle Building and Automotive Group for Unite the Union, and I have responsibility for predominantly the OEM businesses.

Mr Maddison: I am Roger Maddison and I am the National Officer for the Car Components section of Unite.

Chairman: Thank you very much indeed.

Q308 Miss Kirkbride: Gentlemen, the automotive sector in the UK. Could give us a view on how important the automotive sector is for the UK economy?

Mr Osborne: I think it is well documented, the size of the industry, obviously. In terms of employment the industry accounts for about 800,000 jobs in the UK, of which approximately 190,000 are in manufacturing, 600,000 in retail, with a turnover of £50 billion per annum, value added in excess of £10 billion, and obviously it is a key sector as far as we are concerned in terms of the UK’s overall balance of trade, of course. So in that context we see this industry as a key driving force for a vibrant manufacturing sector in the UK going forward. I think it is true to say that the industry has gone through major restructuring in the last 10 or 15 years. The industry as we once knew it has changed dramatically. Globalisation has, of course, changed the way we operate. The markets are much more fragmented with many more companies now vying for business in each of the markets all around the world. The UK is not unique in that, of course, but we are still, as I say, a major employer, a major generator of wealth for the country by virtue of the fact that we export around 75% of the production here in the UK, and of course in the premium sector we are the second biggest manufacturer across the globe.

Q309 Miss Kirkbride: I hope that sets out the picture, but in your own report you point out the fact that we are now a very mature economy and that these kinds of jobs and manufacturing sectors are migrating towards lower cost countries, so how much of what you have described do you think we can really aspire to hanging on to?

Mr Maddison: I think we lead the world really, in the innovation of new products as well. A lot of the work which is being outsourced to low cost economies leaves the UK basically to help develop new products, more green effective vehicles and things like that. I do not think the Third World and the low cost economies are yet ready to take up that sort of challenge. They can make parts for cars and they can even put cars together, but the UK is at the forefront really of new technology and innovation in the industry.

Q310 Miss Kirkbride: Does it matter that we do not now have our own high volume car manufacturing sector?

Mr Osborne: Like I say, globalisation has changed the face of the modern industrial world, certainly in terms of the car industry. The days of two or three car producers dominating the market have gone. We have around 35 different companies, each taking a share of the market, and the importance is that we do have still what I would call, and I think you would call, volume producers. There is no bigger volume producer in the world than Toyota, and Toyota is here making cars in the UK as are Honda and Nissan. On your own doorstep, Jaguar Land Rover, for example, just prior to the recession produced over 300,000 vehicles. I do not know if that is what you mean by a volume producer, but in today’s world I would suggest that is exactly what a volume producer does. On top of that, of course, we should not forget that the UK as far as powertrain is concerned, is a volume producer by any stretch of the imagination. We produce approximately 3 million engines a year here in the UK. I think it is not the size of each individual company in terms of their capability, but I think it is about whether this industry remains competitive as it has gone through that process over the last 10 or 15 years, and as long as we can continue to be competitive then I am quite
content that provided we get the appropriate support at the appropriate time when the industry is facing difficulties, then I am convinced that this industry can be part of the industrial landscape—and an important part of the industrial landscape, I might add—for many, many years to come.

Q311 Miss Kirkbride: Moving on to my last question, which is about appropriate support, what do you make of the present crisis at LDV? Could and should more have been done to stop it going into administration?
Mr Osborne: I think LDV has a chequered history. I was involved with LDV back in 1992 when it was owned by DAF and of course DAF went into administration. As a consequence of that, we saw the management buy-out of LDV. We agreed at the time changes to terms and conditions of employment to give the company an opportunity and it has been able, over the last 17 years, to provide a standard of living for certainly 850 people up until last week, significantly more than that prior to that, and of course not forgetting the people who were reliant on LDV. My point about LDV is that I think it is an absolute tragedy and an absolute waste that we see, at the point in the industrial cycle where we are seeing the move towards greener vehicles, LDV, which had a plan to do that, was not afforded the opportunity. My union, as you know, campaigned hard and long to try and bring about a satisfactory resolution of that problem but unfortunately the buyers were not able to secure the funding, which in itself is a tragedy. Whilst the administrator is in there, I think we should leave no stone unturned to try and bring about a future for the production of electric vehicles, which is exactly what the plan going forward was for LDV. I would make a plea to all those concerned, including the Government I might add—

Q312 Miss Kirkbride: What do you think the Government should do?
Mr Osborne: I think they should provide the loan guarantees to enable the Malaysian company to fund that business plan for the production of electric vehicles.

Q313 Miss Kirkbride: Is your union calling on the Government to provide that?
Mr Osborne: That is exactly what we did last week, yes.

Q314 Miss Kirkbride: We are always told that the Government does have a loan guarantee scheme.
Mr Maddison: We cannot seem to get the grants for it. There are supposed to be loan guarantees there, but people seem to have a problem getting loan guarantees.
Mr Osborne: My point would be simply that they were unsuccessful in raising the finance of the Malaysian banks. My point is simply that the banks have been bailed out to however many billions it is and I think the Government should have “encouraged” (if I can use that word) the banks, particularly those we currently own, to underwrite loan guarantees to allow that business to survive. I think that would have been more than a worthwhile investment which would have been repaid over a period of time.

Q316 Miss Kirkbride: It is very shocking. The Government has a scheme for loan guarantees. Do we assume that LDV actually submitted an application for a loan guarantee and that it either was rejected or never found its way onto the relevant desk? What has stopped the loan guarantee scheme which the Government has from helping LDV?
Mr Osborne: Are you talking about the Automotive Assistance Programme?

Q317 Miss Kirkbride: Yes.
Mr Osborne: I am not aware that LDV have submitted an application. That is a question you will have to ask LDV.

Q318 Mr Binley: You must be very busy at the moment. It must be a pretty difficult time for you and I think we need to understand. We are grateful. I am particularly interested in the motor sport industry, not from the perspective of sport but from the perspective that it employs 50,000 people in and around my constituency, Northampton South. I assume that you operate in the motor sport industry. You talk about innovation and they play a sizeable part in innovation. Can I ask how you feel they are doing, whether you feel they are getting any attention, whether they need it? Secondly, in terms of perception can I ask whether the possibility of losing the Grand Prix might be harmful to the British automotive industry?
Mr Osborne: I think it is fair to say that we are not as involved in the motor sport side of the business as we would like to be. We are extremely busy in other parts of the industry, as you quite rightly pointed out. That is not to say that we do not do motor sport. It is an extremely important part, as you have referred to, 50,000 people being employed. We have major multinational companies who themselves are involved in motor sport and I think one of the problems of the current financial pressures—and we saw it with Honda—is that motor sport is taking a back seat, if I can say that, given that these businesses see other priorities for their finances. I was pleased to note, however, the other day, because we deal with Aston Martin and David Richards, as you know, who is the Chairman of Prodrive, is also the Chairman of Aston Martin, and he has decided that Prodrive will go back into Formula One in 2010. That is good news and obviously we hope that that
will bring about future employment. That is the most honest answer I can give you in terms of where we are at this moment.

**Q319 Mr Binley:** Can I just press you on the Grand Prix because there is a danger of it going and I am trying to get as much pressure to keep it in Britain as I possibly can. Would you support that pressure?

**Mr Osborne:** We would support any pressure to support the British motor industry. I think Bernie Ecclestone, however, will have a lot more influence over it than I will.

**Mr Maddison:** I think another point is that the Formula One industry is, again, at the forefront of innovation and design. It leads the way in new technology that actually goes back down the food chain and actually gets into the bog standard family car eventually. A lot of that design, a lot of that money and a lot of that expertise is there, so I think if we are going to continue to be innovators in the UK on new technology, green technology, then I think the sports car part of that is very important.

**Q320 Chairman:** Thank you. Before we move onto too many areas—we want to talk about short-time working and training support—could I just ask you one specific question about the Automotive Assistance Programme? Are you surprised it has taken so long to close the deal on support for Jaguar Land Rover, which is another very important regional company, a national company as far as I am concerned?

**Mr Maddison:** I have obviously, as you would expect me to, taken the time to read the evidence from other witnesses prior to coming to today’s proceedings. I have been heavily involved in Jaguar Land Rover as the lead negotiator and we have done substantial things in JLR, which I think are well documented, in order to protect employment in the first instance. I know that the company have made an application to the programme and I know it has publicly been announced that they have been awarded £340 million from the European Investment Bank. I think the company are frustrated. Our members, however, are angered at the lack of progress and I will tell you why they are angered. One of the major considerations which every automotive company is going through at the moment, given the lack of liquidity, is the need to make timely investment into the future. Actually, with the lack of progress on this JLR are now in a position where some of their investments, because of a lack of cash obviously, are in serious jeopardy. If we are serious about this industry remaining competitive, then delay, whatever you want to call it, is not acceptable. One thing I would be interested to know, because I am not aware of the details of the application, obviously, and what would be very interesting to know from this Automotive Assistance Programme—and perhaps you could ask the Minister the question when he gives evidence in a moment—is exactly how much money has left the Exchequer, to which company, and how much have they had? That will be a very interesting answer.

**Q321 Chairman:** I suspect it is quite a round figure!

**Mr Osborne:** Yes, I know, very round! Absolutely.

**Q322 Chairman:** Very briefly, because I want to move on to other areas, Mr Maddison would you agree with the analysis which I and this Committee have heard in evidence that actually JLR is crucially important to the UK components supply sector as well, a real lynchpin?

**Mr Maddison:** Oh, absolutely. We have got somewhere around 15,000 people who work in Jaguar Land Rover. We have probably got 50,000 people who rely on Jaguar Land Rover parts throughout the UK, not just in the West Midlands, but the West Midlands would be absolutely decimated, for instance, if anything was to happen to Jaguar Land Rover. Many of those component companies right now are holding on with their fingertips, a lot of people have been laid off for quite substantial periods of time and companies are in real financial trouble at this moment in time. Two GKN plants, three Visteon plants, which have all done work for those companies over the time have all closed over the last few months, or plan to close over the next few months. Jaguar Land Rover is absolutely paramount to the motor industry and paramount to local economies.

**Chairman:** Thank you for that.

**Q323 Roger Berry:** I ought to declare an interest as a member of Unite. Could I turn to the temporary short-term working compensation scheme, temporary wage subsidies effectively? I personally do not need persuading that there are circumstances where that is necessary and I do think this is one of those circumstances. However, I would like to ask what estimates you have made of the cost of such a scheme for the automotive industry.

**Mr Osborne:** I think you may have seen a written document which we have actually submitted as a proposal on temporary short-time working. I am sure that was sent to the Committee for consideration.

**Roger Berry:** Yes, there is reference to, is it £30 billion?

**Q324 Chairman:** It cannot be that much. It must be less than that.

**Mr Osborne:** I have seen evidence which has been submitted to the Committee which talks about, I think it was, £1.2 billion for 600,000 jobs over a twelve month period. I think that is what I saw and Members of the Committee will obviously know whether that is right or wrong in evidence and other debates which have taken place. I think the point we would make is that we see temporary short-time working and the subsidy, or scheme, as a very, very important role—a short-term role, temporary role—to take our companies through what is undoubtedly an unprecedented crisis for this industry. Our view is simply two-fold: one, the retention of skills and the avoidance of redundancies to meet the upturn when that comes is paramount if we want to be competitive. The days of carrying huge surpluses of labour have gone and primarily we are lean
operations and any more loss of jobs as a result of
this downturn we believe will leave us with a skills
shortage when the recession is over. There are many
examples, I think, where as a nation we once were
leaders and we have seen skills disappear and they
have never come back, whether that be machine
tools or –

Q325 Roger Berry: I absolutely buy into that
argument. It may be that now is not the time to do
it. It is my ignorance. I have skimmed your
document for the Committee and I cannot find the
numbers there. If at some stage, Chairman, we could
get some idea I think that will be very helpful
because if you are talking about wage subsidies it
means that people in employment will pay more tax,
receive less benefits, so it has got to be the net cost –
Mr Osborne: I think I have seen an estimate
somewhere of £300 million for the car industry.

Q326 Roger Berry: I think from the Committee’s
point of view it would be useful if we can bottom
out so that we do know what we are talking about,
because I had perhaps misread the memorandum, so
forgive me. My other question really is, you do
dightly point out that other EU governments provide
support for such schemes. Are there any particular
lessons you think we can learn there and are there
any particular countries you think we should be
looking to for not so much advice but for ideas,
sensible ideas?
Mr Osborne: Obviously as a national officer I move
across Europe in my role with companies which have
European bases and Germany is normally held up as
the example of best practice. I think if you look
across the EU there are different countries which
have different methods because I think most of the
methods I have seen are basically state-funded,
social provision applied to short-time working. That
is something we do not have here in the UK and I
think there are different amounts of payment or
different periods of time, whether you are talking of
Germany, Belgium or Spain. I can give you a sort of
focus on one. What we see as the issue is primarily
the temporary short-time working subsidy should be
viewed in the context that it also avoids taxpayer
costs in terms of job losses, redundancies,
unemployment, lost tax revenues. So I do it on that
basis from one end. Secondly, of course, we can pour
money into Job Centres and for some reason that is
a palatable Taxpayers’ money into Job
Centres and for some reason that is
not an option on short-time working. I think all
the Committee Members know of the redundancies,
the short-time working, and I think it is important
that the Government and yourselves clearly
understand the sort of financial sacrifices that our
members have taken in this downturn. Not only are
we talking about short-time working but a pre-
requisite of short-time working will be people taken
off shifts where they have lost up to 25% of their
earnings in the first instance and they have lost
another 10% in terms of short-time working, so these
are substantial cuts in pay. Therefore, on top of that
we have understood the need to ensure that our
members stay in work during this short-term
downturn, so we have negotiating with employers
other reductions in pay. We have negotiated pay
freezes around the table, which is quite novel for the
car industry, I can assure you. Miss Kirkbride will
know exactly what we have done in Jaguar Land
Rover. So our members have paid quite a sacrifice
and what we are not asking for here is a bail-out, I
want to make that clear, and anybody who believes
that is misrepresenting the facts. What I would say is
that our members are taking those sorts of sacrifices
in order to preserve their jobs and maintain their
companies because they see the importance of doing
that. They understand that without the business you
can have the best terms and conditions in the world
but without a job they are totally irrelevant, and you
contrast that with the sort of reward which Sir Fred
Goodwin walked away with, his performance in the
Royal Bank of Scotland and our members’
performance in the car industry.

Q327 Chairman: The average bank employee in the
High Street would have much the same view about
that.
Mr Osborne: Yes, I am sure he would.

Q328 Mr Bailey: Can we just go on to Train to Gain
and training support, which in part is designed to
meet this particular need but give a training impetus
with it. So far how effective do you think it has been
in helping to support manufacturers? Do you think
it has saved many jobs? Can you give some sort of
assessment?
Mr Maddison: I am not sure how many jobs that has
saved. I am convinced that done properly it could
save a lot of jobs. In the industry under normal
circumstances they are thriving profitable
companies which work very lean sort of production
techniques and it leaves little time to do a lot of job
training when you are actually in work. We have an
opportunity now, when people have not got so much
work, to put a day aside, or whatever, if companies
could afford to do it, to actually train people now
and I think we would be far better served with the
money that is used for training to train people to
keep them in work rather than train people who have
lost their jobs to try and find new work. So Train to Gain does great things, I am sure, for unemployed people. I am not sure it has done a lot for working people at the moment, but I think it could do an awful lot for working people because they have now got the time. All they actually need is the investment.

**Mr Osborne:** Yes, I think Train to Gain has been successful and we welcome that. As a result of the relaxation of the rules I think there is a significantly bigger take-up, exceptionally more of a take-up on the Train for Gain scheme. Our issue, however, is this: where we encourage employers to recruit apprentices particularly, I think the financial pressures again are such that it is not the number one priority for employers, but we are always conscious of the need to develop apprenticeships. I will say that whatever we do with Train to Gain and whatever the future for Train to Gain, that itself is not enough. At the end of the day it is great training people. What we are trying to do here is establish that this industry is still in existence so that when we have trained the people, whether it is via apprenticeships or further Train to Gain systems, they have got jobs at the end of it to go into and that is the real issue as far as the industry is concerned. We welcome anything which will lead to an enhancement of skills. You will know that in Wales on the ProAct scheme the regional government is inviting applications from employers to enhance the skills and where they are meeting that criteria then ProAct is actually putting in place a sort of temporary short-time working subsidy in order to subsidise that training. That is the sort of thing we would like to see.

**Mr Bailey:** We will just talk about Wales in a moment.

**Chairman:** Not for very much longer because we are running out of time.

**Q329 Mr Bailey:** I shall be as brief as I can be. The point I am trying to get to is what evidence has the union got of the use of this budget to (a) preserve jobs, (b) to enhance skills, because if there is effective evidence that that provides a rationale for in effect extending the budget—I know the automotive sector has already had the budget extended from £65 million to £100 million—it underpins the points which are being made, in effect, to justify some sort of public subsidy to offset short-time working? Has the Union got a body of evidence which it could put to the Government, to Members such as myself who are broadly sympathetic to what you are trying to do, to prosecute the case?

**Mr Osborne:** The budget was increased from, I think you are right, £65 million to £100 million. I know for a fact that that has enabled Jaguar Land Rover, for example, to this year start more apprenticeships than they have done for some considerable amount of time. We are on the brink of new opportunities for the industry, particularly around electric vehicles and electrification of the car, major opportunities for this country to be a world leader in that expertise.

Therefore, what we are trying to do—and Jaguar Land Rover is a classic example, where they are spending £800 million of their money on developing new engine technologies, obviously, in order to meet the challenges of the future and to meet the requirements of the low carbon footprint out of Europe—that is a major opportunity for us, certainly in terms of the budget, to use that as a mechanism in the first instance to add value to that business—

**Chairman:** We are really running out of time. I think we understand the point you are making, Mr Osborne, and we have a lot of sympathy for the point you are making as well.

**Q330 Mr Bailey:** I would like to explore this much more, but I am conscious of time. First of all, on the basis of the Welsh experience have you got any indication thereof of the success it has had, the ProAct scheme? I appreciate it is early days, but obviously any indication helps to build the case for it. Secondly, are the other Government skills initiatives working, particularly the package for unemployed people?

**Mr Osborne:** All the evidence we have had from the Welsh experience is that what they have done is they have taken applications from companies around short-time working and the temporary short-time working subsidy is not a recipe for having people sitting at home doing nothing, it is for utilising the time, not spending it on production but as part of a series of programmes during working time in order to maintain and enhance the skills so that we are best placed in the industry to meet the upturn and the challenges of the future when the recession is over. I think it is as clear as that for us.

**Q331 Chairman:** On the other skills initiatives is there anything else you want to comment on, the Government’s skills package at present, which is relevant to this?

**Mr Osborne:** No. To be frank, outside of Train to Gain there are no employers’ views and we have encouraged the use of that. Primarily we have been trying to address problems jointly with business in terms of trying to enhance their cash flows and liquidity issues by virtue of changes to terms and conditions of employment.

**Q332 Mr Bailey:** The point was actually about unemployed people and special training given to them. There is funding for 75,000 people.

**Mr Osborne:** I think where we lose people at work employers are obviously involving Jobcentre Plus in trying to assist those people move from losing their jobs into new employment, but with unemployment rising as it is dramatically the opportunities are limited, to say the least.

**Chairman:** I am afraid we are going to have to stop there. Thank you very much indeed for coming in and we are grateful for your evidence. Thank you.
Q333 Chairman: Well, this is a pleasant surprise, for us if not for you! We observe you have to be called Ian to do this job in Government these days. We are still the Business and Enterprise Department, although I am sure we will be changed before long by a standing order of the House, but you are one of the enormous team of ministers at the new Business, Innovation and Skills Department, which we are gradually coming to terms with grappling with. We are genuinely grateful to you for coming in at such extraordinarily short notice, standing in for the previous Ian. We are sure you will rise magnificently to the challenge we are putting before you today, but if we hear a bit more from the other Ian on your left, or Jane, you will understand. Thank you very much indeed. Minister, do you want to begin just by introducing your colleagues so that we know who they are?

Ian Lucas: Yes. On my right is Jane Whewell and on my left is Ian Gregory. I am afraid I cannot recall their job titles just at the moment.

Ms Whewell: I am the Head of the Automotive Unit in BIS.

Mr Gregory: I am the Head of the Automotive Assistance Programme.

Q334 Chairman: Are we to assume that at least one of the veils of secrecy about ministerial responsibilities has been lifted by the fact that you are here today?

Ian Lucas: That is correct. I am the Parliamentary Under-Secretary of State for the Business, Innovation and Skills Ministry. I am delighted to be here. I should say that I was a backbencher for seven years. Eve Samson knows very well that I was a proud member of a select committee at Transport, which I enjoyed very much and it taught me an awful lot. I value the role of backbenchers enormously. I genuinely look forward to working with this Committee in carrying out the job I have been asked to do. I have already been very stimulated by the evidence and the session so far because my own constituency deals with many of these issues, so I am very pleased to be here.

Q335 Chairman: But you will have ministerial responsibility for the automotive sector and the aerospace sector?

Ian Lucas: That is correct.

Chairman: Right, we know that much. Thank you very much indeed. I move to my colleague Lembit Öpik for the first question.

Q336 Lembit Öpik: First of all, what is the Government’s assessment of the importance of the automotive sector for the economy? It is a pretty wide question, but I guess we will start there.

Ian Lucas: This is a vital industry for the UK economy. We have already heard the figures for the number of people who are employed within the industry and it is an essential part of UK manufacturing, so it is really an industry which has developed hugely. I am always impressed when I go to automotive factories by the efficiency of the UK factories we now see. I think we have risen to problems in the past and solved them. We are in a very difficult situation now, but it is an industry which Government is very committed to and which we need to ensure has a future.

Q337 Lembit Öpik: At least one colleague will probably want to add something to my next question on a specific case, but insofar as you can comment what is the Government actually doing to stop the threatened or actual closure of plants in the automotive sector?

Ian Lucas: It is working extremely closely with any individual example of a plant being threatened with closure. Clearly we have talked about LDV already, but the Government was intimately involved in working to keep LDV open. It did offer finance of a bridging nature. I know that local parliamentarians and Government ministers in some cases were working very hard to do that and the trade unions too. I think the trade unions are on record as saying the Government was very committed and did an awful lot to try to resolve the situation with LDV. As far as I am concerned, speaking personally, I have an open door if there is any individual case, and certainly from my discussions with officials so far we are extremely committed to helping in any way we can.

Q338 Miss Kirkbride: So why are LDV in administration now? What was it that the Government was not able to do to stop that happening?

Ian Lucas: My understanding is that the Government had offered a bridging facility to the potential purchaser. That was available and that was there, but the long-term financing which needed to be in place was not in place. That is why the administration happened.

Q339 Miss Kirkbride: So the short-term bridging loan was available. How much was that worth?

Ian Lucas: That was my understanding.

Ms Whewell: It was worth £5 million and 1.4 was drawn down.

Q340 Miss Kirkbride: But they were talking about £60 million. Would that kind of money be available as a bridging loan whilst they got their finances together? LDV have been talking about £60 million needed to keep the plant going temporarily.

Ian Lucas: I am not clear whether that was the bridging finance or the long-term finance.

Ms Whewell: The £5 million was a bridge to enable Weststar to make a purchase of the company. £60 million would have been the money required to provide all the funding for the restart of the factory in the absence of third party investor support.

Q341 Miss Kirkbride: That was not forthcoming from the Government?
Ms Whewell: No.

Q342 Miss Kirkbride: And the reason for that, bearing in mind it was going to cost 53 million to close it and bearing in mind that people would be on unemployment benefit and taxes would be foregone? Why does the Government not want to be more proactive when there is a business plan in place and a purchaser who probably needed more time?

Ian Lucas: I am not aware of whether LDV approached the Government in respect of that facility.

Ms Whewell: The company has been loss-making since 2002. It clearly needs major investment. It has very considerable debts. It is important that it has a long-term commitment from a new investor. There was more money available to be drawn down to give longer for decisions to be taken. They chose not to draw that money down.

Q343 Miss Kirkbride: But that was only up to 5 million?

Ms Whewell: Yes, but there was more funding available and they chose not to draw more of it down.

Q344 Miss Kirkbride: But only up to 5 million?

Ms Whewell: Yes.

Q345 Miss Kirkbride: Is there anything else the Government might be able to do to rescue this company? It is a thousand jobs in the Midlands, 5,000 nationally. It would be a major blow to our UK export business and manufacturing.

Ms Whewell: We are keeping very closely involved. Obviously this is now a matter for the administrator, but we are keeping very closely involved and monitoring the progress that is being made. Work is being done and, as I understand it, Jobcentre Plus will be making itself available at the weekend and coming into the plant to make sure the workers get immediate help, support and assistance, but we are certainly continuing to monitor closely the progress that is being made and clearly if there are things we can appropriately do to help a prospective purchaser keep the work in the country then that is what we will be doing, but we need to be sure it has a long-term future.

Q346 Miss Kirkbride: It has to be said that the workers who have contacted me at the plant have said to me they would like to ask you the following question: is the Government committed to the manufacturing sector, in which case can you demonstrate how?

Ian Lucas: I think the Government is committed to the manufacturing sector. It is committed because it sets out investment and money to support the manufacturing sector, but it is also important that the Government takes seriously its responsibilities to taxpayers and the money which has been made available and has been allocated by the Government needs to be used to finance and support companies which have a future and we must look at both sides of the coin when we assess applications. We will do all we can, and I will do all I can for individual companies. Clearly I need to learn more about LDV than I know as I sit here. I will do all I can, but I do have a responsibility to use the money which has been allocated for the benefit of the taxpayer and for the economy and the sector as a whole. There will be other companies who are in difficulty and it is always a question of assessing the budget that is available and applying it in appropriate cases.

Q347 Chairman: It just makes me wonder—and I will bring Mark Oaten in in a minute—about the wisdom of having a major reshuffle in the middle of a recession, moving ministerial responsibility around. You are a very capable and able man, I know you are, but Ian Pearson was really up to speed with these issues and now we have lost all that. With a company like LDV that knowledge has been lost at ministerial level. Does that worry you?

Ian Lucas: Well, matters of the timings of reshuffles are not matters for me.

Chairman: No, that is true, it is well above both our pay scales!

Q348 Mr Oaten: It could also be a fresh start with a new face.

Ian Lucas: Thank you for that!

Q349 Mr Oaten: I just want to go back to the answer Jane Whewell gave about the company’s decision not to draw down the additional money which would have been available because I do not understand why they did not do it. There seem to be two answers potentially. One, they did not draw it down because it was not enough, so it was not worth having. The second was that the judgment was that in fact even if it had been more money there was no point because however much money you put in it just was not viable.

Ms Whewell: The company will have to speak for itself, but my understanding is that since it was unable to raise the funding that would be needed to purchase the company there was no longer a bridge to anything because they were unable to raise the funding, having tried very hard. They were turned down by several financial institutions.

Chairman: We will come back to some of those issues a bit later in our questions.

Q350 Lembit Öpik: I will ask the Minister the question, but it is quite a detailed question so you may not, at this point, be able to have an informed reply on it. I understand that. You will know that NAIGT did a pretty detailed report and in particular they were concerned about the dangerous hollowing out of the supply chain. It is something we have discussed at some length with the sector itself. Do you have a view on that? Do you agree with that, and if so what are you doing to stop it? Just as you have expertise in your constituency, the supply chain is very important to mine and I guess many other constituencies around the country because the whole sector seems to employ 384,000 people?
Ian Lucas: I think the supply chain is very, very important indeed. Certainly, speaking for my own constituency and my knowledge there, both in the automotive and the aerospace sector, the supply chain is vital in terms of jobs in the local economy and I do not think this is widely understood perhaps amongst the general public. So I think it is really important that it is not just the big names that we are supporting. I think one of the ways in which we can support the supply chain is to use the big names themselves to identify the companies concerned and also to communicate with those companies. I think that would be very useful322323“ originate direct. A lot of our contacts came out of the programme to the companies they know on the ground direct. We have also received contacts that expressing interest and we will arrange to see them will phone me or my team three or four times a week. Once again, that sounds to me like a potentialy very useful strategy if that could be made not ad hoc but actually part of the automatic process. Moving on, in your submission you say that you have “identified some previously unforeseen business difficulties which may inhibit the sector’s uptake of the Programme”. What were these unforeseen difficulties?

Ian Lucas: I think there has been a reluctance by a number of businesses who made initial approaches to carry forward those initial approaches to formal applications and I think there somewhere in the region of 18 formal applications
have been made. One of the issues I would like to look into is the reason why there is that gap, because what I want this budget to do is to go out there. It has been set aside in order to assist companies and I want to make that happen.

Q355 Lembit Öpik: One is tempted to ask the question, what other unforeseen difficulties do you foresee, but I shall resist the temptation! Ian Lucas: I have just been handed a note of some of the difficulties because I asked for this. Like you, when you were approaching this, I asked a similar question and the answer is that some businesses have found alternative sources of funding, some decided they were not in need of access to finance or Government support. On other occasions they were awaiting a decision from the big company at the end of the chain about the investment decision before they would want to take any form of investment decision themselves as part of the supply chain. Those are some of the types of issues which have come up. Some others have seen the scheme as too bureaucratic.

Chairman: We want to go into the scheme in a little more detail later, actually, rather than skipping over it now.

Q356 Lembit Öpik: Lastly, witnesses have repeatedly consistently told us that it is their impression the banks are trying to reduce their financial exposure in the automotive sector. I think the Committee is in no doubt, due to the consistency of that message, that that really is happening. What can the Government do to counter that, because it is obviously a break to investment?

Ian Lucas: It is a break to investment. The Government is providing guarantees, but even when guarantees are provided it is up to a maximum of 90%, but on occasions the banks will still not lend. In the last resort this scheme could be used for lending directly from the Government itself. If we think that a business and an application is worth supporting and the bank will not support it, then we will look at lending direct.

Q357 Lembit Öpik: Since you basically own a number of banks now—by any definition they are effectively nationalised—at the very least one can say you have a great deal of influence on the operation of banks. Is there nothing that you can do to influence a corporate culture which seems to have a non-rational fear of investing in a sector? I say “non-rational” because surely a bank should be looking at the actual economic and financial circumstances rather than simply saying, de facto, “We don’t feel comfortable about investing in the automotive sector”?

Ian Lucas: Firstly, I would just reiterate that within this particular scheme the Government is prepared to lend direct. Secondly, I would say that there is a great deal of uncertainty within the automotive sector at the moment and in a sense because of that, in other words, the position concerning various companies who are end purchasers, so to speak, in that context the bank’s reluctance to lend in certain circumstances is perhaps explicable. The other point I would just make about the fact that there is Government ownership of a proportion of the banks is that I think the Chancellor has made it clear that the banks are operating as commercial separate entities and that the Government is not running them on a day to day basis.

Lembit Öpik: Thank you.

Mr Binley: At this stage could I also add my good wishes, Ian. It does prove that the good guys can get there! I am delighted. Can I ask Mr Osborne’s question because I think it is a fair and proper one? Can I ask, how much money has actually gone into the industry over the past year, and if it is a sum of money can you tell me how much it is?

Chairman: Not the Automotive Assistance Programme, we will come to that separately.

Q358 Mr Binley: No, that is exactly right, because I think the Government has raised expectations which in some cases with regard to business it has not quite met, quite frankly, and I think this is a good question to clear up at this stage.

Ian Lucas: I think it is a good question and I am going to pass it over!

Ms Whewell: It is not always possible to isolate specific sectors from some of the cross-cutting schemes, but I know from hearing direct from individual companies that the Enterprise Finance Guarantee scheme has supported some automotive companies. I know the scrappage scheme is supporting automotive companies. The transition funds from the RDAs are certainly supporting automotive companies. The Inland Revenue is also well spoken of for being understanding in terms of helping reschedule payments where that can help a company. I know of automotive companies which have benefited from that.

Q359 Mr Binley: I understand why you are not being absolutely specific because the work has not been done by the sound of it. Could you write to us and let us know? That would be useful.

Ms Whewell: We can certainly look at that. I do not actually know if the data is available, but certainly.

Q360 Mr Binley: I am sure you can get it together, can you not?

Ian Lucas: If I could just add to that, the training investment is an important part of Government support which should be taken into account.

Q361 Chairman: Brian’s question is an important one. To put it into context first of all on the AAP, the broader context of Government support is actually a very valid point?

Ian Lucas: That is exactly right.

Chairman: As best you can estimate it.

Q362 Mr Wright: Moving on to the Department’s capability, it has been said within the automotive industry that there is a lack of capacity within the Department. Could you just tell us how many people actually work in BERR on automotive policy and, more specifically, on the AAP scheme?
Ian Lucas: I am afraid I am going to have to hand that question over to one of my officials.

Ms Whewell: There are approximately 24 in my team and we can also draw on advice from other teams, both legal, economic and analysis.

Mr Gregory: In my team there are nine, including me.

Q363 Mr Wright: Have those numbers decreased or increased since the crisis?

Mr Gregory: My team did not exist at the end of February. I started at the end of February. At the time of the seminar I had four and I now have nine, so it has definitely increased.

Ms Whewell: Mine has increased. I need to think through because some have come and some have gone, but I think certainly it has increased.

Q364 Mr Wright: Has there been any secondment to the Treasury, because it was told to us in previous evidence that some of the Department’s resources have been depleted by secondment to the Treasury? Has there been any effect from that?

Ms Whewell: I am not aware of that. Certainly none of my team have gone to the Treasury.

Q365 Mr Wright: You say that you can actually draw down some further resources. Surely at this particular time it is the time to draw down those resources? Would you not think it was time that we actually put more investment in there to assist, for instance in LDV vans? On a crisis level, at that particular point, surely that is the time we should put more resources into that to try and give them further assistance?

Ian Lucas: If there is evidence of that capacity, and I am interested in your reference to that evidence, then I will be very keen to look at that.

Q366 Mr Wright: That is quite positive that you are going to look at that. In terms of the AAP, to evaluate the proposals we talk about “appropriate stakeholders”. Who are they, the “appropriate stakeholders”?

Ian Lucas: I would say firstly the businesses, the industry itself, the various companies involved in that, the trade unions or an interested stakeholder. I just observe incidentally that one of the things which has really impressed me about the way in which both the companies and the workforces have dealt with the downturn so far has been the way they have worked together and I am very conscious of the sacrifices that employees have made within the sector, as we heard in evidence earlier. Those are the primary stakeholders as far as I am concerned.

Q367 Mr Wright: Would they have been involved in the decision of LDV, the £5 million?

Mr Gregory: I do not think IDAB would –

Ms Whewell: It is too small.

Mr Gregory: Yes, that is true, it is too small. That also was not under the Automotive Assistance Programme, that was actually considering a bridge fund to enable LDV to take itself to a position where it might or might not have a business future, at which point it might have been able to come back to the AAP.

Q368 Mr Wright: With regard to the Industrial Development Advisory Board, you say they meet on a regular basis but at this particular time of crisis would they meet on a more regular basis?

Mr Gregory: No, they meet monthly, but equally they can meet informally, they can meet with three or four members to be quorate and on particularly urgent cases the Chairman can be consulted directly and come straight back to the Minister with recommendations. So the fact that they meet formally monthly is not an obstacle to them taking urgent action when required.

Q369 Mr Wright: Have there been any cases where their recommendations have not been acceded to by the Minister?

Mr Gregory: I have not taken a case myself to IDAB under my scheme, so in the case of my scheme I cannot say yes or no because I have not yet taken a case to them, other than Jaguar, where they agreed.

Q370 Chairman: I imagine it is. I should know the answer to this question: is the composition of the Industrial Development Advisory Board a matter of public record?

Mr Gregory: I think it is, and even if it is not I am sure we can let you have that.

Q371 Chairman: To be absolutely clear, the Automotive Assistance Programme’s scrutiny panel, which I believe exists, is entirely composed of officials? It is at an official level, that scrutiny panel?
Mr Gregory: It is.
Chairman: Thank you very much indeed.

Q372 Mr Oaten: Coming as a new Minister, I would imagine—it always will be “imagine” in Liberal Democrat cases!—you have had a chance to look at things and say, “What can I do differently? How can I build on what has happened before and is there a blank sheet of paper? Where can we move on?” I wonder if you have had any early thoughts on the point which really came across with Unite and also some of the evidence we have had that perhaps this UK Government is not doing as much as some other European governments are doing, for example Germany? Have you got plans to catch up, to try and mirror some of the things they have been doing and seeing if we can learn from what they have been doing?

Ian Lucas: I am always very willing to learn from people who are doing things better than I am and I certainly intend to do that as a minister. I caution sometimes against making comparisons, though. I happen to have been the link Member for the Labour Party with the SPD in Germany and German unemployment rates are far higher than unemployment rates in the UK, even at a time when we are experiencing a big increase in unemployment at the moment. The whole system of the relationships between employers and employees is extremely different in Germany. So I think we can certainly learn, but I think it is not easy to draw direct comparisons a lot of the time. One of the interesting points—and I think Mr Öpik has probably raised this—is that we need not look to Germany for a different approach in a sense because I am aware, as the MP for Wrexham, that within Wales we have heard about the ReAct and ProAct schemes and one of the great benefits of devolution is that you can have different examples closer to home because of the different approaches which have been taken. I am aware of that scheme myself and I have seen it in operation and I think we need to look at different examples to see what works.

Q373 Mr Oaten: Certainly some of the evidence we have had from the academics looking at this has said that if you were in Germany, France, Italy, Spain, Japan, the US, just the general relationship between the sector, the industry, and Government is much, much closer than we have in this country. That must be of concern to you, that that relationship is not as close and as strong?

Ian Lucas: If that is the case, then I would like to make it closer, but I think clearly the German industrial model with their work councils and their collective bargaining model is very different from ours. They do not have a minimum wage in Germany, for example, because of the importance the government there has attached to works councils. As I said earlier, I have been very impressed by the way that certainly the companies, the employers, the employees and the unions, have worked together through this last year. That is something we should build on. Government needs to play a more positive role. That is something I would like to take forward.

Q374 Mr Oaten: I guess the other issue which is connected to it, which has been put to us, is the danger that whilst perhaps in this new Department, in your role, you can focus and develop some positive policies towards the industry, but there are going to be other Government departments with their agendas which are countering that, perhaps. I am thinking perhaps of the Treasury in terms of some of their duties and tariffs and I am thinking of the Green agenda in terms of the pace of change there. So actually you have got different parts of Government working against you whilst at the same time you are trying to push forward. What can you do in your role to make sure that you are actually all moving together in the same direction?

Ian Lucas: There will always be competing demands in Government and competing priorities and clearly, for example, some would argue that making the automotive sector bigger is something which does not sit easily with the Green agenda, for example, but firstly I think I have to be batting for the automotive sector in the job which I have. Secondly, I am in the automotive sector at a very, very difficult time when we need to give specific attention to the automotive sector because at this particular time it is one of the hardest hit sectors. That is why the Government needs to support it. There is no reason why, whilst doing that, we cannot also carry forward items like the Green agenda. For example, on the scrappage scheme we might be creating a situation where older cars are being disposed of which are less fuel efficient and newer cars are being used which are more fuel efficient and in the longer term it is a more progressive Green agenda. So there will be contradictions, but in the short-term it is urgent that the Government attaches priority to supporting the automotive sector, but that is not necessarily contradictory to a Green agenda.

Q375 Mr Oaten: I can see that there is a way in which you could develop it so that these things do not necessarily contradict each other over a certain time span, but can you see an argument at this particular point, certainly for the next twelve months, where one might want to turn up the support in one area and turn down the demand in other areas?

Ian Lucas: I think, yes, I can see the argument but it is a question of balancing the particular circumstances that apply. That sounds like a politician’s answer, I am afraid. I think it is.

Q376 Mr Oaten: You are a politician!

Ian Lucas: I try not to be.

Chairman: We will forgive you such answers! We understand. We might probe a bit more, but we do understand.

Q377 Roger Berry: It is an observation on the question. The only way the automotive industry is going to get back to work is by increased demand for its output. You can have as many lending credit
schemes as you like, you can have works councils, not have works councils, \emph{et cetera}. The bottom line is that until you get demand for the output of the industry we are going to be where we are. Now, this can happen if we just sit around and wait long enough. It could happen with the fiscal boost and the interest rate policies, because this is a question of interdepartmental activity and they could be hyped up a bit more or they could be specific industry-based policies to boost demand. The scrappage scheme is one example, but I have to say that things which seem to me would impact pretty quickly have got to be things of that kind, a specific boost, for example low carbon manufacturing, or whatever it might be. The companies I know are not borrowing because they cannot sell the stuff they produce, so actually I welcome the credit schemes and I think there is a lot of good stuff going on there, but if we are honest about it, it is small beer compared with the need to boost demand for the output of that sector. I guess my question is, is the Government—I am sure it is—acutely aware that unless there is an increase in demand for the automotive sector all the other stuff is actually not going to kick in?

\textbf{Ian Lucas:} I am aware of that and I think the Government is, too. I think it is a statement of the obvious but it is obviously a very strong point. I think something like the scrappage scheme can stimulate demand. I also think the macroeconomic situation with lower interest rates, lower mortgage rates, is helpful in terms of stimulating demand and that backdrop I think will mean that things will get better. I do not know when that will be, but certainly it is right that we need to stimulate demand. I personally would like to see the demand stimulated in the Green areas, as Mr Oaten observed. I recall actually being in California with Mrs Samson, I believe, driving a fuel cell car, which was a very interesting experience.

\textbf{Q378 Chairman:} Why was it an interesting experience, Minister?

\textbf{Ian Lucas:} It was an interesting experience because it was completely silent!

\textbf{Q379 Chairman:} You see, I have had an interesting driving experience with her as well doing 130 miles an hour on a Jaguar test track! That was an interesting experience.

\textbf{Ian Lucas:} That would be one way of developing demand in a different direction, but I do take your point.

\textbf{Q380 Chairman:} It was a test track? It was legal?

\textbf{Ian Lucas:} I think it was legal. I did not get arrested!

\textbf{Q381 Chairman:} I want to follow on with this questioning in a way because here we have—and the Automotive Assistance Programme specifically we will turn to now—a scheme which has to be, to pass the Government’s test, additional; it has to make sure things happen which would not otherwise have happened, which is quite a tough barrier. I understand why, from the taxpayers’ point of view, the Government does that. There is a strong focus on Green technology, which we all welcome, because fuel cell technology, whatever it is, hybrid technology, lower consumption than conventional engines, whatever it is, is the key component of a way forward for the industry, so it is our products being successful internationally in the future. But there are companies out there struggling to survive. They have not got time to worry about low carbon, they want to get stuff now into cars that will be made later this year and next year, when the market hopefully turns up, and they are going to the wall now. So my question is, how does that very honourable strategic focus on Green technology and that very understandable desire to protect the taxpayer marry up with the urgency of the situation?

\textbf{Ian Lucas:} I think the cars which are being sold now and in the near future, because of the EU and the regulation that is going to be imposed, are going to be cars which are far more Green than quite recently manufactured vehicles, so I think the process of actually just getting individuals to change their cars and by new cars now will be progress in itself. What I want to see is that fact reflected in the scheme so that in relation to the resistance to the scheme which may be there because of people being very concerned about these conditions, as you have described them, they understand that perhaps those conditions are not as onerous as they might think they are, and I think part of the job, as I read through in preparation for today, is to communicate that fact and to make the scheme more accessible.

\textbf{Q382 Chairman:} I promised I would be carefully considered in my remarks to a new Minister, but I just want to convey a sense of urgency now. My understanding is that some of our competitor countries, France and Germany, for example, have moved much more decisively to support the supply chain by investing directly in the companies, much in the way the Government here has invested in banks to underpin the financial services sector with two or three year periods of selling back those shares over a period of time to the company, equity stakes. They have moved decisively to give the support they need to survive and the accusation against the Government is that it has not moved with similar decisiveness. It has done it for the financial services sector, to its great credit, but it has not done it for the manufacturing sector or specifically the automotive sector and our competitors are doing it.

\textbf{Ian Lucas:} I will look at that and look at the evidence and then make my judgment.

\textbf{Q383 Chairman:} How much money has the Automotive Assistance Programme released in loan guarantees so far? How many schemes have actually been approved? I think I know the answer to the question.

\textbf{Ian Lucas:} I think it is a round figure.

\textbf{Mr Gregory:} It is a round number; it is none.

\textbf{Q384 Chairman:} It is none, yes. It is absolutely nothing. I know these things take time. The Enterprise Finance Guarantee Scheme we have taken evidence on as a Committee. It took time to
Ian Lucas: We do have more—18?

Mr Gregory: That sounds like the answer which the Treasury made not being entirely correct. It should have been 18, which may not sound like a huge advance on 15, though some of the names have actually changed. Some have come in and some have come out.

Q385 Chairman: Roger Berry comments that the Treasury has never been very good at accounting! Sorry, Roger! It was an apolitical comment; not this Treasury.

Mr Gregory: I cannot pretend to be anything other than disappointed with the progress of those schemes.

Q386 Chairman: I did get this answer yesterday, that the Government’s work with companies resulted in around 15 approaches being taken forward. It would be good to see just a little more. There are more than 15 now. I have heard that what was intended, I thought, to be possibly one of first payments not actually being made at all, that is the company has dropped out and found the money elsewhere because it was so frustrated by the amount of time it took to get an agreement from Government. You may know the company I am talking about.

Ian Lucas: It is not a very old scheme. When did it start?

Mr Gregory: State aid clearance was the end of February and we launched it on 11 March.

Q387 Chairman: What we are hearing is that banks—we heard Lembit Öpik pursue this earlier—are not really wanting to lend to the automotive sector. We are hearing evidence that a lot of the banks do not understand the way the scheme is going to work. It is quite resonant actually with the Enterprise Finance Guarantee scheme and we are hearing evidence that the Government’s own procedures are proving very slow and bureaucratic, and the combination is that one particular company—and we have got a long memorandum from them here, Birkby, which you may be familiar with, have given up waiting for the loan guarantee on your scheme and have actually arranged the finance needed direct with Honda. They have to provide the plastic components for new cars being made in Swindon this autumn. They could not wait any longer and they are covered in the OEM with the OME—

Mr Gregory: Could I offer just to comment on Birkby because there is a guy sitting behind me somewhere in my team who actually spent a lot of the last three months working with Birkby. Birkby were looking for a sum of money which was below the £5 million threshold, but we did not say, “Please go away, you’re too small,” we worked with them and one of the things my team member did was to actually talk to the banks they were dealing with to try and get progress. We were very, very happy that they actually found an alternative solution to the financial problem you have identified. We regarded that as a success rather than a failure. It would have been nicer if they had done it through my scheme, but the fact that they found a solution in another way—I would not claim full credit for that, but we were involved in the discussions with Birkby and they did actually thank us at the JLR event we held in May for the work we had done with them over the last two to three months on that.

Q388 Chairman: In a funny kind of way I sympathise with that argument because if the taxpayer is not picking up the bill and Honda are paying for the investment, then you could argue that is a good outcome, but it took an awfully long time to get there with a lot of uncertainty for the company in the process.

Mr Gregory: Can I make a few more comments, because at 7 or 11 March there were at least three companies who talked to me for the first time that day, all of whom we are still in discussion with. At least two of those companies sent us the very strong signal, “We will come back to you when we are ready. We need to talk to our banks about our current financing position. Please do not call them up and rock the boat,” and they have been working through—

Q389 Chairman: They asked the Government not to contact the banks?

Mr Gregory: We have been proceeding in almost every case at the pace which has been dictated to us by the company. The last thing I want to do is to cut across their commercial relationships with other customers or with banks and queer that pitch. Having said that, nobody is more frustrated than I that we have not actually made any guarantees or loans under the scheme. That is what I am here to do. That is my prime objective and I really want to achieve it.

Q390 Mr Binley: I am amazed that you were talking about March, April, with companies talking to banks. I would have expected them to be talking about contingency way back in June, July, August of last year. Are you really telling me that they did not know what position they were in with the banks by this March, April?

Mr Gregory: No, I was simply pointing out that they had made representations to me not to go blundering in and endangering existing banking relationships. They wanted to come to us when they were ready and they made those signals very clear at the seminar and I am perfectly happy to work at the pace they
wish us to go. The last thing I want to do is to get in the way of a perfectly good commercial proposition and make it more difficult for them.

Q391 Chairman: That is a very honourable position, but what it suggests is that the scheme is doomed to fail if the banks are not playing?

Mr Gregory: We have had direct discussions with all the major clearing banks over the last three months and one of the issues here, to the bank’s credit, if I can dare to say that, they came to that seminar on 11 March and actually put their hand up to say, “Here we are,” in front of a sector which did not have a particularly positive view of them and said, “We are available; to talk to you about the investment propositions that we could support under AAP.” We have been working extremely hard both with companies who have individual banking relationships and directly with the corporate HQ of the clearing banks and in the regional offices of those banks, because a bank might take the view at a corporate level that it wishes to be helpful to the sector. It is very difficult to translate that on the ground into a particular person in a bank thinking about lending to company X for project Y. Where we can, we will get involved in those relationships. We want to be step by step with the bank as they are considering the proposition. As the Minister has already said, if it proves that the bank is simply unwilling to finance, we do have in extremis the ability to make a direct loan and it seems to me in that case the additionality argument is quite strong because clearly the bank is unwilling in a particular proposition to loan.

Q392 Chairman: It is a very interesting case and we could discuss it at some length, but look at Jaguar Land Rover. Why no progress there? Mr Gregory: We have heard working extremely hard both with companies who have individual banking relationships and directly with the corporate HQ of the clearing banks and in the regional offices of those banks, because a bank might take the view at a corporate level that it wishes to be helpful to the sector. It is very difficult to translate that on the ground into a particular person in a bank thinking about lending to company X for project Y. Where we can, we will get involved in those relationships. We want to be step by step with the bank as they are considering the proposition. As the Minister has already said, if it proves that the bank is simply unwilling to finance, we do have in extremis the ability to make a direct loan and it seems to me in that case the additionality argument is quite strong because clearly the bank is unwilling in a particular proposition to loan.

Q393 Miss Kirkbride: About that, yes—they are always being very tactful because they need your support, so they were careful in what they said, but it was quite clear that they were seething with rage at the fact that this thing was not being progressed as it should have been and there was the implication that it was a problem of resourcing in the Department which was not sufficiently robust to give them the time and attention they needed to get this thing sorted out.

Ian Lucas: I am very keen to look at the situation.

Ms Whewell: I can give you my undertaking that I am not aware of any instance where lack of resourcing has got in the way of support of Jaguar Land Rover. I am not aware of any instance. We give it the top priority.

Q394 Chairman: It is not just resources, it is also—I do not want to say the quality, it is the qualification of the resource. You are being asked to take extremely difficult decisions about an industry sector of great complexity and with hugely difficult financial calls. I have seen the membership of the advisory body now, it is available on the Internet. It is a good group, clearly, but it is a very difficult call to make. Are you sure—and perhaps I will ask the Minister—that not only do you have good civil servants working with you, which is fine, but civil servants who also can deal with these very complex issues in the timescale needed to stop businesses failing?

Ian Lucas: These are hugely important issues and clearly the highest quality of advice and expertise is needed, and I will certainly take back the observation you have made.

Q395 Chairman: It may be an unfair observation, it may be merely a concern, but I would just like the reassurance that you have the qualification as well as the quality of people there to do it, and the quantity, three Qs. Two specifics before I move on. You mentioned, Mr Gregory, the gap between the Enterprise Finance Guarantee and the Automotive Assistance Programme which caused Birkby difficulty. You are being flexible in addressing that. We have heard this raised with us frequently by the industry in this inquiry. This gap is a problem. Are you now telling us that the pragmatic experience of Birkby suggests that that gap can in practice be narrowed and the thresholds have been brought down to close to the RFG levels?

Mr Gregory: Certainly we have been very happy to talk to any company which has a project which falls under the £5 million from the outset. There was a concern that this might swamp the scheme with a lot of very small applications, but we are entirely happy to discuss projects smaller than that, and I know the Minister wants me to look at any flexibility on that.

Ian Lucas: Absolutely. The message going out today is, “Don’t let that £5 million barrier prevent you from approaching the scheme.”

Q396 Chairman: So the minimum level now becomes the level of the Enterprise Finance Guarantee scheme presumably? There is no minimum level as such now, it is a pragmatic exercise for the Department now?
Ian Lucas: Yes.

Q397 Chairman: That is a very interesting piece of news and I am grateful for that. Thank you. Just finally, is the issue of cost of these guarantees an issue as well? There is a premium here being charged of an industry which is in dire financial straits. Can you justify that?

Mr Gregory: We do have the ability under the clearance we received from the European Commission for state aid purposes to reduce the premium charged for the guarantee for a period of two years by up to 15% below the commercial rate we would normally charge. Below the state aid limits we cannot go.

Q398 Mr Binley: Can I say right from the outset, Minister, that you have been in situ for a very, very short time indeed so please do not take the concerns I am going to express in any sense personally, but we are twelve months into this recession. I am still a non-executive company chairman. We first went and talked to the bank last July about contingency, what might be there for us should we need it and I am getting the impression that that lack of understanding of urgency has not really got through to the Department, and I hope you can do something about it. Can I, secondly, say that I recognise the banks have competing pressures. On the one hand we have had a massive sector removed, foreign banking, from lending in this country. Secondly, banks have to rebuild assets. Thirdly, the Government itself has placed pressures on banks, some parts of the banking sector, a large part of it, by demanding quite a high return, which has been changed of late. I recognise, but nonetheless a high return, all of which detracts from available credit in the marketplace. The FRA itself has said there needs to be more credit in the marketplace, more credit for the people who create finance for the purchase of cars. They say there are people out there who want to buy cars but they simply cannot get the finance that easily, it is not available. They say they have been talking to BERR about two schemes but their review of those discussions has been that not very much has happened over a very long time. That is the truth of the matter from their perspective, so tell us what actions, if any, you have introduced to support the finance activity of the industry. Let me specifically ask—and I suppose, Ian, this is directed to your two colleagues—what has happened to the Automotive Access to Finance scheme because none of that has happened so far, so I understand?

Ms Whewell: I think provided by the FLA?

Q399 Chairman: I think perhaps talking about different types of measures.

Ms Whewell: I think we are perhaps talking about more general forms of another country which has tried to do what we are raising there are very specific issues. I am not aware of another country which has tried to do what we are trying to do and it is a very specific type of support they are asking for. In terms of more general forms of support, we have gone to the European Commission, pressed them hard and received clearances in record time, so we have had the clearance for the AAP in record time, two different sorts. So I do not think we are backward in coming forward on more generic support for the industry.

Q400 Mr Binley: Where I see surprisingly large amounts of money, surprisingly large amounts, going in and have been going into the auto industry sectors in various countries for a very long time. Are you really telling me that there is a particular down on Britain and we have to go through many more processes to get money into our British auto industry which they do not have to go through in Europe?

Ms Whewell: I think we are perhaps talking about different types of measures.

Q401 Mr Binley: We are talking about money into the sector. They say this: “Other countries seem always to find ways around this particular problem. We rarely do,” and I just wonder if there is a problem with our culture in that respect?

Ms Whewell: I think in terms of what the FLA were raising there are very specific issues. I am not aware of another country which has tried to do what we are trying to do and it is a very specific type of support they are asking for. In terms of more general forms of support, we have gone to the European Commission, pressed them hard and received clearances in record time, so we have had the clearance for the AAP in record time, two different sorts. So I do not think we are backward in coming forward on more generic support for the industry.

Ian Lucas: I would be very interested in the document which you have referred to and I will look at it.

Q402 Mr Binley: We are very hopeful of your impact, genuinely very hopeful because, as the Chairman says, there is a great deal of urgent need out there if we are going to save a vital industry to Britain’s long-term future and I am not sure, prior to your becoming a Minister—and I want to exclude you because it would be absolutely unfair if I did not—that I see the degree of urgency that we really need to see in this area if we are going to achieve that objective. I want you to take that as a comment because it is an immensely serious matter and I do not think you have done anywhere near as well as you ought to as a Department, quite frankly.

Chairman: Well, there you are, that is being kind!
Q403 Miss Kirkbride: I want to really touch on what Brian said, which is other governments and their support for their automotive sectors. Just out of interest, you said earlier that their unemployment rate was much higher than ours. What are the two respective rates at the moment?

Ian Lucas: I do not know the exact figures.

Q404 Miss Kirkbride: Because I wondered whether that was still quite so true any more, certainly if you compare the old West Germany with the UK?

Ian Lucas: Yes. Certainly historically in the last 10 years the German unemployment rate has been considerably high –

Q405 Miss Kirkbride: After reunification it is still higher?

Ian Lucas: My official understanding is that it is still higher, but I will check and I will write to the Committee.

Q406 Miss Kirkbride: But what is it that other governments are doing to support their automotive sector which you might think we could learn from, or that they do more of, or do better?

Ian Lucas: I am aware of there being merits in the type of training support which was referred to by Mr Bailey earlier and the assistance that other governments have taken to use the reduction in hours, which sometimes occurs when there is a reduction in demand, to develop training and improvement in practices within the industry. That is certainly one area which I know has been looked at. I think as a backbencher I observed that the Department was looking at that and I will be interested in looking into that and the reason why the conclusions which were reached were reached at that stage.

Ms Whewell: On scrappage we looked at experiences around Europe to try and get the best and avoid perhaps some of the potential pitfalls, so we certainly looked at the way other countries were operating their schemes and the different types of schemes in order to try and identify the best way for us. I think certainly some pitfalls we were able, so far, to avoid by looking at the lessons and the experiences of our colleagues. I have spoken to my opposite numbers in other countries as well to see what they are doing.

Q407 Miss Kirkbride: Have you got any figures on the amount of actual money being put in by the European countries versus us? Where do we fit on the scale of financial help to the automotive sector in the UK when compared with our other European colleagues?

Ms Whewell: Strangely, it is very hard to get figures on actual money going to the sector. Schemes, yes; money transferred, no. It is very hard to get that data and we have looked.

Q408 Chairman: Is that partly because some of the schemes are manufacturing wide, not automotive specific?

Ms Whewell: Even the automotive specific it is very hard to get the data for.

Q409 Miss Kirkbride: What about the issue of getting clearance with the EU? Do you have any lessons to learn, do you think, with Europe on that front because you were previously telling Brian that months can pass before you get acceptance, but that does not seem to be the case—maybe that is just from the newspapers, but it never seems to be quite the case with other European countries?

Ms Whewell: Again, the issue which might take months is a very, very specific, very technical, very complex financial instrument. In terms of the sort of support that is being made available across Europe, we have had clearance in one case in 10 days, in another case I think it was 14 because a holiday landed in the middle, so we are getting very, very swift clearance. This one particular issue is very, very complex and it is probably the most complex issue I have ever dealt with.

Q410 Chairman: Can I, just before I bring in Roger with the last questions on short-time working, just press you a bit on finance arrangements? There has been a lot of concern in the industry about the failure to move something like the schemes available in the financial services sector. This is the role of automotive car finance arms and they are not quite banks. Do you feel there is still scope for doing something more to help people and companies finance their car stocks, their car purchases?

Ms Whewell: That is the very piece of work I was talking about in Europe and it is definitely progressing, and we are doing our best to move it as fast as possible.

Q411 Chairman: Excellent! What about this issue which I do not pretend to understand, which is a detailed point, port rents, which is the backdating of rates at ports where cars are stored? I will read out what it says: “SMMT urged government to defer the imminent change to the way business rates are assessed and collected at ports changes to 2010 and not to backdate their reach to 2005. This change still poses a real concern to automotive companies which import and store vehicles in statutory docks and harbours in the UK. There are no more leads on any action government is taking here.”

Ian Lucas: I need to look into that matter, so perhaps if you could supply me with the information I will do so.

Chairman: We will get the SMMT brief to you. We will do that. The point is, there is some macro stuff here which we were talking about and also a lot of micro things which add up in total to quite a bit. We also need to remember in all this—and I think you understand this—that although the manufacturing arm is very important and we are concerned about that, also the retailing arm actually employs twice, even perhaps more people, so actually the support for the industry in things like business rates matters a lot.

Q412 Roger Berry: Congratulations, first of all. Short-time working is a common response as an alternative to redundancy during a recession. It has been a significant response to the automotive
industry, as it has been elsewhere. My question really is, what is the Government’s attitude to short-time working compensation schemes of various kinds because throughout Europe we see a range of schemes, wage top-ups from social security, training costs, a whole range of schemes and we see some countries, in fact most countries are doing some of this and there are few countries, of which the UK appears to be one, where the UK does not appear to be doing (according to Brussels anyway) any of these things? Can somebody explain the Government’s attitude to short-time working compensation schemes which for many seem a sensible, if not without problems, response to the situation? 

Ian Lucas: I think what the Government would like to see is the reduction of working hours for employees being used for increasing training and the development of skills and for investment by Government to be used to develop those skills in England through the Train to Gain scheme. That is why more money has been invested in the Train to Gain scheme to achieve that. So I would say that the Government is putting money into supporting employees who are on short-time working to use it as an opportunity to train them. That position is happening in England at the moment and I think there has been quite a flexible and positive response from the Department of Innovation, Universities and Skills in respect of Train to Gain in putting forward Train to Gain as a scheme which could be used in this context.

Q414 Roger Berry: I do appreciate the need for conditionality, but the Train to Gain scheme is pretty modest when it comes to the automotive industry, is it not? 

Ian Lucas: £100 million. It has been increased from 65 to £100 million.

Q415 Roger Berry: I was thinking in total, that kind of money. I do not want to go on at length, but looking at what other EU countries are doing, looking at an EU document published only a fortnight ago it seems to suggest that most EU Member States are actually doing far more in terms of short-term employment support schemes than we are doing. Do you feel that is accurate or inaccurate? 

Ms Whewell: Helpfully in this context in my previous life I did European employment law. The other countries are indeed making—it varies, but many of them are making extensive use of this system, but in almost all cases this has in fact been a fundamental part of their social security system and both manufacturers themselves and in many cases workers themselves have been paying into a system almost as a form of insurance, you could say. So they are now getting paid back what they have paid in, and indeed in some countries the very, very high social charges about which employers and companies complain bitterly—this is the flip side of those high social charges and, speaking personally, I am not sure I would like to confront the manufacturers if I suggested introducing the same level of social charges in order to fund a wage subsidy scheme in the future. So we are not comparing like with like with a system into which companies and sometimes workers themselves have been paying in for sometimes many years and now they are paying out. So it is apples and pears.

Q416 Roger Berry: Thank you, that was a very, very helpful reply. I certainly looked at part of that but not all of it. That is really helpful. In terms of what we do have then, where we are today with Train to Gain, do you see scope for a further ramping up of that? Clearly there is a need out there to do more to keep people in employment, doing useful things. Is that ramping up Train to Gain, or is it Train to Gain plus other initiatives which the Government is considering? 

Ian Lucas: I think the key to getting through the situation is what we were talking about earlier, namely increasing demand in the marketplace. I think these issues are important but I do not think they can take the place of that demand because ultimately we can train but I think, as the gentleman said earlier when he was giving his evidence, we have to make sure the jobs are still there. So the focus needs to be on keeping the companies going at this juncture by increasing demand within the market and obviously whatever we can do to try and facilitate the systems for an individual company which thinks it has a future and could benefit by improved training for the workforce we will try and do that.

Q417 Roger Berry: You will know that today manufacturing output in total has stopped falling and there is a little increase. The prospects for the automotive industry over the next six months, how do you read that? 

Ian Lucas: I sense—and this is my perception in my constituency, which is a manufacturing constituency—that things are getting better from a very, very difficult position and the Government is doing what it can to make that happen. I do not think it has happened by accident, I think it has happened because of decisions which were made in the autumn and action which was taken then. I am pleased to say that with this scrappage scheme we have pursued orders now sit at 48,000, so that has been an increase in demand, and companies have actually taken on staff in the automotive sector because the positive response to that scheme is high. So we are doing all we can because we recognise the importance of the industry, but it is still a tough time and if the present position continues then obviously we need to look at the position again.

Q418 Roger Berry: A final question. I am getting the feeling here that you believe the scrappage scheme has actually been probably one of the most significant ways of boosting demand for the industry. If that is the case—and I know you are not the Chancellor, at present—is the Government...
looking at ramping that up in some pretty obvious ways? Is it under consideration? Can it please be under consideration? I think you know what I am saying.

**Ian Lucas:** I know what you are saying. I will have to look at how successful the scheme is and what the position in the marketplace is at that particular time, but obviously policies that work are generally good policies to follow.

**Roger Berry:** What a good note to end on!

**Q419 Chairman:** Not quite, just a last word from the Chair. I agree with you, it was a good note to end on. It is really a bad note now, but this is an asymmetric recession, it is affecting certain sectors worse than other sectors. We are all agreed now, there is a new consensus, a very welcome consensus in the UK that we need to do more to help manufacturing businesses in general and make sure that the economy has an even stronger manufacturing base than it does. It is a much stronger base, you will know from your constituency that Airbus and the automotive sector is very strong. We have still three world-class manufacturing sectors and many other small sectors. The big ones are automotive, aerospace and pharmaceuticals. Now, here is the British automotive sector facing its biggest crisis for I do not know however long and we see, most worryingly of all for me, possibly, the supply chain gets “hollowed out” (to use the words of your own team’s report) and we see those supplies losing skilled labour and they go off to start filling shelves in Tesco, or wherever it is, instead. There is a real risk of a permanent loss of a huge swathe of currently highly skilled people to the industry and so when we come out of this recession, as we all know we will in six months’ time or a year’s time, whenever it is, there is a real risk that our competitors, who have done more to keep that skills base alive within functioning businesses, will be better positioned than British automotive companies in the supply chain will be and we could see that in a year or two year’s time we are paying quite a heavy long-term price if we lose that skills base, not just the MEs but also for the supply chain. That is how I feel about it and I am most worried about losing that skills base and I hope that is something you will focus on very strongly in your new role, Minister.

**Ian Lucas:** I will do that, but the key to keeping the skills base is to keep the jobs and the big companies going, and clearly we want to do all we can to ensure that happens.

**Chairman:** You look after JLR, please. Can I say how grateful the Committee is to you and your two colleagues? I hope we were relatively gentle, but I hope still probing and inquisitorial. We do aim to produce a report of our views as a result of these sessions, but we are genuinely grateful to you and we wish you every success personally, and we wish the new Department every success because a lot hinges on it! So to your officials and you, Minister, thank you very much indeed.
Written evidence

Memorandum submitted by BERR

1. OVERVIEW

The Government has listened carefully to the concerns of the UK automotive industry, and has introduced the Automotive Assistance Programme as a positive intervention to ensure that the current downturn does not derail the investment necessary to secure innovation and change in the industry that will ensure the UK is best placed to exploit the global upturn.

The Automotive Assistance Programme (AAP) is a support package that offers a total of £2.3 billion of loan guarantees or loans to the UK automotive sector, which are available for draw down over a two-year period ending December 2010. The final maturity dates of such loans and guarantees can extend beyond 2010. The scheme is designed primarily to use Government guarantees to unlock up to £1.3 billion loans from the European Investment Bank (EIB) and a further £1 billion in loans from other lenders. In exceptional circumstances, Government loans may be provided under the AAP.

This memorandum describes why AAP was introduced, the components of the support package, who is eligible to benefit from the money, what it seeks to achieve, progress to date and how the scheme fits into the Government’s wider commitment to ensuring economic recovery.

2. AUTOMOTIVE INDUSTRY

The automotive industry is a pivotal part of the UK manufacturing sector, adding value of £9.5 billion to the UK economy and directly employing around 180,000 people. This includes around 74,000 people in vehicle and engine manufacturing, and 106,000 people in the automotive supply chain.

In the year to February 2009, sector output was 14% down on the corresponding period a year ago, whilst the manufacturing sector as a whole was 5.5% down on the same basis. In early 2008 a rising market turned in mid-year to a rapidly declining market, with the impact on the automotive sector much sharper than for manufacturing as a whole.

As demand has fallen, so jobs have been lost. The UK automotive sector employment in February 2009 was 11.3% down on a year previously, whilst for the wider UK manufacturing sector the figure is 5.8% down.

The European Union is the principal destination for UK-made vehicles (around two-thirds of UK vehicle exports), and this market is down 12% on a rolling 12-month basis, whilst the US market, also key for some UK manufacturers, is down 25%. In response to this fall in customer demand, output in the automotive industry has fallen faster and further than any other significant manufacturing sector since summer 2008.

Consequently, the Government has taken a range of actions to help secure the long term future of the automotive sector. The Government is prepared to help under State Aid rules viable companies (as at 1 July 2008) who wish to invest in new projects and the future green industrial revolution. This follows the instrumental role played by the Government in helping to secure €8 billion of support for the European automotive sector from the EIB covering investment projects starting in 2009 and 2010.

The Government has provided considerable support for the development of skills and training in the automotive sector and continues to do so in schemes such as “Train to Gain” where, following demand from the automotive sector, the budget of £65 million has been increased substantially to up to £100 million. A “scrapage” scheme, primarily designed to boost the automotive industry and restore consumer confidence was announced in the Budget on 22 April 2009.

The decision to implement a scrapage scheme has been taken after careful consideration of car industry proposals, lessons learnt from European schemes as well as concerns raised about the impact of such a scheme on other sectors of the economy.

Government is also considering the potential benefit of other proposals for support for the industry, and Ministers are working with the motor finance industry and other stakeholders on options to improve funding to car finance companies. Additionally, SMEs in the automotive supply chain are eligible for wider Government support under the Enterprise Finance Guarantee and the Capital for Enterprise scheme, while the Government’s “Solutions for Business” package is offering help to companies across the sector.

Looking to the longer-term, the Government set up the industry-led New Automotive Innovation and Growth Team (NAIGT) in April 2009 to develop a long term vision and an integrated national strategy for the UK automotive sector. NAIGT reported on 6 May 2009 and among their recommendations are proposals to:

— establish a joint industry/government Automotive Council to develop, guide and implement a long term strategic framework for the industry; and

— focus the UK R&D agenda around a new industry-consensus technology roadmap, and as part of this establish “Test Bed UK” a bold, large scale pilot to develop, demonstrate and build the new low-carbon personal transportation system including its infrastructure.
BERR has welcomed the publication of the report and the emphasis that the NAIGT gives to the importance of the automotive industry to the UK manufacturing sector and the wider economy. Further consideration of NAIGT’s detailed recommendations will be needed before the Government can give a formal response.

3. AAP SUPPORT PACKAGE

As part of the AAP support package, the Government is committed to helping unlock up to £1.3 billion of loans from the EIB, as part of the bank’s European Clean Transport Facility (ECTF) fund, to UK companies in cases where the bank requires a proportion of its loan to be guaranteed. The criteria for the EIB’s loans are detailed in Annex A.

A further £1 billion of loan guarantees from the UK Government itself are available, where the investments are worthwhile and add special value to the UK, but not eligible for the EIB loans. In exceptional circumstances, the Government may also wish to offer direct loans.

The Government has set aside a prudent contingency of £400 million to cover the possible future cost of providing guarantees either to lending by the EIB or other banks. This funding is set aside in the Reserve. In setting this contingency a number of factors were considered, including the expected demand for this scheme, possible default rates, and the lending criteria of different institutions such as the EIB.

For the EIB’s ECTF, the Government was instrumental in helping to secure in late 2008, the doubling of the budget from €4 billion to €8 billion per year over the next two years. The Government has also been pushing hard to minimise delays in approving UK applications. BERR is continuing to push for UK applications to be taken forward quickly and remain committed to helping UK companies with guarantees to support EIB lending where required.

In common with many other Member States, the Government has also considered it prudent to seek advance clearance from the European Commission to utilise, if required, the Temporary State Aid Framework. The Commission provided clearance in February of the UK’s notification to utilise, if appropriate, elements of the Temporary Framework covering guarantees and green loans.

4. AAP’S OBJECTIVES

The AAP aims to:

— sustain or create jobs;
— advance research and development (R&D) in vehicle manufacturing;
— develop green technologies that can contribute to CO₂ reduction, and
— bring special value to the UK.

Principally the £2.3 billion support package aims to support the continued delivery of the investment vital to ensure that the UK industry emerges from the current downturn with the skills and technology base needed to be competitive in the global automotive market.

5. AAP CRITERIA

Detailed criteria and guidance for the AAP scheme as published on 26 February on the BERR website are attached in Annex B. In summary:

— companies must be within the UK automotive sector or UK automotive supply chain;
— companies should be based in the UK or propose to do so and their proposals should bring special value to the UK;
— companies should have a turnover of at least £25 million and their proposed investment should have a minimum value of £5 million. The turnover threshold was set at the upper limit of that applying to all businesses under the Enterprise Finance Guarantee Scheme. The investment threshold was set at a level which the Government judged would be most suitable for the kinds of investment proposals likely to come forward from the sector. Since the scheme’s launch the Government has received representations as to the desirability of considering investment proposals which are smaller than £5 million and is looking at the case for this. There is no upper limit on the amount a company can apply for, although in considering specific cases the Government wishes to see a reasonable spread of support across the sector as a whole;
— investment proposals should deliver new activity or investment that would not happen without the provision of Government support and be consistent with the Government’s objectives for the loan carbon economy;
— proposals should be in need of a Government guarantee in respect of lending from the EIB or another bank; as a general rule it is not intended that guarantees would exceed 75% of any loans, although the Temporary State Aid Framework provides flexibility to consider guarantees up to 90%. In addition the Government is also prepared to consider direct loans in exceptional circumstances; and
— companies should be viable as at 1 July 2008.

6. APPLICATION PROCESS
The AAP’s criteria are not applied as an exhaustive list. Further information may be requested to enable the Government to enter into a dialogue with companies in a transparent and even-handed process as to whether their applications are ready to proceed. This information is listed in Annex D, but in summary an Expression of Interest in AAP should cover the following:
— A short overview of the company and key financial data covering most recent publishes accounts for sales and profit.
— A short overview of the project or initiative under consideration and its cost.
— How the planned project meets the programme criteria.
— A relationship with a bank where lending can only be unlocked through AAP intervention and support of a Government loan guarantee.
— The level and type of financial support being sought.

The EOI is, in effect, an executive summary identifying how the business meets the AAP’s aims and criteria.

7. AAP’S ASSESSMENT
Applications are determined against the criteria and assessed on a case-by-case basis.

Two levels of scrutiny are applied to applications for assistance. The first is a “normal strength” scrutiny for the majority by number of cases, the second a more rigorous level of scrutiny for application to the small number of large quantum or particularly significant cases. The “normal strength” scrutiny will be exercised by the AAP Scrutiny Panel, an internal HMG panel featuring appropriate stakeholders. The second level of scrutiny will be undertaken by the statutory Industrial Development Advisory Board (IDAB) which is an independent non-governmental body of senior businesspeople constituted to advise Ministers on important industrial and business decisions for HMG.

The issues to be considered under either scrutiny process are:
— “Additionality”, ie a project that without support would not happen.
— Wider economic and social benefits.
— Other HMT “Green Book” tests to demonstrate overall value for money.
— Legal compliance with both domestic law and with European State Aid law.
— Consistency with UK objectives on low carbon/ “green” technology.
— A positive market analysis indicating a probable success with the project in market and technological terms.
— A UK based investment creating or safeguarding UK jobs.
— The appropriate fee to be charged at “commercial rates” with due regard to security of assets.

8. PROMOTION OF THE AAP AND PROGRESS TO DATE
The AAP was announced on 27 January 2009 by the Business Secretary, Lord Mandelson, and received State Aids clearance from the European Commission on 27 February. On 11 March the Economic and Business Minister, Ian Pearson MP, welcomed key stakeholders from the automotive industry to a promotional seminar, “Open for Business”, to officially launch the scheme The seminar was attended by over 100 delegates from the automotive manufacturers and supply chain businesses, together with representatives from the major clearing banks and the Regional Development Agencies (RDAs).

Within BERR a specific unit, the Automotive Assistance Programme Unit, has taken responsibility for the delivery of the scheme. Since 11 March the team has been actively engaged as follows:
— To promote the scheme to the automotive sector and potential lenders: in particular through outreach events with the Society of Motor Manufacturers and Traders, Regional Development Agencies, banks who might be potential lenders under the scheme, and companies including large automotive manufacturers and down into the supply chain. The AAP team has actively engaged with all the UK clearing banks to gauge their appetite to lend to the automotive sector. Several of our potential applicants have pre-existing relationships with their lenders and we have take great care not to disrupt these in our discussions with applicants and with their banks (a point made to us very strongly by potential applicants).
— With potential applicants to the scheme: to date, more than 50 companies have expressed interest in the scheme and applied for further information. Of these around 15 have developed proposals into advanced Expressions of Interest. The AAP team has met or held detailed discussions with over 20 companies over the last seven weeks. At present around four of the 15 are at the most advanced stage in terms of being close to full appraisal under the scheme prior to a decision on award. The projects represented by these 15 or so applicants total around £150 million.

Through this engagement, the AAP team have has gained substantial empirical evidence of issues and emerging themes. This intelligence is being used to inform the direction of the Programme and the method of engagement with stakeholders. The AAPU’s approach throughout has been one working in partnership with stakeholders and in particular with applicants from the automotive sector to assist them in getting applications in as quickly as possible. The Government is now better placed to gauge the UK clearing banks’ appetite to lend to the automotive sector, and has also identified some previously unforeseen business difficulties which may inhibit the sector’s uptake of the Programme. In addition, the AAPU’s approach to the scheme is being guided by the individual companies as to how fast they wish to proceed in developing their plans and approaching potential lenders. The Government clearly recognises that it is crucial for it to act neutrally but positively, without over encouraging new investment to the detriment of good business planning or in any way compromising the commercial sensitivities of potential applicants. The team is encouraging and advising companies on a number of applications that do not quite fit the Programme, guiding their applications step-by-step, and developing cases that might more closely meet the Programme’s requirements.

The aim of the programme since the outset has been to keep the process as simple as possible. The Government’s initial expectation was that over 100 companies might be eligible for support under AAP and interested in securing it. Whilst some 50 companies sought further information in the first few weeks, supporting this assessment, many of these have not been followed through in detailed applications which could be properly assessed against the scheme criteria. The Government is carefully assessing the reasons for this in light of its engagement with the sector.

These reasons could include companies curtailing their investment plans during difficult economic circumstances, so that the kind of projects AAP could support are being put on the back burner. In individual cases the Government can ask companies if the position would change if government guarantees were available though ultimately the decision to proceed is a commercial one for them. Other companies have expressed concern that premature approaches to their banks could cut across pre existing relations with existing lenders, and the Government has to respect applicants’ wishes on this. Some banks have fed back that there is understandable concern about additional lending to the automotive sector given of wider perceptions of the financial health of the sector. Lastly some cases companies have quite reasonably told the Government that it takes weeks for them to put together a reasonable business plan for an AAP application.

The Government will take account of all comments received on the scheme thus far in considering how it could be improved and would welcome the Committee’s own views in the light of the evidence received during its inquiry.

9. AAP IN THE WIDER CONTEXT

While the AAP has the specific objective of securing the necessary skills and technology base for the UK automotive industry to be competitive in the global market, there are other government initiatives which facilitate and impact upon its delivery. Amongst the wider automotive interventions are the Enterprise Finance Guarantee (EFG), Automotive Access to Finance, Scrappage, and the Trade Credit Insurance Top-up Scheme. The EFG scheme is available for viable companies with a turnover of up to £25 million, and for loans up to £1 million, that in normal circumstances would be able to secure lending from banks but who cannot secure bank lending in the current economic climate. The AAP also sits alongside the Government’s wider commitments on Ultra Low Carbon Vehicles, and Investing in a Low Carbon Britain.

All these initiatives are part of, and work in parallel, to the programmes outlined in the Government’s recently published “Building Britain’s Future: New Industry, New Jobs” strategy.

10. SUMMARY

The Automotive Assistance Programme will help the UK’s automotive industry develop during the current downturn by creating and sustaining jobs, maintaining R&D in vehicle manufacturing and encouraging the development of green technologies.

Since the State Aid approval of the scheme on 27 February 2009 for loan guarantees and “guarantee loans”, the Government has been highly active in the promotion of the Programme through extensive outreach undertaken by officials and has directly engaged with a range of potential applicants for support under the scheme. Out of this engagement with stakeholders, important market intelligence has been gained which the Government will utilise to improve the delivery of the Programme.
ELIGIBLE COMPANIES

To be eligible to apply, viable companies must come within the following sectoral definitions and fulfil certain investment project criteria (described below).

The UK Automotive Sector is defined as manufacturers of cars, vans and commercial vehicles, buses and coaches, mobile construction equipment and agricultural tractors, and motor homes (to qualify, products manufactured must be designed for regular road use and must move under their own system of propulsion) that are in the UK or who would propose to become so (e.g., a new investor in the UK) with a turnover of at least £25 million recorded in their last published Annual Report and Accounts and with a proposed investment of at least £5 million.

Suppliers will need to demonstrate they are established suppliers to the sector, that a significant proportion of their current business relates to supply to the automotive industry and that the project for which they are seeking support links directly to reducing carbon emissions from vehicles/vehicle manufacturing processes.

INELIGIBLE SECTORS INCLUDE (FOR THE AVOIDANCE OF DOUBT)

Manufacturers of:
- agricultural and gardening equipment (with the exception of agricultural tractors);
- golf carts, buggies and similar vehicles not designed for regular use on public roads;
- motorcycles and other two and three wheeled vehicles; and
- quadbikes.

Suppliers to manufacturers of:
- agricultural and gardening equipment;
- golf carts, buggies and similar vehicles not designed for regular use on public roads;
- motorcycles and other two and three wheeled vehicles; and
- quadbikes.

(Unless they are also suppliers to “the UK Automotive Sector” and their application relates to a project to supply “the UK Automotive Sector”).

APPLICATION CRITERIA

MARKET AND ECONOMIC CRITERIA

In assessing applications a determination will be made on whether the Government’s support represents value for the use of public money.

Financial reports and internal business plans containing information on demand forecasts; cost forecasts; financial forecasts, documents that are submitted to an investment committee and that elaborate on various investment scenarios and/or documents provided to the financial markets by applicants are all likely to be helpful in assessing both “additionality” and economic benefits as outlined below.

ADDITIONALITY

The Government needs to be sure that it grants guarantees or loans where this genuinely makes the difference between the project happening or not, or whether the support genuinely influences the quality or scale of the activity. Provision of support can only be value for money if it passes this “additionality” test.

In assessing additionality, the following will be taken into account:

1. Counterfactual analysis: assessment of an application will seek to understand how the firm’s activity would be different with and without this guarantee or loan. The difference between the two scenarios is considered to be the impact of the aid measure and describes the incentive effect of the guarantee or loan.

2. Level of profitability: if a proposal would not, in itself, be profitable to undertake for a private undertaking, but would generate important benefits for society, it is more likely that the guarantee will have an incentive effect. To evaluate the overall profitability, analytical methods used might include evaluating the Net Present Value (NPV), the internal rate of return (IRR) and/or the return of capital employed (ROCE) on the project.

3. Amount of investment and time path of cash flows: high start-up investment costs, limited appropriable cash flows and a significant fraction of cash flows arising in the very far future should be considered positive elements in assessing the additionality of an award under AAP.
4. Level of risk involved in the proposal—support is less likely to be additional where the proposal is low risk.

**Economic Benefits**

All proposals should contribute positive benefits to the economy. This means that the value of the tangible and intangible benefits must exceed the level of subsidy provided by the guarantee or loan. The net economic benefit of the proposal will be calculated drawing on the financial information for the proposal and market analysis.

Where there may be wider benefits not captured within the firm’s own data, these will also be assessed, they are likely to include:

1. Research and Development activity: Often, where research and development is undertaken the benefits of the activity spread beyond the firm that invested. The assessment of economic benefits will take into account information from the applicant about their research and development plans to judge whether there may in fact be wider economic benefits. In this case, such benefits are likely to be priced in line with the EC R&D&I framework.

2. General training: Where a firm invests in training, the benefits of improving the skills level of the workforce can be felt beyond the firm. Where this may be the case, such benefits are likely to be priced in line with the EU General Block Exemption training aid guidelines, so applicants will need to state whether they have training plans as part of their proposals.

In addition, an assessment will be made of whether the support represents value for money in terms of the employment created or safeguarded. The applicant should provide details of the jobs that (a) will be created and/or (b) will be safeguarded as a result of the proposal going forward. This should include details of both the skills and salary levels of the jobs created or safeguarded. In determining value for money, the level of deprivation and local labour market conditions will also be taken into account.

**Technology Criteria**

Applicants must provide the following information about their proposed projects covering how innovation will deliver reduced carbon emissions:

1. Is the proposal related to vehicle production? If yes, please provide details of how the new production process(es) will reduce carbon emissions, reduce the use of hazardous substances, and/or improve resource efficiency. Where relevant, please explain how the new process(es) will:
   - Adopt renewable energy sources.
   - Minimise heat loss.
   - * Provide more efficient water use.
   - Introduce water-based/low solvent emission paint technologies.
   - Reduce exposure to hazardous substances.
   - Increase recycling of waste materials from production.

2. Is the proposal related to vehicle use? If yes, please provide details of how the project will ensure compliance with, or exceed the requirements of, the following European regulations on vehicle carbon emissions and air quality (where applicable):
   - EU CO2 regulations on cars.
   - EU CO2 regulations on vans.
   - Euro 6 regulations on cars (air quality).
   - Euro V/VI regulations on HGVs (air quality).

3. For proposals related to vehicle use, please provide details of the technology that will deliver lower carbon emissions; for example, through innovation in vehicle design or engine technology.

4. For proposals covering both vehicle production and vehicle use, please provide a summary assessment of the contribution which the new technology will make to reducing carbon emissions over the life cycle of the vehicle.

5. For proposals covering both vehicle production and vehicle use, please provide an assessment of the research and development requirements of the project, including the R&D stages for which support is sought [basic, applied and/or demonstration].

6. For proposals covering both vehicle production and vehicle use, please provide details of opportunities for suppliers to contribute to the project, both in terms of intellectual property and manufacturing opportunities.

7. For proposals covering vehicle use, please provide an assessment of the technology’s wider market potential. What contribution will it make to vehicle sales?
FINANCIAL CRITERIA

1. Guarantees may potentially be provided to support the following investment areas directly linked to the project:
   — Research & development (basic research, applied research and demonstration).
   — Capital expenditure—eg investment in new production facilities; new materials; prototyping; tooling; land and building costs—but in all cases linked to the project and the project’s duration.
   — Staff costs linked to the project.
   — Training costs linked to the project.

Recoverable indirect taxes are excluded.

2. The applicant must provide evidence of having exhausted private sector sources before seeking either a guarantee or loan eg evidence that a bank/banks have refused to fund. In general, HMG would expect to offer loan guarantees rather than direct loans to minimise the risk to the tax payer. Applicants seeking loans must demonstrate why the project cannot be financed on the basis of a Government guarantee or a third party loan and ensure their project is in line with EU Commission conditions for loans. It must also give details and demonstrate how and when the guarantee/loan will no longer be required/repaid.

3. In accordance with the European Commission’s Temporary State Aid Framework, under which this support scheme is provided, the following conditions as a minimum must be met and we would ask applicants to provide evidence demonstrating:
   — that the company is viable and, in particular, was not a “firm in difficulty” before 1 July 2008 according to the EU Commission’s view of what constitutes a “firm in difficulty”. The EU Commission regards a firm as being “in difficulty” in where it has lost more than half its capital, and more than a quarter of it over the previous 12 months.
   — That the maximum guarantee or loan sought does not exceed the total annual wage bill of the applicant (including social charges and the cost of on site subcontractors) for 2008.
   — Under the current EU Commission’s Temporary State Aid Framework, guarantees or loans must be granted by no later than 31 December 2010.
   — Loans must be specifically linked to projects that involve early adaptation to or go beyond future European Community product standards on environmental protection.

The applicant should provide evidence that their application meets the above conditions, particularly on viability.

4. The Government is likely to require part or all of any guarantee or loan to be secured against the applicant’s assets and/or those of a parent company (where applicable), depending on the risk exposure for the taxpayer. The applicant must provide a summary of assets, including their current value, that are available to provide security.

5. The Government will charge an appropriate fee or interest rate to reflect HMG’s administrative costs and expected risk involved and with the aim of ensuring that the Government achieves good commercial value. The actual fee or rate will be set on a case by case basis and must comply with State Aid law. The Government is prepared to use the flexibilities available under the “Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis” in arriving at the appropriate fee or rate for the loan guarantee/loan.

INITIAL EXPRESSION OF INTEREST

Eligible companies (in “the UK Automotive Sector” or “the UK Automotive Supply chain”) can raise an initial expression of interest that should include a short overview covering a synopsis of the project or initiative under planning, and the level and type of financial support being sought. This should be sent electronically to the email address identified below.

The synopsis should cover the following areas:

Banking Support
   — Evidence of bank support applied for.
   — Terms of bank support proposed.

Financial Information
   — Financial reports and internal business plans relating to the project.
   — Assets or a parental guarantee that would be pledged to back up any government support, and estimated valuation and priority of pledges.

Annex C
Incentive effect
— Why the applicant is making the application for support under the scheme.
— What the situation would be with regard to the project/business if a guarantee was not provided and evidence of the same.

Project details—basic details relating to the project, ie:
— Project location (including postcode).
— Number of jobs created or safeguarded by project, and type of job in terms of salary level.
— How project will deliver reduced carbon emissions, in what way and by how much.
— Split of functional project spending, ie between research & development, capital expenditure, land and building costs, staff costs, training costs, etc.
— Technical and market feasibility.
— Any other particular features of interest, ie high innovation.

Annex D
EUROPEAN INVESTMENT BANK’S (EIB) LOAN CRITERIA

The EIB’s European Clean Transport Facility is primarily focused on supporting large energy efficiency projects in the automotive sector.

Companies may seek funding for projects to reduce vehicle emissions and/or projects to green their manufacturing processes.

The ECTF facility is open in principle to applicant companies of any size and ownership—and whether investment grade or sub-investment grade—that are committed to an eligible (see below) investment programme in the European transport industry in the period 2009–12. The EIB will normally not lend less than €50 million or more than €400 million under the ECTF.

All parts of the automotive supply chain are eligible to apply, including Tier 1 and Tier 2 suppliers.

The EIB will provide loans for up to 50% of the capital expenditure and training costs of a project, and in exceptional cases up to 75% of the R&D costs.

Eligible investments include:
— tangible and intangible expenditures on research, development and innovation;
— innovation, prototyping and/or new tooling; and
— upgrading of existing/new production facilities that do not result in a net capacity increase and that target EU2012/2020 CO₂ passenger vehicle emission requirements.

May 2009

Memorandum submitted by Bentley Motors Ltd

OVERVIEW
Bentley Motors was founded by W O Bentley in 1919, with a mission to “build a good car, a fast car, the best in class”. In the ensuing 90 years, Bentley has developed an unrivalled reputation for producing high performance luxury vehicles at the very top end of the luxury car market.

Bentley has been located in Crewe since 1946, our current site housing all our design, engineering and production divisions as well as our entire head office function. We currently employ some 3,500 people making us the most significant employer in Crewe and the East Cheshire region.

Since 1998, Bentley has been part of the Volkswagen Group and the investment and capital provided by Volkswagen has been transformational. Over the last decade, Volkswagen has invested over £1 billion in the site in Crewe, upgrading facilities and bringing forward new product. The successful introduction of the Continental range saw Bentley go from strength to strength culminating in a record 10,014 cars being produced and sold in 2007.

Bentley is an active member of the SMMT and we endorse all of the points they highlight in their own submission to this inquiry. However, the relatively small volume and the nature of the product puts Bentley in a very different position to that of volume manufacturers in the UK. Our customers seek a bespoke performance vehicle—a combination of performance, luxury, craftsmanship and cutting edge technology and innovation. This combination requires significant ongoing investment, especially in R&D. As a result, we are now the third largest R&D investor in the UK automotive sector (and the 29th highest across all sectors), having invested some £104.9 million in 2007.¹ This investment helps maintain one of the most

¹ DIUS R&D Scoreboard.
highly skilled automotive workforces in the country. In addition to the 1,000-strong engineering department, we have around 1,500 production associates who build some of the most advanced cars available on the market but who also maintain traditional craftsmanship in leather and woodwork. It is the skills of all these people that enables us to create bespoke vehicles for a wide range of global customers.

**Impact of the Recession**

Bentley, like other premium brands, has been badly affected by the downturn. Given the discretionary nature of our part of the automotive market, the luxury sector has been particularly hard hit, with sales down by around 25% globally. Bentley was broadly in line with this trend last year although it has masked some markets which are even more affected, notably the UK where our sales are currently down approximately 65% year on year. We have therefore had to make significant changes to our operations.

Having first detected this downturn in the US in late 2007, we began by diverting production supply away from the US and towards still-growing markets such as China and the Middle East. As the recession bit globally we were then forced to reduce production—our mantra being always produce one car less than demand. Production patterns were therefore altered and a number of extended shut downs implemented including a seven week closure over March/April.

The consequent loss in revenue from these shutdowns had to be met by reducing overheads. We therefore reluctantly took the decision to reduce our head count by approximately 450 positions. This was largely achieved on a voluntary basis and, in order to avoid greater job losses, all staff have taken a temporary 10% pay cut until December. It has been and continues to be a very difficult period for the company and our staff, but we have always sought to maintain good employee relations and the support of the unions in this regard has been invaluable.

The challenge for the business, however, is to maintain our commercial viability during this downturn. One clear lesson from the global automotive market is that it is new models that help companies buck the downward trend. Hence we have maintained our R&D and new product developments: Part of this investment has been devoted to our environmental strategy which aims to improve the CO₂ performance of all our cars. Later this year we will launch our first FlexFuel compatible vehicle which underlines this commitment. This strategy is driven not by regulatory requirements but by customer expectation.

The implications of this ongoing investment are felt, however, in our operating margins. Our product range is focused entirely on high-end luxury vehicles, so our volumes will always be low. R&D investment costs, therefore, must be amortised over comparatively limited production runs. The result is that up to 33% of the wholesale cost of one of our cars is attributable to R&D costs. This makes our business performance very sensitive to market changes and underlines the importance of managing our investments carefully and constantly reducing business costs.

In addition to the challenges facing Bentley Motors, we also have concerns about our dealers and our supply chain. To date two of our dealers in the UK have gone into administration—although this has been predominantly due to unconnected business commitments—and a number of our suppliers face severe financial difficulties. In both cases, the lack of access to credit has been critical, limiting their opportunities to manage their businesses during the downturn. We are working with these suppliers as best we can to try and support them during this time.

Bentley has since last autumn been involved in the discussions between Government and industry regarding measures to support the automotive sector. We welcome the progress that has been on the Automotive Assistance Programme and scrappage scheme and hope to see a positive effect in terms of both industry and consumer confidence. However, for the reasons we set out below, we do not expect either of these initiatives to have a significant benefit to Bentley. We would therefore like to draw the Committee's attention to the other areas in which we believe that Government support would be beneficial in safeguarding the long term future of the Company and the high luxury sector in the UK.

**The Scrappage Incentive Scheme and the Automotive Assistance Programme**

The Scrappage Incentive Scheme is unlikely to benefit Bentley because our vehicles are at the very top end of the market and therefore a £2,000 discount is unlikely to be a significant catalyst for a potential purchase (however it should be noted that if they did, the revenue generated through VAT would be worth at least 20 times the £1,000 government contribution). There may, however, be benefits if the scheme is successful in boosting sales activity in the volume section of the market and this could permeate through to the luxury sector in terms of greater confidence. We have decided to participate in the scheme so our customers have the option to take advantage of it should they wish.

In terms of the Automotive Assistance Programme, Bentley is unlikely to take advantage because we understand the terms and conditions to be significantly less attractive than those attached to alternative sources of funding (such as EIB) we could access through VW Group should we need to do so. However, the availability of funding is still a crucial issue for us. First, we cannot and should not rely completely on support from Volkswagen Group for funding. To do so would send the wrong message to our parent—that the UK is an unfavourable location in which to invest. Secondly, access to greater affordable finance would...
allow us greater market flexibility. Thirdly, our suppliers and dealers are all dependent on lines of finance—without them we would not be able to make and sell cars. Alternative avenues of affordable finance therefore remain important to Bentley as well as the wider industry.

**Other Methods of Support**

Prior to January 2009, Bentley had not sought nor received any Government subsidy for our business. Under usual economic conditions, our business model is sound—we are not in need of any bailout, but we do need demonstrable Government support if we are to maintain our current levels of R&D investment and maintain our reputation as a model employer. Since January 2009, the North West Development Agency has provided us with around £700,000 of discretionary funding for training. This has been invaluable as it has helped us provide significant training opportunities for staff during the shutdown period, thus helping to minimise the amount of downtime banked to the Company whilst improving the skill levels still further.

However, there are a number of ways in which the Government could better help us by creating a more supportive operating environment that reflects the difficulties we face.

(a) **Finance**

The lack of access to credit remains a significant obstacle as it is limiting our ability—and that of our dealers and suppliers—to trade our way out of this downturn. The Government promised to look at the Bank of England’s recapitalisation scheme as a possible avenue of support. We are still awaiting the outcome of those discussions.

(b) **Wage support**

To date our shut-down periods have now totalled over 10 weeks. The cost of wages during this period is a significant burden for the Company to carry. In other European Member States where our competitors are located, wage support schemes exist which help Companies maintain cashflow during such slow periods. Such schemes can protect the long term viability of the Company and act as an incentive to create or maintain employment in that Member State.

(c) **R&D**

As outlined above, R&D is critical to our future. We applied to the Technology Strategy Board for two separate projects—one on electric vehicle development, the other on advanced materials which would have had wider industrial benefits. We were unsuccessful in both with the feedback received that the projects, whilst having merit, were costly given the level of interest in the funding calls. Consequently, the R&D work we had hoped to carry out with partners here in the UK will not take place increasing the likelihood that the technology is imported. This includes work on environmental improvements which are fundamental to us if we are to remain relevant to our customers. We would therefore urge additional funding for such R&D in the UK.

(d) **Skills**

Attracting and retraining talent is critical to our future. We have always strived to be a model employer and have been recognised as such by Investors in People. However, this is exceptionally difficult to maintain in the current climate without Government support.

We are committed to our apprenticeship programme which currently has strong links to local and regional schools and colleges. However, the cost of this programme is substantial and we are consequently reviewing our options for next years programme. We would therefore welcome more Government support for apprenticeships—particularly help with wages that would enable us to maintain recruitment levels and provide long term safeguards to the industry and the Company.

During the downturn we have tried to increase still further the skill levels of our staff and have welcomed the £700,000 discretionary training budget we received from the NWDA earlier this year. This investment has helped many people in the company achieve their first qualification, and we would like to develop these skills further to NVQ levels 3 and 4, but are ineligible for Government support as this is restricted to SMEs. However, given we are also not a global multinational, there needs to be greater consideration given to how we can access support for skill development.

(e) **Tax**

HM Treasury’s recent budget announcement will have a negative effect on the confidence of customers in our high luxury sector. The decision to remove the £80,000 cap on expensive cars within the Company Car tax rules as well as changes to capital allowance restrictions and income tax will negatively affect the purchasing decisions of our potential customers. Given that two-thirds of cars classed as expensive under the Company Car Tax rules are British in both name and manufacture we had hoped for, at least, a more neutral budgetary treatment and would stress the need for more joined up decision-making between BERR and HM Treasury.
CONCLUSIONS

The economic downturn has had a dramatic effect on many sectors. However, the automotive sector—and the high luxury end of it—is amongst the most severely affected with sales plummeting by up to 60%. This should be of particular concern to the UK Government as it is home to some of the most famous names in the automotive world and, in the case of the luxury sector, is the creator of the high-value R&D and manufacturing jobs essential to a prosperous future UK economy.

The Department of Business Enterprise and Regulatory Reform has introduced some sector specific support and should be commended for doing so. However, if the business model of companies such as Bentley—with our commitment to design, R&D and manufacturing in the UK—is to be maintained, then more targeted support is essential. This need not cost significant sums—changes to the Company Car tax for instance will have a negligible impact on revenues yet would send a tangible message to UK customers. Critically, however, such steps would help safeguard the long term future of world-class automotive excellence in the UK.

1 June 2009

Memorandum submitted by the CBI

The CBI is pleased to provide the following comments on the Automotive Assistance Programme and the general situation facing the industry.

The UK automotive industry is one of the most efficient in the world, and is a critical part of our manufacturing base. The UK automotive sector underwent considerable restructuring and consolidation in the years pre-dating the current financial crisis. It remains a strategically significant industry, but it needs effective and immediate support from government to ensure its long-term future.

The CBI believes the government must speed up the process of issuing guarantees under its Automotive Assistance Programme to ensure swift access to European Investment Bank and other investment finance for UK based companies.

As an industry which is heavily reliant on credit, car-makers and their supply chains have been hit particularly hard by the credit crunch. The inability to raise or access finance constrains firms’ investment intentions, which has been further impacted by the collapse in demand for passenger and commercial vehicles. Previously profitable businesses now face the possibility of bankruptcy, risking a potentially devastating domino effect throughout the supply chain.

Given such exceptional circumstances, providing support for the automotive industry was a necessary step for the government to take, and was called for by the CBI.

The offer of loans and loan guarantees within the Automotive Assistance Programme is a reasonable policy response to the difficult credit conditions facing car-makers and suppliers. Rather than propping up failing companies, the scheme should help to unlock funds that will allow viable firms to continue with their investment plans. In linking funds to only “low carbon” related projects, the government is encouraging the industry to make transformational investments to position the UK as a major player in a future low carbon economy, which is welcomed by the CBI.

However, the CBI has concerns about the length and complexity of the application process for the scheme, and the unnecessary burden that this puts on already struggling businesses. We fully acknowledge the need for due diligence and to ensure value and minimise risk to the tax-payer, but the need for action is immediate.

In gold-plating the requirements to access finance and guarantees the government risks delaying the positive impact on the automotive industry and the wider economy, undermining the purpose of the programme.

Additionally, the low take-up of the scheme to-date based on the number of applications received, and also considering the zero approvals, reflects the need for radical improvement in terms of effective communication of the schemes available, simplification of the whole process, and rapid decision making.

A CBI member has cited a recent example of an application by an automotive supplier, supported by two UK vehicle makers, that has now been withdrawn due to excessive time awaiting direction from the AAP; a result which has led to potential loss of future business and the necessity of direct intervention from at least one of their customers.

The CBI welcomed the government’s car “scrappage” scheme announced in this year’s Budget, to stimulate consumer demand. The initiative, which is to be co-funded by industry, appears to be more complicated and burdensome than similar schemes in other European countries, where “scrappage” vouchers were introduced earlier this year. There is a danger this may leave manufacturers in the UK at a competitive disadvantage compared to those in continental Europe where implementation of similar assistance programmes has been very effective.

11 May 2009
Memorandum submitted by Copart UK

1. The Committee began its inquiry on 25 March 2009. On 22 April the Chancellor of the Exchequer and the BERR Secretary of State announced a £300 million government support for a vehicle scrappage scheme, with matching funding from car manufacturers.

2. Copart UK is a vehicle salvage, scrappage and remarketing business, as set out in Annex A. Its evidence is therefore focused on the last two questions in the Committee’s brief:

— Whether other measures, such as scrappage or support for car finance companies, are required; and
— Any other views stakeholders think the Committee should be aware of.

SUMMARY OF ISSUES

3. In the 2009 Budget, the British Government has recognised that a scrappage programme is important to stimulate the car industry. Copart UK welcomes the programme in principle. While we acknowledge that the current scheme has a maximum life of 10 months, we believe that the right scheme designed in the right way can be a longer term arrangement.

4. There are risks and weaknesses in the short term scheme, which can arise because of the way the scrappage programme is being developed for Britain, compared to other countries:

— limited consumer choice;
— adverse effects on the vehicle scrappage chain; and
— risks of incomplete compliance with End of Life Vehicle regulations.

5. Some problems may only materialise once the scheme is introduced. DBERR has had very little time to implement a scheme from a standing start, and it has therefore placed extensive reliance on existing intraindustry mechanisms for vehicle take-back and disposal, which may not cope well with spikes in vehicle scrappage.

6. There is to be a compliance review after the second month of the programme, which would provide an opportunity for improvements to the scheme after initial experience.

LIMITED CONSUMER CHOICE

7. Whole trade or New sales only: The scrappage scheme is intended to stimulate car sales across the “whole motor trade”, as expressed by the Secretary of State in his initial press release. He also said: the benefits of a scrappage scheme are balanced with the needs of other sectors of the car industry such as the second hand car market . . .”.

8. However, in Britain, the only route to secure the £2,000 support will be for motorists to acquire a new car (or van), by visiting a dealer. These are generally tied to one manufacturer. There will be documentation checks relying on the DVLA database, and manufacturers will invoice DBERR for £1,000 and provide match funding. Some manufacturers will offer additional incentive finance.

9. No portable voucher: The BERR scheme offers less consumer choice than similar schemes in other countries. Both Germany and California, where schemes are highly successful, have a portable voucher system where motorists can scrap old cars and buy new or “trade-up” to a modern secondhand vehicle of their choice across the whole supply chain. The system intended in Britain gives more power to dealers to press a hard sale.

10. In small towns where there are one or two dealers, consumer choice will be restricted to specific vehicle types. Some consumers who do not normally make new car purchases will also be unfamiliar with credit risks arising with an expensive capital purchase.

11. While we recognise that the strongest driving force for the scheme is new car sales, consumer choice should also be a guiding principle of the scheme. We would support a portable voucher system being offered as an improvement to the current scheme.

12. Valuation problems: There is also an issue as to whether a flat rate of £2,000 reflects a fair market valuation for every vehicle. Some vehicles may have other value (eg, in being a source of spare parts) which is not reflected in the flat rate.

13. Scrappage routes: If consumers are channelled into making scrapping arrangements solely through their local dealership they are restricted in their ability to purchase the car of their choice.

14. Customers should be allowed to arrange for scrapping themselves, rather than through a dealer. This will give them the flexibility to choose when, how and where they decide to benefit from this scheme.
Effects on the Vehicle Scrappage Chain

15. Reliance on existing vehicle disposal arrangements: The emerging focus of the funding is towards new car sales. Because of the short time between announcing the scheme on 22 April, and planned implementation on 18 May DBERR has relied heavily on the existing vehicle disposal arrangements. A spokesperson from DBERR said: “The cars will be dealt with as ordinary end-of-life vehicles through the manufacturers. The primary reason for the scheme is to boost the car industry so the scrappage industry and green side of things are secondary to this.”

16. Apparent risks and shortcomings:
— DBERR has not had the time to make appropriate due diligence checks on those organisations who are going to be intimately involved in delivering the scrappage element of the scheme;
— some of those organisations are very small, and there is also a risk of SMEs failing under the pressure of “spikes” in demand which lead to cash-flow pressures;
— the scheme does not address how the department is going to manage the risk of a “car mountain” if there are peaks in its take-up;
— there appears to have been little thought given so far to the impacts of up to 300,000 vehicles arriving into the recycled vehicle parts and the scrap market (up 50% on normal, and likely to incur spikes in throughput);
— the capacity to deal with this volume safely, and in a sustainable way, needs to be assessed—no-one wants a “car mountain”; and
— by requiring that the dealer is the sole entry point the scheme is burdened with a number of additional costs, which would be stripped away if customers could arrange for their own scrappage.

17. As we write in the preceding week, guidance from DBERR has not yet been issued for a scheme which is due to start on Monday 18 May.

18. Consequently, there is no clear commercial incentive for parties with capacity in vehicle scrappage (such as Copart and others) to enter the trade chain for the new scrappage scheme.

Risks for ELV Compliance

19. Another critical element here is the EU’s End of Life Vehicles Directive, which intends to achieve a “greening” of the auto industry.

20. DBERR is quoted above as saying: “the...green side of things are secondary to [the boost to the car industry].”

21. DBERR says that it has urged car manufacturers to review their vehicle disposal arrangements to accommodate demand. However manufacturers are locked into sole-source agreements with particular vehicle take-away companies for the first stage in the vehicle disposal sequence—any problems arising are only capable of resolution once a contractual failure has arisen and there are vehicle take-away problems.

22. Consequently, compliance with the ELV Directive may be harder to achieve with a spike of vehicles in a short period of time, using existing dealer-to-scrap industry agreements.

Annex A

COPART IN THE UK

Copart handles 1.5 million vehicles worldwide, through almost 150 facilities, of which 200,000 vehicles and 12 facilities are in the UK. Copart UK is part of a US-based company.

Copart invested £80 million in the UK, acquiring four businesses between June 2007 and February 2008, and has around 35% market share in vehicle disposal. A further £9 million is being invested this year in upgrading facilities, purchase of equipment, establishing a new part recycling business, and improving employment arrangements. Further investment in the UK is likely in land and businesses as well as in equipment as the business grows organically and by acquisition.

The UK investment is designed to be the first in a series of European investments over the coming years to build a European business that will be, subject to the right trading and business environment, headquartered in the UK.

2009 will see Copart handle 25% more cars than in 2008, and this could include up to 50,000 end of life vehicles during 2009. Copart has set the standard for the UK vehicle salvage marketplace, significantly improving service standards and use of technology by bringing much needed competition and sophistication.

2 Recycling and Waste Management news and information website, Tiffany Holland, 13 May 2009. Link: http://www.mrw.co.uk/page.cfm?action=Archive/ArchiveID = 26/EntryID = 5411

3 In Germany new car sales jumped 19% last month and 40% in March (the biggest rise since 1992) on the back of a similar scheme. In the UK, Hyundai said its dealers recorded a 400% increase in enquiries in the week following the Budget announcement of the scrappage scheme.
Copart’s global buyer base, using patented internet based auction technology, pays more for vehicles for repair or recycle than in other disposal routes. This keeps motor insurance premiums down as well as the cost of doing business for non-insurance based customers. 10 of the top 20 UK Motor Insurers rely on Copart to dispose of their total loss vehicles.

Copart handles non-damaged vehicles too. In addition to cars, this includes light and heavy commercial vehicles as well as specialist heavy plant material. Copart are members of Autogreen and Cartakeback, as well as the British Vehicle Salvage Federation, the Motor Vehicle Dismantlers Association and the CBI.

In addition to vehicle salvage, Copart has recently renewed the contract to handle all sensitive and high value end of vehicle life disposal for Jaguar Landrover (JLR) for vehicles from their engineering and test facilities at Gaydon, Warwickshire. This includes disposal of sensitive parts throughout the world and full scrapping of vehicles prototype to protect the JLR brand and intellectual property.

Copart also has arrangements with several UK motor manufacturing facilities to ensure the secure recycling of non-required assembly line components including those in process when vehicle production slowed dramatically in the second half of 2008.

May 2009

Memorandum submitted by the Finance and Leasing Association

THE IMPACT OF GOVERNMENT’S AUTOMOTIVE SUPPORT PACKAGE

INTRODUCTION

1. The Finance and Leasing Association (FLA) is the main representative body for motor, asset and consumer finance providers. Our motor finance members include subsidiaries of banks, the finance subsidiaries of motor manufacturing companies, and a range of independent firms. The FLA welcomes the opportunity to provide evidence to the Business and Enterprise Committee’s Inquiry.

THE MARKET FOR MOTOR FINANCE

2. Over half of all new cars are purchased using finance from FLA members. Of this, 45% is provided by the finance subsidiaries of car manufacturers (known as “captives”) and the rest from independent providers (including banks and non-banks). The majority of finance agreements are secured against the vehicle. Asset-based lending allows greater flexibility to the customer and is particularly helpful for consumers in current conditions.

3. FLA members provided £61.2 billion of consumer finance in 2008. £18.8 billion (over 30%) of this was for the purchase of cars via motor dealerships. The value of new consumer car finance in the first quarter of 2009, compared with the same period last year, was down 22% and the volume of new business decreased by 27%. The value and volume of used car finance in the first three months of 2009 fell by 16% and 8% respectively, compared with the first quarter of 2008.

THE IMPACT OF THE CREDIT CRUNCH

4. These figures reflect to a significant extent the impact of the credit crunch, which has made it very difficult for many motor finance providers to obtain the funds they need to pass on to their customers. Motor lenders were previously able to raise liquidity via the securitised debt markets. These markets have effectively closed. Where funding is available at all, the cost is very high. This means that motor lenders are increasingly unable to pass Bank of England rate reductions to motor dealerships, who in turn are unable to pass them on to customers in showrooms.

5. Furthermore, banks have reduced lending to the motor market because of the perceived risk. This has adversely affected motor lenders’ ability both to provide funds to retail consumers and to provide wholesale funding to motor dealerships. In fact, the risks remain low. Despite market conditions, there was only a small increase in retail motor finance arrears from 1.78% of balances on outstanding contracts at the end of 2007 to 2.06% at the end of 2008.

6. The consequence is growing unmet demand. As more consumers turn to motor lenders for help because of the reduced availability of credit elsewhere, motor lenders are being forced to be more selective. Our most recent member survey shows that approval rates at some motor finance providers fell by almost 20% in 2008, compared to the previous year. Early indications are that some providers’ approval rates will further deteriorate this year. This has adversely impacted the ability of consumers to get credit, and will continue to do so.

UNMET DEMAND

7. While credit generally continues to be available to customers purchasing cars from dealerships (because lenders are actively managing risk to maintain liquidity), the situation is likely to deteriorate as 2009 progresses. A very rough and ready estimate for 2009 is that FLA members may as a result be unable to fund around £1.6 billion of customer demand.
Ev 78  Business and Enterprise Committee: Evidence

The Limits of Government Support so far

8. Government support for the lending markets has so far been restricted to deposit-taking institutions including the banks and building societies, and has excluded non-bank lenders. As a result, the Credit Default Swap (CDS) rate (which measures the cost of funds) has in recent months sometimes been twice as high for non-bank motor lenders as for banks with access to Government support.

9. The FLA welcomed the Government’s announcement of a vehicle scrappage scheme in the recent Budget. But if it is successful in stimulating demand, it will simply add to the growing gap between demand and the supply of finance described above.

10. Similarly, while the European Investment Bank (EIB) has announced an automotive support package, the available loans are for the development of new energy-efficient technology. They will not provide the short-term cash injection that is needed immediately.

What We Have Proposed

11. The FLA has therefore urged BERR, the Bank of England and HM Treasury to extend their lending support facilities to independent non-bank lenders and the lending subsidiaries of manufacturers.

12. We have been discussing two main avenues with the Government and the Bank. The first would involve a scheme for the purchase of asset-backed securities (ABS) from motor lenders, under the umbrella of the Bank of England’s Asset Purchase Facility. Despite initial enthusiasm from Ministers, the Bank seems concerned about the consistency of such a scheme with its broader monetary policy objectives, and talks have stalled. Nonetheless, a number of FLA members have expressed interest in the commercial paper and corporate bond schemes already available under the Asset Purchase Facility. We hope these discussions may bear some fruit soon, although they are likely to be of benefit only to a small number of companies.

13. The second proposal would involve Government guarantees (analogous to those already provided under the Credit Guarantee Scheme) for ABS transactions in the commercial market, originated by specialist motor lenders. Such guarantees would help those companies who in the past used the securitised markets to improve their short-term cash-flow and liquidity and so continue to lend to consumers and businesses. BERR and Treasury support the idea in principle. But discussions have now been going on for many months, and it is urgent that we make progress soon.

Conclusion

14. The FLA welcomes the seriousness with which the Government has approached discussions with the industry on how best to help the motor lending markets. But these discussions have now been going on since November 2008, with no end yet in sight. The funding problems facing the sector remain serious, particularly as lenders’ existing funding arrangements expire and they attempt to refinance. Action is needed now to avoid the unmet demand described above, and the inevitable consequences both for the motor industry and the local communities in which it operates, as well as consumers and the UK economy.

May 2009

Memorandum submitted by General Motors UK Ltd

General Motors Corporation is one of the world’s largest automakers. GM was founded in 1908, and today manufactures cars and trucks in 34 countries. With its global headquarters in Detroit, GM employs 243,000 people in every major region of the world, and sells and services vehicles in some 140 countries. In 2008, GM sold 8.35 million cars and trucks globally. In Europe, GM sells its vehicles in over 40 markets. It operates nine vehicle-production and assembly facilities in six countries and employs about 50,000 people.

This submission represents the views of General Motors UK Ltd, incorporating the Vauxhall, Saab, Cadillac, Corvette, Hummer and Chevrolet brands in the UK. This submission of evidence also details some case studies from our suppliers and feedback from third parties on the AAP that we have received.

GM welcomes the opportunity to submit a response to this inquiry. However we also support the views of SMMT and would like to point out that this inquiry comes too early to enable us to provide the committee with a full picture of the effectiveness of the Automotive Assistance Programme.

Background to GM UK Ltd

Over 35,500 people in the UK are employed either directly or indirectly via General Motors UK Limited. We directly employ 5,500 people at our manufacturing plants in Luton and Ellesmere Port, at our engineering facility at Millbrook Proving Ground in Bedfordshire and at our warehouse operations and corporate headquarters in Luton. In addition, through our nationwide network of retailers, a further 23,000 people are dependent on GM as well as a further 7,000 people via our UK supply chain.
The automotive manufacturing industry is a strategic sector of the European economy, employing 2.3 million people directly and with a strong multiplier estimated at about five times. The industry is also the largest private research and development investor in Europe with €20 billion spent annually. The UK automotive industry employs around 850,000 people indirectly with around 200,000 jobs in manufacturing alone.

**AUTOMOTIVE ASSISTANCE PROGRAMME**

GM cannot provide an account of our experiences with the AAP as due to the wider discussions surrounding the future of the company have been unable to progress any applications under the scheme until a firm viability plan is decided and potential inventors are confirmed. GM has provided a list of a number of potential projects that we would be interested in progressing to BERR, but at this stage until more certainty around the future of the UK manufacturing plants is confirmed we are unable to progress these projects.

GM understands that about 50 companies have sent an expression of interest to BERR and it is believed that about 10–12 companies have so far presented viable projects which are likely to receive from government a guarantee or a loan. However as of 12th May we understand that so far no guaranteed loan has been approved.

Our suppliers early experience with the programme has highlighted that:

— It was initially difficult for suppliers to gain access to the eligibility criteria. GM believes this was due to the initial announcement being made on 27 January and further details were not made public until EU approval had been granted and Ian Pearson chaired a seminar for industry on 11 March setting out details of the Programme. GM believes that there was always going to be a “learning” period as with any new scheme and although we understand the process has been improving, the initial obstacles and delay may have had an impact on take-up.

— Even though the AAP directorate has proved helpful in assisting and directing companies through the application process, for many of our suppliers the application process remains confusing and unclear and all the companies who have shown an initial expression of interest have found the process longer than promised. Initial estimates for the process time of individual applications were very optimistic and this could have been because the complexity of some of the suppliers financing situations was not then understood.

— One of the major problems continuing to impact the industry remains the low appetite shown by the banks to invest in the automotive sector. This is reflected in the experiences of a number of suppliers and shows the need to update the banking community on the strategic and future prospects of the automotive sector.

— Many suppliers have reported that although head offices of banks are aware of the AAP, many of the more regional banks that our supply base have approached for assistance are not yet aware of the scheme and their part in this.

— To be able to apply for AAP support companies must provide evidence of support from a bank. The AAP requires a company to have approached a bank (most will already have exhausted all opportunities before approaching the AAP) for support and if rejected, enquire whether support could be achieved through an HMG loan guarantee. Although we understand that BERR must ensure enough evidence is provided to satisfy requirements that taxpayers money will be protected the balance between the time to undertake this and the rate at which the industry is continuing to decline must be considered.

**GM SUPPLY BASE POSITION**

GM Europe currently has nearly 300 EU suppliers in financial problems. These problems range from bankruptcy and receivership to difficulties accessing credit. GM estimates that the number of suppliers experiencing financial problems increases at a rate of one per day.

Between the seminar on 11 March and the date of this hearing (20–21 May) GM estimates that a further 50 suppliers will have started to experience financial problems. When you compare that 50 suppliers have applied under the AAP and there have been no loans guaranteed so far, if the level of loan guarantees approved does not increase soon (GM understands the delay is due to a learning curve for both BERR and industry and a number of applications are currently being processed and have not yet completed the application process) then an assessment of the effectiveness of the scheme maybe called for at a later date.

GM highlights that our suppliers say there are a total of 14 schemes that range from the AAP to training assistance and that it remains a highly complex area with no one body able to provide assistance or guidance across all schemes. Consistently amongst our supply base, the scheme that has received a high level of support and a number of suppliers have already applied under, is the HMRC “time to pay” scheme. This scheme is reported as being highly appreciated, is accessed quickly and is working well.
Once lost a supplier is lost from the UK, in the current climate it is unlikely that this suppliers will be relocated back in the UK. Although we recognize and welcome that the New Industry, New Jobs policy document aims to address a number of these issues and promote the UK as a place for manufacturing, evidence from our supply chain suggests that changes in attitudes and assumptions will take time.

Some suppliers with international parent companies will also relocate the component manufacturing operations to which ever European company it is easiest to obtain funding support in.

**DIRECT COMMENTS FROM SUPPLIERS**

Below we have inserted comments from a number of suppliers and third parties on their understanding of the AAP and the wider economic downturn and its impacts more generally. These are the views of external companies to provide an understanding of motor industry suppliers concerns and do not necessarily reflect the views of GM UK.

**Supplier 1**

There is little if anything that could be available to us at present. We have been in touch with our local RDA, but many of the enterprise assistance schemes are limited to smaller companies and, in any event, the schemes have generally not taken off as planned, with lenders applying additional restrictions. Indeed, as a larger company but with a European “mother ship” we fail to meet many or all criteria which would qualify us for assistance.

The £50 billion Working Capital Scheme looks more promising but will entail the banks obtaining government guarantees to support existing loan portfolios, as opposed to direct support to companies. Again details have yet to be finalized.

We have just taken advantage of HMRC’s “Time to Pay” initiative—to partially offset the impact of a late customer receipt. We only requested a two day delay, but this was agreed to very quickly over the phone.

At present we have no support for reduced working hour schemes but we are busy completing surveys and questionnaires in anticipation of our moving to short time working in the very near future.

**Supplier 2**

We have applied for Transition Funding via Finance South East, but have had no response thus far. We have also applied for Transition Funding for our base in the West Midlands but have had the response that since we are part of a Group and exceed the SME criteria (just) we may not be considered. Further, that we would need to demonstrate that the funding request is because the bank cannot support us further. This is a conundrum. If we have no bank support now the business would fail. We are seeking Transition Funding to give us Headroom to see us through difficult trading conditions.

In terms of EFG or WCS our potential new bankers (who are participating in these schemes) have scant details and sources to us say that it will be mid-March before details are available.

We have written to our local MP in the hope that someone can help us.

**Supplier 3**

We have a very open minded view as to how I can obtain funding to help with financing large projects whereby some of our customers are now starting to ask for all of the tooling investments to be 100% funded by the supplier and only paid by the customer at SOP, which in most cases mean we are financing large investments for up to 18 months before getting paid.

At a time like this Cash is king and therefore our view is that we cannot fund such large investments, when times are so hard. It has become apparent that the funding must fit within the strategic priorities set by central government, by this I mean, it is not just simply available to keep companies a float or indeed to keep jobs by winning additional business. It has to give something additional such as leading to a reduction in CO\textsubscript{2} emissions, or a use of technology that is more environmentally friendly.

To be honest even finding out about the availability is a mine field, and you have to get to the right people to find out about it. I spoke to the EEF for instance and they knew nothing about it!

There are also several other clauses, it is dependent on the size of the company (turnover) together with a maximum number of employees.

So far, as a major tier 1 in automotive, I have not been able to see how I can obtain funding, however I am still pursuing opportunities to see how I can.
SUMMARIES FROM THIRD PARTIES—THese are NOT NECESSARILy ALL SUPPLIERS OF GM UK

I have experienced great difficulties in the last couple of months accessing finance from banks and other lenders. This has been on behalf of another company I am involved with.

Although the Government and Peter Mandelson are saying a lot about small loans up to £50k available for companies who have a viable business plan but have been refused additional lending from their bank, in reality this is not available. I was particularly disappointed when told by Business Link that this is not available in reality, it is just rhetoric from the government, and no-one in the North West has been able to obtain a small loan in this way.

Additionally lenders are saying that any loans that are available will come only with personal guarantees from Directors. I have to say that, as a “business angel” investor myself, that I am not prepared to offer a personal guarantee which takes the risk away from the lender but where the lender still charges an interest rate % at a level reflecting a high risk. This seems to me to rule out any company requiring additional funding that has previously had funding via a “business angel” investment.

We were in fact offered funding from xxxx but requiring personal guarantees and charging 11% interest. xxxx are proud that they have a low failure rate on these type of loans, lower than normal Bank lending. However they are only considering those companies that have been refused additional lending from the banks, ones you would consider to therefore have a higher failure rate. Therefore they must be very selective in who they lend to, not the spirit of what Mandelson is saying.

I think Business Link are probably right in that the Government are looking for newspaper headlines about help to small businesses, but lenders are putting up hurdles that cannot be overcome because they have become frightened of the risk in the current climate.

Classic example of change in credit policies

In April 2008 we did a five year deal for a new Trumpf laser value £468,000 with xxxx.

We posted a six-figure profit to year end 30/09/08 so our credit worthiness can only have improved.

We have just asked for a £30,000 over three year quote for a new truck from same source and have been told we must put down a 25% deposit !!!!

As the deposit will come out of our overdraft facility with the same bank they are only robbing Peter to pay Paul and we do not have a problem in structuring it this way but for other smaller companies it could well be a deal breaker and this credit restriction is a causal factor in the demand reduction for commercial vehicles.

RBS/NatWest have been helpful, albeit there was some delay between the end of the SFLG scheme and the availability of the new scheme.

As a result we were encouraged down an invoice discounting route in order to obtain funding in time for our needs.

The manufacturing and transport sector now has a big red warning light flashing over it which means generally the banks run for cover.

This is causing lots of issues and will ultimately lead to all companies having to tighten up their cost base.

We have trailer parking issues which would cost the country nothing to solve, however xxxx council will not support us so we have to pay thousands for parking away from our factory.

If we could be assisted in this then we would get an immediate cost benefit and also reduce the congestion and emissions associated with our operation.

In relation to problems associated with access to finance in the auto industry, we do have first hand experience of this.

Our own relationship with the bank (Government backed) has deteriorated meaning that all credit facilities have been removed.

For other UK facilities in our group, Barclays has required we “cash cover” all credit exposure—ie put money down in advance to cover facilities such as credit facilities, duty deferment account etc.

Our suppliers have also been impacted—we are on reduced payment terms (7–15 days) with a few suppliers whose banks or financiers are taking a very tight line with any trade with us. This does not help our relationship with those suppliers who are very dependent on us.
GM UK EMPLOYMENT AND PRODUCTION

In 2007 our plants were reaching record high levels of production however the economic downturn has had a serious impact upon the demand for our products.

In 2007 we produced 127,962 5 Door Astra’s and Astra Vans at our Ellesmere Port Plant and at Luton we produced 95,030 Commercial vehicles. This dropped in 2008 to 111,677 cars and 87,521 Commercial Vehicles. These production levels are expected to reduce in 2009 in line with the rest of the UK industry and the production figures below from the SMMT give an indication of the current reductions across the industry.

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<td>-79.3%</td>
<td>-52.6%</td>
<td>-65.0%</td>
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Source: SMMT Ltd.

Unfortunately, due to the decrease in demand we have recently had to reduce production at both our manufacturing plants and have implemented a new working time reduction agreement which was agreed with our unions. From 16 February 2009, Ellesmere Port will move from a 38 hour week to 30 hour week. Workers will be paid for 34 hours with 30 hours at full rate and four hours at base rate. Luton will drop from 37 hour week to 30 hour week with similar arrangement. Lost salary, for worker is £66–82 per week with the company covering half of the reduction for employees.

GM UK has so far made no compulsory redundancies, instead we have implemented a number of internal Cost Reduction Initiatives, some of which are detailed below in order to ensure we maintained our skills base:

- Changes to pension scheme.
- Staff-suggested changes to operations.
- Overtime reduction.
- Reduced travel costs.
- Revised maintenance shift patterns.
- Employee sabbatical program.

As an international company with competitive sister plants (some of who have already benefited from short working time support to assist with the cost of temporary unemployment where this financial support is provided by the respective Governments) it is very important that GM UK ensures that when the upturn comes, we have maintained a skilled workforce in order to allow our parent company to direct any increase in capacity into our plants. In times of economic uncertainty a parent company will direct production into the most competitive plant and one that has lost employees and needs time to “upskill” before starting production is less attractive than a plant that is tooled and skilled and essentially ready to start production overnight.

CREDIT INSURANCE

The three major providers of credit insurance (Euler Hermes, Coface and Atradius) stopped providing supplier credit insurance to GM and Ford suppliers in Q3–4 2008, and it is now more difficult to obtain for other OEM receivables as well. The overall decline in the European auto market is putting severe pressure on cash flow and profitability and that the lack of supplier credit insurance poses a significant risk for a number of our suppliers.

In the Budget on 22 April, the UK Government announced a temporary “top-up” trade credit insurance scheme from May 2009 till Dec 2009, where the Government would match private sector trade credit insurance provision backdated to 1 April 2009, provided that existing cover was not 100% withdrawn and that the reduction in cover had not happened before 1 April 2009. Unfortunately, this scheme will not benefit the vast majority of UK automotive suppliers as credit insurance was withdrawn from most GM suppliers in 2008 and in most cases was entirely withdrawn rather than partially withdrawn. This means that suppliers are not eligible for a “top up” and will fall outside the scope of the scheme.

Whilst this government announcement was reported in the media as key for the auto sector, its criteria meant that unfortunately is of little help to 99% of our suppliers. It also appears that the top up cover is only available for UK businesses and as a large proportion of automotive products are exported to the EU our suppliers need the scheme to also cover export credit insurance.
Many of GM's suppliers have asked that the current scheme is expanded to include automotive suppliers. This would require the current scheme to be backdated by a year and expanded to those companies that have had 100% of their credit insurance removed. Other suppliers have stated that they would be more interested and motivated to apply under the AAP if the scheme would provide them with government backed credit insurance. Providing an alternative solution to credit insurance would help suppliers on a daily basis as opposed to the AAP which relates to a specific project and GM would support any steps by the government to provide a government backed trade insurance scheme to its supply base.

The advantage of a government backed credit insurance program for suppliers is that it will replace the service normally available in the market but which has been withdrawn by the 3 main prominent suppliers. It will help stabilise the automotive supply base and assist with restoring credit flows. It will facilitate a return to normal circumstances for a large group of suppliers to allow them to focus on continued supplies of parts which are essential in manufacturing as all automotive supplies use JIT principles.

It will provide suppliers and their asset based lenders with certainty of collections and also provide certainty for suppliers and their employees that payrolls will be met. It could also potentially be a source of revenue to government as suppliers would be expected to make some form of payment for the facility.

France, Canada and the US currently all have schemes that assist with credit insurance and GM would be happy to provide more information on these schemes to the committee if it would be of assistance.

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Motor finance—Bank of England's Special Liquidity Scheme (SLS) and/or the Debt Management Office (DMO)'s Credit Guarantee Scheme (CGS) should be extended to asset-based lenders to help address the problem—including on level playing-field grounds. No progress has been made since January when Lord Mandelson announced that the trade and investment minister had been asked to draw up plans to improve access to sufficient funding for the car companies' financing arms.

Port rates—the industry has urged government to defer the imminent change to the way business rates are assessed and collected at ports changes to 2010 and not to backdate their reach to 2005. This change still poses a real concern to automotive companies which import and store vehicles in statutory docks and harbors in the UK. The industry does face and is considering the option to potentially move car storage compounds out of the UK and to mainland Europe as these costs are going to add substantial extra unbudgeted costs to our operating costs at a time when we are seeking to minimize all operating costs. There is no more information on any action government is taking here.

June 2009

Memorandum submitted by the Greater London Authority

INTRODUCTION

1. The Mayor of London welcomes the opportunity to provide evidence to the Government's Automotive Support Package inquiry.

2. The Mayor supports the aims of the Government's Automotive Support Package of investing in the UK automotive industry to sustain and create employment, and to develop lower carbon transport. Each year approximately 44 million tonnes of carbon dioxide (CO2) are emitted from the Greater London area and transport activity accounts for around 22% or 9 million tonnes of this total.

3. The Mayor believes London needs to set an example to the world as a sustainable, green city and he will work with national and local government towards a target to reduce the capital's emissions by 60% from their 1990 levels by 2025. He published his draft London Climate Change Adaptation Strategy for consultation in August 2008 and is currently drafting his Climate Change Mitigation and Energy Strategy.

4. The Mayor also recognises the importance of improving air quality to protect human health. Air pollution with particulate matter (PM) claims an average of 8.6 months from the life of every person in the European Union. Two thirds of all PM$_{10}$ emissions in London and 41% of all NO$_x$ emissions are from road transport. There are close linkages between air quality and climate change, especially on initiatives to reduce emissions.

5. The Mayor announced in April 2009 his plans to make London the electric vehicle capital of Europe, which will help to create jobs, cut carbon emissions and improve air quality. The Mayor has outlined a series of major initiatives to achieve at least 100,000 electric vehicles on the capital’s streets as soon as possible, equating to 5% of total vehicles. He will work with partners to deliver 25,000 charging points on London streets by 2015 and will convert 1,000 vehicles in the GLA fleet to electric by that date.

4 World Health Organisation, Regional Office for Europe, 2005.
6. Comments specifically relating to the Committee’s terms of reference are set out below. The Mayor’s overall assessment is that the Government’s Automotive Support Package doesn’t extend far enough in the scope of eligible companies to achieve its aims. More specifically, the Mayor recommends that to achieve any significant shift to lower carbon cars, eligible companies should include electric vehicle infrastructure suppliers, and loans should be extended to support these suppliers.

7. The Mayor also takes this opportunity to set out his views on the Government’s vehicle scrappage scheme, which he feels lacks ambition and misses opportunities to reduce CO₂ and air pollutants, particularly from vans.

RESPONSES TO COMMITTEE’S TERMS OF REFERENCE

The definition of “eligible companies”

8. The Mayor supports the principle of the Automotive Assistance Programme (AAP) in encouraging green technology and vehicles that will appeal to a broader market to deliver maximum environmental benefits.

9. Low Carbon technologies in the automotive industry, such as hydrogen and electric depend as much on the supporting infrastructure as the vehicle itself. Investment in electric vehicles for example, would have little effect without investment in the charging points to power the vehicle.

10. The GLA is aware that utility companies and other providers such as Better Place are keen for the Government to widen the eligibility of the AAP to include providers of electric vehicle infrastructure. This would enable them to obtain loans or loan guarantees to deliver the necessary infrastructure as part of this programme.

11. The inclusion of electric vehicle infrastructure suppliers in the AAP is strongly supported by the Mayor.

Whether other measures, such as scrappage or support for car finance companies, are required

12. The Mayor strongly supports the principles of the scrappage scheme announced by the Chancellor on 22 April in his Budget. The proposal will not only assist the UK automotive industry at a time of unprecedented economic slowdown, it will also help show that the UK is serious about tackling air pollution.

13. A car registered in 1999 would meet the Euro 2 standard for air pollutant emissions. A car registered in 2009 would meet the Euro 5 standard and would be more than ten times cleaner in terms of emissions of particulate matter (PM₁₀) as well as emitting far lower levels of oxides of nitrogen (NOₓ), two of the most dangerous pollutants to human health. The GLA estimates that this scheme could result in a 1.06 tonnes saving of PM₁₀ (0.8% saving from cars and vans baseline) and 31.84 tonnes savings of NOₓ (0.47% saving from cars and vans baseline) in London.

14. However, the GLA feels that an important opportunity has been missed to tackle climate change. Under the Chancellor’s proposals, there is no requirement for the new car to be a low emitting vehicle of CO₂. When transport is responsible for 22% of all CO₂ emissions, and cars emit almost 50% of those emissions it is critical to encourage the growth of the low-CO₂ car sector and a standard for CO₂ emissions. The French scrappage scheme, for example, specifies that the new cars purchased must emit less than 160g/km of CO₂, and thereby achieves reduced emissions of CO₂, as well as PM₁₀ and NOₓ.

15. The GLA also feels that the Chancellor’s proposals lack ambition. £300 million is being made available to vehicle owners through the scheme. This amounts to 300,000 new vehicles being sold as a result of scheme, less than 1% of all cars and vans in the UK. Since London accounts for around 10% of registered vehicles in the UK, this means that only around 30,000 new vehicles would be sold in London as a result of the scheme, again, less than 1% of the capital’s cars and vans. The Mayor has outlined a series of major initiatives to achieve at least 100,000 electric vehicles on capital’s streets as soon as possible, which would equate to 5% of the capital’s total vehicles.

16. The GLA welcomes the inclusion of vans in the scheme. Vans emit around 20% of all road traffic emissions of PM₁₀ in London. A large van first registered in 1997 would typically emit around 50 times the amount of PM₁₀ as one registered in 2009. A subsidy encouraging van owners to purchase cleaner vehicles during the current economic slowdown could therefore have significant environmental benefits. However, once again an opportunity has been missed. Van owners will have to share the £300 million funding with car
owners and as a result it is likely that only a few thousand new vans will be sold in London as a result of the scheme, accounting for only about 1% of all vans. A dedicated fund for replacement vans, as is the case with the scheme in France would have resulted in more of these high polluting, older vans being replaced by newer, cleaner models, and therefore would have a greater impact on air quality.

May 2009

Memorandum submitted by Jaguar Land Rover

1. Jaguar Land Rover (“JLR”) welcomes the opportunity to submit written evidence to the House of Commons Business, Enterprise and Regulation Select Committee’s Inquiry into the Automotive Assistance Programme.

Company Overview

2. JLR employs around 15,000 people, the vast majority of whom work in the UK, making JLR the UK’s largest automotive employer and a major industrial presence in the West Midlands. A further 50,000 jobs in the supply chain are dependent upon JLR. We have three main production facilities. The Solihull plant builds the Land Rover Defender, Discovery, Range Rover and Range Rover Sport. The Castle Bromwich Plant produces the Jaguar XF, XJ and XK models. Halewood, near Liverpool, produces the Land Rover Freelander and Jaguar X-type. Additionally, Brown’s Lane in Coventry provides our wood veneer manufacturing facility. JLR is the UK’s largest automotive R&D provider, at around £400 million a year, and this activity is undertaken at our two engineering centres at Gaydon, Warwickshire, and Whitley, Coventry. JLR is one of the UK’s top 10 and world’s top 150 investors in R&D. Annual exports contribute over £4 billion to the UK economy and the company is enjoying a growing presence in emerging markets like China, Russia and Brazil.

Impact of Economic Downturn

3. The automotive industry was one of the first industrial sectors to feel the full impact of the economic downturn. Since the second half of 2008 the industry has faced an unprecedented fall in demand due to a lack of consumer confidence and consumer credit. The premium market for cars was hit particularly hard and quickly in the downturn. For the last three months of 2008, Jaguar Land Rover saw its global sales fall by more than a third, a figure broadly in line with this segment of the market. Latest sales figures show the market stabilizing but at levels around 35% lower than 2008. We expect that demand will be flat for the remainder of 2009 with only a slow recovery in 2010 and then it will take several years to fully recover.

4. The general withdrawal of credit for businesses by the banking sector has compounded the difficulties caused by the economic downturn, limiting our flexibility to respond, together with our suppliers, to large fluctuations in demand, revenue and cash flow. The credit crisis also has impacted on investment in future products and new technology, areas which are vital to the future prosperity of the industry, with most UK companies cutting back significantly in this area. The lack of access to normal lending for working capital and consumer financing was raised as a core problem by the industry in a letter to the Business Secretary, Lord Mandelson in November 2008, again at its first joint meeting later that month and at a series of meetings with Ministers and officials.

5. The downturn has also placed particular stress on the automotive suppliers, many of which have had to significantly reduce supply of components and services, often at short notice and to a number of customers. Reduced credit availability and the withdrawal of credit insurance have limited suppliers’ ability to respond or restructure their businesses. In order to mitigate the impact of the economic downturn on suppliers and to secure continuity of production, JLR (together with other OEMs) has maintained a close dialogue with its suppliers and provided direct support where the business has a long term future.

6. JLR itself has responded decisively to the economic downturn. Over the past few months we have taken action to reduce production in order to more closely balance supply to demand. We expect to produce 35% less in 2009 than 2008. Action has also been taken to reduce costs and resize the workforce for the lower volumes. In total, through reductions in agency staff, voluntary redundancy programmes for both hourly paid and management staff and sabbaticals, the JLR workforce has been reduced by over 2000 employees since October 2008.

7. In addition, in March this year an agreement was reached with the workforce to accept a package of proposals that address the company’s need for further operational cost reductions. Key elements of the package include: a pay freeze until 2010; a four day week at the plants; a 40-hour working week for salaried employees (as opposed to the current 37 hours) with no increase in pay; full mobility of labour across the Jaguar Land Rover West Midlands sites; non-payment of a bonus for salaried employees; and an increase in employee pension contributions.
8. In total the March agreement is expected to achieve savings of around £68 million. Although the Company will continue to offer voluntary redundancy and sabbatical programmes, this agreement also allowed the Company to confirm there will be no need for compulsory redundancies over the next two years unless conditions further deteriorate.

9. In spite of the downturn JLR remains confident as to the inherent strengths and competitiveness of the UK automotive industry, particularly its range of products and commitment to low carbon technologies. Prior to the economic downturn JLR was solidly profitable and despite the downturn, Jaguar increased sales during 2008, assisted by the award winning XF. The new small Range Rover, potentially to be built at Halewood, and the new Jaguar XJ are among a range of exciting new products upon which JLR’s recovery will be built.

**Government Support**

10. JLR has welcomed the Government’s recognition of the problem relating to lack of available credit in the announcement of the Automotive Assistance Programme in January 2009. While we would have wished to see the scheme under way earlier, we recognize that it could play an essential role in releasing finance to car makers and suppliers. The speed and flexibility with which the guarantees are provided will now determine the extent to which it helps address the industry’s immediate funding needs. The availability of guarantees for lending from the European Investment Bank’s Clean Transport facility and for other sources of credit tied to green investment would also support plans for transition to a lower carbon industry in the UK as we move out of recession for those companies like JLR who survive the short term.

11. On 8 April 2009 the EIB announced approval in principle for a €366 million loan facility for JLR to support environmental technology projects. This funding would support a range of projects aimed at delivering more fuel efficient powertrains for JLR products and provide particular support for the development of the new small Range Rover at Halewood. The projects form part of the over £800 million investment JLR is making in environmental technologies which will deliver a 25% reduction in CO2 emissions by 2012 and further reductions thereafter.

12. JLR has been engaged in discussions with both the EIB and the Government in order to secure a partial guarantee for this loan and may also seek a further guarantee for financing from other commercial sources under the AAP, although the level and conditions of these potential guarantees are still to be determined. The need to secure access to financing remains critical to our business plans and we hope that these discussions will reach a successful conclusion in the near future. However commercial discussions and due diligence requirements are complex and will take some time still.

13. JLR welcomes the fact that the AAP delivers potential support for suppliers with a turnover in excess of £25 million. The Enterprise Finance Guarantee Scheme also potentially offers similar credit guarantees for smaller companies. We have been working with BERR to highlight these and other opportunities to our supply base and we understand that a number of companies have applied for support under these schemes. However, the need for suppliers to gain access to working capital rather than longer term investment finance is urgent and it is critical that the AAP addresses these immediate problems. We have therefore called for the Government to show maximum flexibility in the application of AAP rules to ensure that support is made available swiftly to the widest range of car makers and suppliers. Given the very substantial support provided by governments to competing industries in France, Germany and other car-producing countries it should be a priority to ensure that the support is delivered urgently.

14. Along with the rest of the automotive industry JLR has been calling for measures to stimulate demand and we therefore welcome the scrappage scheme announced in the Budget. We will participate in the scheme although we anticipate that the benefits to JLR will be limited due to the nature of the premium sector. This has been reflected in the experience of the scheme in operation in other countries.

15. We also believe that there is a compelling case to provide a temporary wage support scheme as is in place in the Netherlands and Germany. The advantage of such schemes is that they allow companies like JLR to maintain more people in employment than would otherwise be the case, and therefore reduce the need for re-hiring when demand picks up. The industry awaits a formal Government position on its proposal although we do not anticipate a positive response.

16. JLR welcomed the inclusion of skills support in the AAP announcement. The extension of the SEMTA training compact to £100 million from £65 million and the £50 million Economic Challenge Fund for Universities to work with businesses offer opportunities to extend and accelerate the skilling-up of the UK’s automotive workforce. JLR has been pleased to be able to extend NVQ 2 training in business improvement techniques across all our production facilities. Discussions continue with officials and the various skills bodies on how the funding can deliver further skills benefits to the workforce during the downturn.

**Low Carbon Initiatives**

17. JLR supports the focus on supporting the development of environmental technologies. The future competitiveness and prosperity of the UK automotive industry depends upon its capacity to embrace low carbon technologies and one of the compelling reasons for supporting the sector is to ensure that the necessary skills and R&D capability are maintained.
18. JLR is investing more than £800 million in green technologies delivered at our UK technical centres. Our technology strategy will transform JLR’s current vehicle fleet and environmental footprint, secure ongoing substantial reductions in CO2 emissions well beyond the 25% reduction to which we are already committed under EU legislation. In the short term we are focusing on lightweight technology, more efficient transmissions and hybrid development. Looking further ahead, we are developing plug-in hybrids and are playing a leading role in the UK’s development of electric vehicles. We are working on groundbreaking advanced research projects, supported by the Technology Strategy Board. These include Limo Green, a range extended electric vehicle which helps us overcome the lack of capacity and cost of current battery technology. This will be a Jaguar XJ demonstrator vehicle on the road this year with CO2 emissions below 120g/km. Among other projects, we are developing a small fleet of Range Rover Sport plug-in hybrids, planned for demonstration during 2010.

19. JLR fully supports the recommendations of the National Automotive Innovation and Growth Team and in particular the call for the establishment of an Automotive Council to steer the transformation of the business environment for the UK automotive industry. The NAIGT also sets out a common technological roadmap to achieve low carbon vehicles and calls for “a bold, large scale pilot market to demonstrate, experiment and build the new low-carbon personal transportation system including its infrastructure”. The pilot would “test the deployment into the market of the major bundles of technology outlined on the roadmap” and would apply to a range of low carbon vehicles including plug-in hybrids and electric vehicles. We welcome the support already provided by the Government to low carbon vehicle development. We hope that there will be a commitment to implement the NAIGT recommendations, including funding support for R&D to allow the UK to play a leading role in developing these technologies.

CONCLUSION

20. The UK and global automotive industry is currently going through the worst slump it has ever faced. The collapse in consumer confidence and demand coupled with the freezing of normal bank lending has produced a toxic mix from which the entire industry is attempting to recover. Although measures to improve the health of the banking sector will clearly assist the lending environment, lack of availability of short term working capital and trade credit remains a critical issue that threatens the immediate survival of many companies within the supply chain. Other countries have responded with very significant funding through consumer credit support, direct funding to companies, support for short time working and technology investments. It was therefore vital that the UK Government joined other car producing countries in stepping in to support the UK’s industry. However, it is crucial that funding under the AAP now be delivered swiftly and with maximum flexibility in order to address the urgency of the situation and ensure that UK vehicle manufacturers and suppliers are properly equipped to invest for the economic upturn when it comes.

May 2009

Memorandum submitted by the Retail Motor Industry Federation (RMIF)

REVIEW OF THE IMPACT OF THE GOVERNMENT’S AUTOMOTIVE SUPPORT PACKAGE

The Retail Motor Industry Federation (RMIF) would like to take this opportunity to present the views of its members at your forthcoming session to review the Government’s recently announced Automotive Support Package.

The retail motor sector is one of the most important business sectors in the UK economy, and the RMIF is the UK’s leading trade association for the industry. Its objective is to promote and protect the views of retail businesses within the automotive industry, one of the largest industrial sectors in the UK. The annual turnover of the UK retail motor industry is £14 billion and it employs 570,000 people in 70,000 businesses. Annually the industry raises £33 billion in tax revenue.

Currently the Government support for the automotive sector has aimed exclusively at the manufacturing sector. This sector has expanded output considerably in recent years as demand for new vehicles has increased. Demand has fallen by over 30% year on year and manufacturing output has also fallen by 50% year on year and thus the industry faces acute problems with both over production and economic viability. At the same time it is vital for the UK economy to retain motor manufacturing base in UK.

Up until recently most discussions with Government discussions overlooked the need to sell cars and light vans. Unless the retail network of Franchise Dealers can stimulate demand for new vehicles there will be no relief for the manufacturers. Until now, over two million new cars have been sold annually in the UK thus reflecting the success of the sector.

The RMIF first proposed a “scrapage” scheme personally to the Secretary of State for Business Enterprise and Regulatory Reform (BERR) in November 2008. We have consistently lobbied Government on this issue, in particular to BERR and HM Treasury. The Chancellor announced in the Budget on 22 April 2009 that a scrapage scheme will be introduced in May 2009. This is a long overdue recognition of the importance of the retail motor sector to the health of the UK vehicle industry.
The RMIF would welcome an opportunity to appear before your Committee to set out the importance of the retail sector within the automotive industry. In my opinion it is folly for any Government to look at manufacturing in isolation when considering just how the industry should be supported now and in the future.  

April 2009

Memorandum submitted by Semta

SUMMARY
— We believe there are many innovative companies who are excluded from the programme due to the turnover criteria. Automotive companies involved on low carbon investment projects, including component and supply chains, are to be found at every level of size and turnover.
— Those companies which are excluded have expressed concerns regarding issues such as the propagation of traditional funding streams, the sometimes chequered record of large companies in terms of support for lower emissions vehicles, and the potential “deadweight” of the funding going to projects which were not at risk, even in the downturn.
— We make some recommendations for further development of the programme to form part the holistic approach to a low carbon economy. The recent Budget provides the opportunity to link such programmes into a coherent whole, with traditional companies and those in new areas working together.

SEMTA SUBMISSION

INTRODUCTION
1. Industry owned and led, Semta aims to increase the impact of skilled people throughout the science, engineering and manufacturing technologies sectors. We work with employers to determine their current and future skills needs and to provide short and long term skills solutions, whether that be training and skills development, or campaigning with government and other organisations to change things for the better. Through our labour market intelligence and insights from employers across our sectors, we identify change needed in education and skills policy and practice, and engage with key industry partners and partners in the education and training sector, to help increase productivity at all levels in the workforce. The sectors we represent are: Aerospace; Automotive; Bioscience; Electrical; Electronics; Maintenance; Marine; Mathematics; Mechanical; Metals and Engineered Metal Products. Semta is part of the UK-wide network of 25 employer-led Sector Skills Councils.

2. Our submission to this inquiry is drawn from those companies in our footprint which are in the automotive sector, and their views on how the AAP is being administered.

THE EFFECTIVENESS OF THE PROGRAMME
3. Companies which are accessing the funding are glad of the opportunity it offers to enable them to continue their low carbon programmes. They are committed to developing the next generation of vehicles, which will safeguard their commercial future, as well as contributing to the low carbon aspirations of the government and population. Companies across the sector (both benefiting and non-benefiting) welcome the speed of the response to help them safeguard this key area of research for the industry as a whole.

4. There is however a view among non-benefiting companies that some of this research was well established in the large companies, and that the additional funding is not actually safeguarding or preserving much activity which was at risk.

COMPANY ELIGIBILITY
5. Those companies not eligible for the funding, due to their size, have expressed some concern that those who are benefiting are companies which traditionally receive government support. Given the focus on innovative low carbon investment, they are disappointed that smaller companies, which are developing exciting new technology in this area, are not able to access the funding.

6. The benefiting companies are also perceived to have a chequered record in terms of low carbon products. Smaller companies, set up specifically to investigate and develop green alternatives to traditional engine manufacture, are excluded from the programme, and feel the large companies are benefiting from support to compete with their research.

OTHER SCHEMES IN PRACTICE
7. Semta is currently working directly with 79 automotive companies through its Compact activity in England. The enthusiasm of the sector for the “offer” now available through Compact has already led to automotive companies accessing training which will lead to 16,000+ Level 2 qualifications and 2,500 qualifications at Level 3. They were delighted with the announcement of additional funding for training
which was made. It is imperative that this funding is fully available going forward. Automotive companies wish to upgrade the skills of their workforce in order to meet the challenges of manufacturing the vehicles which low carbon projects will develop.

Recommendations for the Future

8. We strongly recommend that effective measures are put in place to establish the “additionality” of the projects in the scheme. This should not only look at how the project has achieved its aims, but how/if it can be sustained. It will mean establishing the sustainability of outcomes, feeding into the wider activities to be funded under the latest Budget, for example.

9. Placing the programme in proper context, with other initiatives such as the Technology Strategy Board funding for projects, and Knowledge Transfer activities, will maximise the benefits across the economy. Encouraging collaborative ongoing research, linked into further and higher education, will provide a sound technological basis for the next generation of vehicles. It will also ensure the next generation of scientists and engineers are ready for the technological challenges of a truly low carbon economy.

May 2009

Memorandum submitted by the Society of Motor Manufacturers and Traders (SMMT)

Introduction

1. SMMT is the leading trade association for the UK automotive industry, providing expert advice and information to its members as well as to external organisations. It represents more than 500 member companies ranging from vehicle manufacturers, component and material suppliers to power train providers and design engineers. The motor industry is a crucial sector of the UK economy, generating a manufacturing turnover of £51 billion, contributing well over 10% of the UK’s total exports and supporting around 800,000 jobs.

2. SMMT welcomes the opportunity to submit a response to this inquiry. However we would like to point out that this inquiry comes too early to enable us to provide the committee with a full picture of the effectiveness of the Automotive Assistance Programme. This response has been developed by SMMT in consultation with its membership.

Summary

3. The UK automotive industry is proving to be strong and resilient through the economic downturn. Some of the difficult decisions taken in the past few months highlight the significant pain being borne by the sector whilst showing its resilience and ability to prepare for the future.

4. The AAP is a recognition of the strategic role the automotive sector plays in the UK economy at large and follows action in other EU member states, the US and Japan. Setting up a programme which focuses on the specific need of our industry underlines government understands that the automotive industry in the UK has a future.

5. SMMT welcomes the focus on low carbon technology as it is the low carbon agenda which will drive the industry forward in the coming years. The New Automotive Innovation and Growth Team (NAIGT) final conclusions stress the need to ensure that UK design, R&D and manufacturing are at the heart of our growing industry and a more balanced economy.

6. It is too early for SMMT to be able to provide a comprehensive assessment of its members’ experience of the AAP. At time of submission about 50 companies have sent an expression of interest to BERR and it is believed that about 10–12 companies have so far presented viable projects which are likely to receive from government a guarantee or a loan. So far no guaranteed loan has been approved.

7. Our members’ early experience with the programme has highlighted that:

— Some companies have found it initially difficult to gain access to relevant information and to meet all the eligibility criteria. The process has been improving but such initial obstacles have had an impact on take-up.

— Even though the AAP directorate has proved helpful in assisting and directing companies through the application process, for many of our smaller members the application process remains confusing and unclear and all the companies who have shown an initial expression of interest have found the process longer than anticipated.

— The gap between the loan guarantees up to £1 million offered by the EFG scheme and the AAP loan guarantees which start at £5 million also means that some companies are completely unable to take advantage of either scheme.
One of the major problems affecting our members remains the low appetite shown by the banks to invest in the automotive sector. Their experience shows the need to update the banking community on the strategic and future prospects of the automotive sector. Government has a role to play in facilitating discussions between the automotive and the banking sector.

BACKGROUND

8. The UK market is exceptional in that most of the major global vehicle manufacturers have UK manufacturing facilities and more than 40 brands operate national sales companies and extensive retail networks in the UK. UK automotive supports 800,000 jobs, split between 658,000 in retail and 183,000 in manufacturing. Preserving this employment and the added value created by the sector and its related activities and jobs is a key priority for SMMT.

9. The automotive manufacturing sector in the UK also has a large and diverse chain of suppliers. Its reach is global and its scope covers thousands of firms, providing many different components, parts and subassemblies. The structure, supply processes, performance, and profitability of the automotive supply industries are interdependent and linked by sophisticated procurement, planning and logistical networks. The whole sector is ultimately dependent on the stability of final vehicle assembly which is in itself derived from the demand for vehicles.

10. The past six months have seen vehicle registrations falling dramatically in the UK and across Europe. Registration figures from SMMT show that in the UK car registrations were down 29.7% in the first quarter of 2009. In March cars registrations fell 30.5% and van and truck registrations were down 42.1%. March has been the largest volume month in six of the 10 years since the switch to the twice-yearly plate change, including in each of the past five years. March typically accounts for 17.9% of the annual market and last year took a 21.2% share, in a robust 451,642 unit market, prior to volumes falling sharply as the recession impacted.

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<td>−30.9%</td>
<td>−44.7%</td>
<td>−21.7%</td>
</tr>
<tr>
<td>February</td>
<td>−21.9%</td>
<td>−51.0%</td>
<td>−37.7%</td>
</tr>
<tr>
<td>March</td>
<td>−30.5%</td>
<td>−42.1%</td>
<td>−23.4%</td>
</tr>
<tr>
<td>April</td>
<td>−24.0%</td>
<td>−44.8%</td>
<td>−10.2%</td>
</tr>
<tr>
<td>Q1</td>
<td>−29.7%</td>
<td>−44.3%</td>
<td>−26.6%</td>
</tr>
</tbody>
</table>

First quarter year-on-year new vehicle registration figures in the UK
(Source: SMMT)

11. Across Europe, car registrations fell by 9.0% in March. The latest vehicle production figures show that in February, production was down 60.6% year-on-year, with cars down 59.0% and commercial vehicles falling by 71.6%. Prior to February, over 300,000 units have been lost from total vehicle output in the preceding 14 months.

12. SMMT called for government to act swiftly and with a comprehensive package and targeted measures as soon as the dramatic effects of the economic crisis on the automotive industry became obvious. In November 2008 SMMT wrote a letter to the Chancellor and Lord Mandelson, regarding the impact of the current economic crisis on the auto sector. The letter was followed by a meeting with Lord Mandelson on 27 November, where SMMT had an open and constructive discussion with the Secretary of State.

13. SMMT highlighted the scale and dramatic impact of the credit crisis and economic downturn on the industry. Registrations and production were collapsing. The key problems were access to finance for manufacturers, suppliers and dealers and how to restore demand in the new vehicle market. Industry outlined its proposals to ensure:

— Fast access to credit for vehicle manufacturers and the supply chain in the UK.
— Access to special liquidity arrangements by vehicle manufacturer finance companies.
— The speedy allocation of existing funding to support training initiatives and of existing funding for R&D projects.
— Support for short time working.
— A Scrappage scheme to stimulate demand in the market.
— Immediate stimulus for green collar jobs and critical investment for the upturn.

14. Industry has also taken action in response to the unprecedented fall in demand. In the past few months manufacturers have implemented actions to restructure, align production capacity at UK manufacturing facilities, seek to maintain employment and enhance skills as much as possible working with the Train to Gain programme. Temporary plant closures, short-time working, pay freezes and cuts and as the last step voluntary and compulsory redundancies have demonstrated the significant pain being borne by the sector.
Government Support

15. To date government has provided a number of schemes to help businesses in general:
   — The Enterprise Finance Guarantee (EFG).
   — The Working Capital Scheme (WCS).
   — The Capital for Enterprise Fund.
   — The Integrated Delivery Programme (IDP).
   — Small Loans for Business.
   — Support to Lenders.
   — Finance for Business.
   — Additional apprenticeship places.
   — The Train to Gain scheme and additional £35 million from January to increase spending on training if there was demand from industry.
   — The Economic Challenge Investment Fund.
   — The AAP—the only sector specific scheme.

Most of these schemes have been designed to help mitigate cash flow problems across industry and retain and upskill the workforce.

16. Budget 2009 also introduced a scrappage scheme for cars to come into effect from mid May 2009. The scheme will cover new cars and light commercial vehicles (LCVs to 3.5 tonnes). It will see government offer a £1,000 incentive, to be matched by participating vehicle manufacturers (VMs), so giving consumers a £2,000 incentive to trade in their vehicle that is ten or more years old and purchase a new one. The government announced a £300 million fund for the scheme—this will cover administration costs as well as incentives. The scheme is good news for consumers and will help kick-start demand in the market.

The Automotive Assistance Programme

17. The announcement that, following clearance from the European Commission, an Automotive Assistance Programme would be established was very warmly received by industry as was the Government’s announcement of a dedicated directorate at the Department for Business, Enterprise and Regulatory Reform (BERR). The Automotive Assistance Programme (AAP) administers the £1 billion of loan guarantees and loans from UK government to the automotive sector, as well as £1.3 billion worth of loan guarantees supporting European Investment Bank (EIB) lending. Eligible companies must:
   — have a turnover of at least £25m and a proposed investment of at least £5m;
   — be UK automotive manufacturers or indirect or direct suppliers to the industry;
   — submit projects that would not otherwise happen without government support;
   — submit projects that are tied to R&D or capital expenditure within the UK; and
   — submit projects that meet UK government’s objectives on environmental targets.

18. The AAP aims at delivering investment in the UK automotive sector and UK automotive supply chain focusing on low carbon technology—developing green technology, reducing CO2 emissions and maintaining UK R&D capacity in vehicle manufacturing—and at creating or retaining jobs.

19. SMMT welcomes the focus on low carbon technology as it is the low carbon agenda which will drive the industry forward in the coming years. The New Automotive Innovation and Growth Team (NAIGT) final conclusions stress the need to ensure that UK design, R&D and manufacturing are at the heart of our growing industry and a more balanced economy.

20. NAIGT proposes the “Test Bed UK” concept to promote collaboration between vehicle manufacturers, energy distributors, infrastructure developers and regional government in the development of a low carbon transport system and the AAP can assist companies looking to invest in the low carbon economy of the future to meet the targets set in the regulation on CO2 from passenger cars and invest in new technologies including those needed for the electrification of transport. The role of the AAP is also to support investment that would otherwise not have taken place given the current economic situation.

21. SMMT alerted its members to the AAP as soon as it was launched and is continuing to help and encourage all automotive companies throughout the supply chain to take advantage of the support services available through the AAP and the additional grants, loans and training initiatives. SMMT is also offering a comprehensive guide to the full range of financial support across Europe, including detailed eligibility criteria and a helpline open five days a week.

22. The AAP is a recognition of the strategic role the automotive sector plays in the UK economy at large and follows action in other EU member states, the US and Japan. Setting up a programme which focuses on the specific need of our industry underlines government understands that the automotive industry in the UK has a future.
23. If flexibly and swiftly delivered, the programme should ensure companies are able to access lending facilities helping them address short term financing difficulties and maintain valuable UK skills and engineering capability for when the economic upturn comes. Effective access to lending facilities should:

— Translate in investment which will safeguard the long-term industrial capability of the UK.

— Be a key deliverer to the low-carbon agenda—investment in future green technology will give the UK a key role in the “green-collar” jobs of the future.

— Preserve the UK’s industrial capability.

24. Through the AAP government aims at boosting R&D and investment in low carbon technologies whilst addressing one of the major problems faced by many companies in the automotive sector: access to liquidity. Government’s help to access credit remains one of key actions to secure automotive jobs, continued R&D investment and future competitiveness.

SMMT and the AAP

25. SMMT has been working very closely with the AAP directorate. SMMT meets regularly with officials and has helped with the organisation of the AAP seminar on 11 March, where more than 100 companies were briefed on the details of the Programme.

26. It is too early for SMMT to be able to provide a comprehensive assessment of its members’ experience of the AAP. At time of submission, about 50 companies had sent an expression of interest to BERR and it is believed that about 10–12 companies have so far presented viable projects which are likely to receive from government a guarantee or a loan. So far no guaranteed loan has been approved. Many SMEs have searched for information and found they did not fulfill the correct eligibility criteria or have struggled to gain access to helpdesks and relevant information. The process has been improving but such initial obstacles have had an impact on take-up.

27. For many of our smaller members the application process is confusing and unclear and all the companies who have shown an initial expression of interest have found the process longer than anticipated at the AAP seminar in March. For some of our members the £5 million threshold for investment is too high to enable them to even proceed with an expression of interest.

28. The gap between the loan guarantees up to £1 million offered by the EFG scheme and the AAP loan guarantees which start at £5 million also means that some companies are completely unable to take advantage of either scheme. It is also difficult for SMMT to provide this committee with a clear picture of how many companies in the supply chain have been supported by the EFGS. However, initial feedback shows that main problem encountered by some of our members has been the banks’ attitude toward the automotive industry.

29. One of the key issues affecting our members remains the low appetite shown by the banks to invest in the automotive sector. To be able to apply for AAP support companies must provide evidence of support from a bank. However, feedback received leads SMMT to believe that the banking sector is currently in many cases reluctant to provide credit to companies within the automotive sector.

30. This is a strategic problem and a great risk to the success of the AAP, but also to the ability of industry to recover and emerge strong from the current recession, and to achieve its strategy for industrial activism with ultra low carbon vehicles in the UK. Government must address this pressing problem, and act to promote engagement and dialogue between banks and automotive companies.

31. It is vital that the short-term financing problems faced by OEMs and the supply chain as a result of the recession are urgently addressed through the AAP. The longer it takes to deliver support the greater the risk of job losses, company failures and lasting damage to the UK automotive industry. We also urge government to implement the programme with maximum flexibility to ensure that support is offered to a broad range of automotive companies and suppliers.

32. On 28 January, before the launch of the AAP, SMMT provided component suppliers and OEMs with information on the various national, regional and European support schemes available to the industry. The seminar attracted over 150 representatives from member companies, government organisations, commercial banks and development agencies. The all-day event provided companies with an in-depth explanation of existing and developing funding programmes available for them and was followed by one-to-one meetings with financial support organisations. SMMT is organising a further event on 2 June.

33. OEMs have been very supportive of their suppliers accessing available support from government and in some cases providing financial support themselves. Maintaining the strength of the supply chain is critical for the UK and for the sector to be able to take advantage of the economic upturn. Ultimately help to the supply chain will depend on the programme criteria and the ability to overcome any concerns by the suppliers themselves to be seen by banks and OEMs accessing support.
34. Not all automotive companies will be able to take advantage of the AAP. Some companies find that the costs and conditions associated with securing a loan guaranteed by government are still unattractive compared to what may be available commercially.

35. Similarly, the Commercial Vehicles (CVs) sector, which has seen a 44.8% drop in registrations since March last year, has less opportunities to take advantage of the AAP given the nature of the business (the practical realities of weight and load issues limit the scope of investment in alternative fuels and hybrid vehicles). Furthermore the sector is heavily dependent on its business customers which are currently also affected by the economic downturn.

OUTSTANDING ISSUES

36. SMMT has welcomed the actions taken by government in recognition of the strategic contribution of the industry to the UK economy. The support schemes to help businesses through the downturn and the scrappage scheme will:

— Speed up the allocation of existing funding to support training initiatives and R&D projects.
— Provide access to credit and liquidity to those businesses which desperately need it.
— Boost consumer demand.

However, there are still key areas where SMMT would urge government to act and hope this inquiry will drive government to progress on these issues.

37. Budget 2009 announced a £5 billion “Top-Up” Trade Credit Insurance Scheme, delivered as part of the Working Capital Scheme. From 1 May 2009 until the December 31 2009, businesses will be able to purchase a six month “top-up” insurance from government if companies’ credit limits on UK customers are reduced. The qualifying window will be backdated to 1 April 2009.

38. Whilst this government announcement has been reported in the media as key for the auto sector, its criteria meant that unfortunately is of little help to our members. The “top up” is only available for credit insurance cover reduced since 1st April 2009 and most of their credit insurance covers was withdrawn or reduced prior to this date as most credit insurance limits were adjusted between November 2008 and March 2009. It appears that the top up cover is only available for UK businesses—the vast majority of automotive products are exported to the EU and our members need the scheme to cover export credit insurance.

39. Budget 2009 failed to introduce an immediate enhancement to incentivise truck buying ahead of the Euro 5 deadline this October. The trucks and construction sectors would have also benefited from the introduction of an exceptional enhancement to £500,000 of the Annual Investment Allowance in the new capital allowances regime for 2009–10 for businesses. This would have provided confidence and encouraged previously planned spending on vans, trucks, construction equipment, buses and coaches.

40. Additionally, there needs to be a more joined up approach when thinking about the impact other government measures are having on the industry and the need to better balance environmental objectives with support for British built cars during the downturn. At the top end of the market, any benefits from BERR’s attempts to help the industry are more than likely to be offset by the negative impact of changes HM Treasury announced in the budget such as removing the £80,000 cap on car list prices used to calculate the taxable benefit arising from company cars.

41. Support for short-time working—SMMT has on a number of occasions asked for government to consider the introduction of measures to provide short term financial support for UK manufacturing companies as the scheme introduced in Wales in January 2009. So far this issue has not progressed further.

42. Motor finance—Bank of England’s Special Liquidity Scheme (SLS) and/or the Debt Management Office (DMO)’s Credit Guarantee Scheme (CGS) should be extended to asset-based lenders to help address the problem—including on level playing-field grounds. No progress has been made since January when Lord Mandelson announced that the trade and investment minister had been asked to draw up plans to improve access to sufficient funding for the car companies’ financing arms.

43. Port rates—SMMT urged government to defer the imminent change to the way business rates are assessed and collected at ports changes to 2010 and not to backdate their reach to 2005. This change still poses a real concern to automotive companies which import and store vehicles in statutory docks and harbours in the UK. There were no more leads on any action government is taking here.

May 2009

Memorandum submitted by Unite the Union

Unite the Union, is the UK’s largest trade union with almost 2 million members across the private and public sectors. The union’s members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.
It is the leading union in the automotive and motor components industry with a membership of over 60,000. As part of the union’s continuing dialogue with government it has stressed the need for the supportive package for the industry to include a viable compensation scheme for workers faced with reduced hours, short time working and lay offs.

The union sets out in this memorandum a paper which it has commissioned which sets out the economic case for a Short Time Working Compensation scheme. Unite would welcome the opportunity to discuss the content of this paper and other areas of government support with the Committee in an oral evidence session.

The Economic Case for a Short Time Working Compensation Scheme

Introduction

It is widely agreed that the root cause of the current economic recession is an unprecedented global decline in demand for goods and services. That this was triggered by a collapse in bank lending is also beyond dispute. The impact of the recession on economic growth and employment has been both swift and dramatic leaving both developed and developing economies facing bleak and deteriorating economic and social conditions. Indeed, forecasters have struggled to keep up with the pace of the decline. For example, the EU between January and April this year revised their economic forecast for the contraction in GDP in the EU from 2% per annum to 4% per annum. The latest projections from the Budget statement show just how severe the downturn is expected to be in 2009 in the UK with GDP growth predicted to fall away by as much as 3.75% and manufacturing output falling by around 12.5%. The effect of this on the labour market has been to increase the numbers of registered unemployed to 2.1 million a rate of 6.7% currently. The latest OECD projections see UK unemployment rising to average 7.7% this year and continuing to rise to average 9.5% next year. In other words, we are likely to see the unemployment total reaching the 3 million mark over the next year or so.

Looking across the UK economy it is clear that the manufacturing sector has been hard hit and remains vulnerable to further deterioration and job losses. The recent budget report noted that “Manufacturing output fell by 5% in the final quarter of 2008 and a further 3½% in the first two months of 2009.” It went on to state: “manufacturing output as a whole was down 14% on a year earlier by February 2009, production of capital equipment was down 17% and consumer durables 21%.” Against this gloomy backdrop, the government’s belief that their efforts to restore the flow of credit in the economy will see manufacturing recover to grow by half a per cent in 2010 (Budget prediction) is, in our view, somewhat optimistic. Unite believes that more needs to be done urgently to maintain productive capacity in the manufacturing sector to ensure that the UK economy is in a position to be able to benefit from any resumption in economic growth. To this end, this paper sets out the economic arguments in favour of the introduction of a temporary short time working compensation scheme to be introduced to boost the UK’s ability to maintain current employment levels in the manufacturing sector.

The Significance of Manufacturing to the UK Economy and Labour Market

Whilst employment levels in the manufacturing sector have steadily declined over the last 30 years as figure 2 and 3 below show, the output from manufacturing remains crucial to the overall economy. National Income Accounts show that for 2006 manufacturing output was worth some £448 billion second only to the value of the business services and finance sectors’ output that totalled £596 billion. Given, the drastic restructuring of the banking sector resulting from the current recession, it is likely that the value of the manufacturing sector will become even more significant to the UK economy in future years if the UK is to maintain its position in the global economy. This being so, the current imbalance between government support for the finance sector (massive) and that, so far announced, for manufacturing (minimal) has to be redressed. We simply cannot afford to allow the manufacturing sector to slide even further into decline.

If we continue to neglect the manufacturing sector the balance of payments consequences will be dire. For many years the fact that the UK has run a deficit in our trade in manufactured goods (ie we have imported a greater value of goods than we have exported) has been roughly counterbalanced by the surplus we have run in our trade in services. In recent years this has not been sufficient and the UK has experienced a widening gap in its overall balance of payments as the following figure shows.
It can be seen here that whilst the surplus in services trade has averaged around 2 to 4% of GDP the deficit on manufactured goods has, by contrast, dropped from around 4 to 6% of GDP leaving the overall trade deficit at around 2% of GDP. Given the current turmoil in the financial sector and the likely weakening in the position of the UK’s financial sector in the short to medium term, it is likely that further sharp falls in our overall trade balance will be seen over the next few years. The budget forecast, for example, foresees the deficit growing to 3.5% of GDP in 2009 and 2010. The point to be made here is that it would be foolish in the extreme to rely on a dramatic recovery in the fortunes of the banking sector to pull the UK out of this downward balance of payments spiral. With low inflation and a weaker pound it makes much more sense to boost the export efforts of the manufacturing sector but this will not be possible unless the productive potential of our manufacturing base is both maintained and enhanced.

To do this employment levels in the manufacturing sector have to be secured and a coherent programme put in place to ensure the UK skill base is appropriate for any future upturn in economic growth. In addition, the industry needs to be able to develop and apply new skills that will enable it to move towards a more sustainable form of economic growth.

There is also an important lesson to be learned from the recessions experienced in the 1980s and 90s in the UK, namely, the phenomenon of “jobless growth”. Table 1 below shows that UK unemployment rates continued to rise during the first years of recovery following the recession of 1981 despite annual economic growth rates that had reached 4% per annum by 1986. It was not until 1987, a full six years after the worst of the recession, that unemployment began to fall. A similar, if not quite as bad, experience in the recession of the early 1990s where, despite a pick up in economic growth between 1991 and 1994, unemployment continued to rise and did not fall back to the 1991 level until 1995.

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP growth % per annum</th>
<th>Unemployment rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>-1.3</td>
<td>7.6</td>
</tr>
<tr>
<td>1982</td>
<td>2.1</td>
<td>9.0</td>
</tr>
<tr>
<td>1983</td>
<td>3.6</td>
<td>9.9</td>
</tr>
<tr>
<td>1984</td>
<td>2.7</td>
<td>10.1</td>
</tr>
<tr>
<td>1985</td>
<td>3.6</td>
<td>10.3</td>
</tr>
<tr>
<td>1986</td>
<td>4.0</td>
<td>10.5</td>
</tr>
<tr>
<td>1987</td>
<td>4.6</td>
<td>9.4</td>
</tr>
<tr>
<td>1988</td>
<td>5.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>

(ONS Annual Abstract of Statistics)

It is clear, as the last two recessions have shown, that employment growth lags economic growth. The lesson here is that we cannot rely on economic growth alone to boost the demand for labour in our economy in the short to medium term. The UK’s previous experience of recovery suggests it will take between four and six years for unemployment to fall back to the pre-recessionary level. Moreover, the current recession is set to exceed the severity of those experienced in the 80s and 90s. The economic consequences of allowing current levels of unemployment to rise for the next three or four years will involve a downward spiral of...
falling demand (with falling tax revenues and rising benefit costs) that could significantly undermine the government’s fiscal stimulus and monetary easing policies. There is then an urgent need to bolster employment particularly in the manufacturing sector as the first step towards ensuring that economic recovery has a much quicker impact on the labour market than has been the case in the last two recessions.

A temporary short time working compensation scheme is a key first step here but there is also a need to ensure that it forms part of an integrated and longer term training and skills enhancement strategy. We need this to ensure that key UK sectors have a strong competitive advantage to meet future economic opportunities and that the shift into more sustainable forms of economic growth can be achieved efficiently and effectively.

THE DECLINE IN EMPLOYMENT IN THE UK MANUFACTURING SECTOR

The following figures show the extent to which employment in the manufacturing has declined in recent years. Figure 2 reveals the way in which job growth in the UK labour market has shifted away from manufacturing over the last three decades. The UK is not alone in seeing employment levels shifting towards the service sector. It is a phenomenon that has been observed in virtually every other developed industrialised nation but arguably the job losses in manufacturing over the last decade (Table 2) have left the UK in a particularly vulnerable position insofar as planning a sustainable recovery is concerned.

First of all there is the loss of skills and productive capacity to be considered. Table 2 reveals that overall employment in the manufacturing sector fell by 30% in the decade to 2007. In certain sub sectors, notably textiles and leather and footwear, the decline was particularly acute. In short, some parts of the manufacturing sector are becoming dangerously close to losing the “critical mass” they will need to be able to withstand the current recession let alone be in a position to benefit from any upturn in demand in 2010 and 2011. There is a real risk that skills will be lost here that will seriously damage any chance of recovery.

In the second place, it needs to be recognised that the financial and banking sector which has been a strong engine of employment growth in the last couple of decades is now in an unprecedented crisis. As such, it is wholly unlikely to be able to contribute to employment growth in the foreseeable future. Add to this the consequences of public expenditure cutbacks foreshadowed in the budget and it can be seen how the public sector (another key area of job growth in recent years) will be similarly constrained in the short to medium term. These constraints are, amongst other things, what differentiates the current recession from those we experienced in the 80s and 90s.

Figure 2

Employee jobs: by industry, 1978 and 2008¹

United Kingdom
Millions, seasonally adjusted

<table>
<thead>
<tr>
<th>Industry</th>
<th>1978</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and fishing</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Energy and water</td>
<td>0.15</td>
<td>0.15</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Construction</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Distribution, hotels and restaurants</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Finance and business services</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Public administration, education and health</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Other services</td>
<td>0.8</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Note:
1 Three months to September

Source: Employee Jobs
Table 2

RECENT EMPLOYMENT TRENDS IN THE UK MANUFACTURING SECTOR

<table>
<thead>
<tr>
<th>Industry</th>
<th>1997</th>
<th>2007</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Total</td>
<td>4,175</td>
<td>2,917</td>
<td>30.1</td>
</tr>
<tr>
<td>Food and Tobacco</td>
<td>490</td>
<td>411</td>
<td>16.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>344</td>
<td>98</td>
<td>71.5</td>
</tr>
<tr>
<td>Leather and footwear</td>
<td>38</td>
<td>12</td>
<td>68.4</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>88</td>
<td>79</td>
<td>10.2</td>
</tr>
<tr>
<td>Pulp paper and printing</td>
<td>466</td>
<td>366</td>
<td>21.5</td>
</tr>
<tr>
<td>Coke &amp; refined petroleum products</td>
<td>30</td>
<td>23</td>
<td>23.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>252</td>
<td>189</td>
<td>25</td>
</tr>
<tr>
<td>Rubber and plastics</td>
<td>251</td>
<td>194</td>
<td>22.7</td>
</tr>
<tr>
<td>Non-metallic minerals &amp; mineral products</td>
<td>148</td>
<td>104</td>
<td>29.7</td>
</tr>
<tr>
<td>Basic metals and products (not machinery)</td>
<td>573</td>
<td>381</td>
<td>33.5</td>
</tr>
<tr>
<td>Machinery nes</td>
<td>389</td>
<td>270</td>
<td>30.6</td>
</tr>
<tr>
<td>Electrical and optical equipment</td>
<td>507</td>
<td>305</td>
<td>39.8</td>
</tr>
</tbody>
</table>

Source: Annual Abstract of Statistics ONS

It is also clear that the flaws in the “economic model” forged by successive governments of the 80s and 90s that accepted the run down of the UK manufacturing base in favour of a service based economy with de-regulated banking and finance at its core, have been ruthlessly exposed by the current recession. Yet the response from the government to date has been extraordinarily one sided if we consider the financial support that has flowed to the banking and finance sectors compared to that made available to manufacturing.

THE EMERGENCE OF TEMPORARY SHORT TIME WORKING

Decisions by employers reacting to the current recession have led to substantial numbers of workers losing their jobs as witnessed by the recent rise in unemployment.

Alongside these job losses, there has been a rapidly rising tide of workers agreeing to a range of short term working measures in order to preserve their employment. The motor industry has been in the forefront here as a combination of falling demand and high levels of stock has seen output from UK car and commercial vehicle manufacturers slashed by around 30% in the first few months of this year. As a result, virtually every motor manufacturer in the UK has opted for some form of working time reduction varying from wholesale plant shutdowns for given time periods to cuts in the working week. The reduction in car output has had an inevitable knock on effect on the supply chain to the sector and on the retail motor trade leading to similar cuts in working time. Whilst such developments have been prominent in the motor industry we should not ignore the wider economy where falling demand for goods and services has brought similar responses as well as substantial job losses. In all cases, hundreds of thousands of employees involved have suffered a drop in earnings commensurate with these hours reductions or with their loss of jobs.

Table 3 below show those parts of the manufacturing sector that have suffered the biggest job losses over the last couple of years.

Table 3

CHANGE IN EMPLOYMENT LEVELS IN THE UK MANUFACTURING SECTOR 2007–09

<table>
<thead>
<tr>
<th>Sector</th>
<th>2007 (1st qt)</th>
<th>2008 (1st qt)</th>
<th>2009 (Jan)</th>
<th>% change 2007–09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing total</td>
<td>2,831</td>
<td>2,793</td>
<td>2,657</td>
<td>−6.5</td>
</tr>
<tr>
<td>Food, Drink and Tobacco</td>
<td>394</td>
<td>395</td>
<td>386</td>
<td>−2.0</td>
</tr>
<tr>
<td>Clothing textiles and Leather products</td>
<td>106</td>
<td>99</td>
<td>93</td>
<td>−12.2</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>74</td>
<td>75</td>
<td>62</td>
<td>−16.2</td>
</tr>
<tr>
<td>Paper print and publishing</td>
<td>364</td>
<td>349</td>
<td>334</td>
<td>−8.2</td>
</tr>
<tr>
<td>Chemicals and manmade fibres</td>
<td>185</td>
<td>179</td>
<td>171</td>
<td>−7.6</td>
</tr>
<tr>
<td>Rubber and Plastics</td>
<td>182</td>
<td>176</td>
<td>164</td>
<td>−9.9</td>
</tr>
<tr>
<td>Non Metallic minerals, metals and metal products</td>
<td>472</td>
<td>468</td>
<td>435</td>
<td>−7.8</td>
</tr>
<tr>
<td>Machinery and equipment nes</td>
<td>267</td>
<td>270</td>
<td>259</td>
<td>−3.0</td>
</tr>
<tr>
<td>Electrical and optical equipment</td>
<td>299</td>
<td>290</td>
<td>278</td>
<td>−7.0</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>300</td>
<td>305</td>
<td>292</td>
<td>−2.7</td>
</tr>
<tr>
<td>Coke, nuclear fuels and other manuf nes</td>
<td>190</td>
<td>187</td>
<td>178</td>
<td>−6.3</td>
</tr>
</tbody>
</table>

Source: Monthly Digest of Statistics
It seems likely that the next 18 months will see employment falls in all the sectors shown in Table 3 at least in line with and more than likely exceeding the job losses that have come through since the first half of 2007. In short, in the absence of any offsetting measure we can expect job losses in manufacturing in the next 18 months in the order of 270,000 jobs assuming the rate of decline increases to around 10%.

**UK COMPARED TO OTHER EU MEMBER STATES**

The use of short time working by companies as a means to avoid declaring redundancies as the recession has developed has been widespread throughout the EU. The automobile, clothing and textile and construction sectors have been particularly prominent here. In sharp contrast to the UK, the state in a number of EU member nations has played an active role in providing financial subsidies to ensure that the wages of the workers affected are maintained at or close to their normal level. The following Table summarises the type and level of governmental support in four EU states.

**Table 4**

<table>
<thead>
<tr>
<th>Country</th>
<th>Short time working scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>State funded payments: 67% of last monthly net wage (workers with children) 60% for single employees. Payments available for up to 6 months normally but can be up to 12 months in exceptional circumstances affecting specific sectors or regions or 24 months in very exceptional circumstances affecting the entire labour market.</td>
</tr>
<tr>
<td>France</td>
<td>State funded payments for up to 1,000 hours per employee on short time working: 60% of gross hourly wage (80% for the chemical industry).</td>
</tr>
<tr>
<td>Belgium</td>
<td>State will pay blue collar workers 75% of maximum wage but not more than 2,206 euros per month for single earners with or without children for six months and 2,056 euros per month for the next six months.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>State will pay 75% of the worker’s wage for the first two months and 70% for the next four months up to a maximum of 183 euros per day. In return companies undertake to (re)train the affected workers.</td>
</tr>
</tbody>
</table>

*Source: Glassner, V and Galgoczi, B Plant Level Responses to the Economic Crisis in Europe. ETUI 2009*

It is plain that the UK is out of step with other leading EU nations who as well as providing fiscal stimulus packages to their own economies, have also been prepared to subsidise short time working as a temporary means of easing the negative pressures in their labour markets. It is time that the UK followed their lead with a temporary short time working compensation scheme of its own.

There is of course a fairly recent historical precedent for this. The UK government introduced a Temporary Short Time Working Compensation Scheme on 1 April 1979 to run until 31 March 1980. It was to be a successor to the Temporary Employment Subsidy and the Short-time Working Compensation Schemes the Labour Government had introduced earlier to help deal with rising unemployment and was intended to be a temporary measure pending the introduction of a statutory scheme. The change of government in 1979, however prevented this from happening. The main purpose of the scheme was to help employers protect threatened jobs by giving them a breathing space during which they could make necessary adjustments to safeguard jobs and thus avoid redundancies. Each job would only be supported once, for a maximum period which varied between six and twelve months, at levels of reimbursement which dropped from 75% to 50% during the operation of the scheme. It was necessary for the job itself to have a recognised long-term future. Occupations excluded from the scheme included police, dock workers, and share fishermen.

**FUNDING A TEMPORARY SHORT TIME WORKING COMPENSATION SCHEME**

As the recent budget has shown, the cost of the fiscal measures the government has put in place to deal with the recession are such that there will be very little room for additions to public expenditure over the next few years. Accordingly, we have to look for innovative ways to make use of public funding already announced. There are two ways that government financial support for a temporary short time working scheme could be forthcoming. First of all there is a considerable surplus in the national insurance fund. This grew from over £34 billion in 2005–06 to £38 billion in 2006–7 and the Governments Actuary department forecasts that the surplus will grow to over £114.7 billion by 2012. Plainly then this could be one source of existing revenue that could be diverted to supporting temporary short time working.

A second approach would involve using some of the huge injection of public cash that has gone into propping up the banking sector. The IMF estimated recently that by the end of February this year the UK government had spent £285 billion in up front support of the banking sector. More recent estimates, that include further public support for RBS and Lloyds TSB, put the figure at around £300 billion. In other words, since the crisis began the banks and financial institutions in the UK have swallowed the equivalent of 20% of our annual GDP. Whilst clearly happy to receive this funding the banks have, in the meantime, been reluctant to use their newly acquired liquidity in ways that the government would desire. The hoped
for boost to bank lending has yet to materialise. Involving the banks in channelling some of this money to support temporary short time working elsewhere in the economy would be one effective way of ensuring that taxpayers’ money finds its way into taxpayers’ pay packets or salary cheques.

Unite has set out its proposal in Figure 3 below.

The essence of the funding scheme proposed in Figure 3 is as follows:

— The government requires the banks who have received around £300 billion of public funds to make loans to companies to subsidise temporary short time working.

— The banks agree with the companies a standard low interest repayment of these loans within three years.

— Alternatively, the companies could issue shares to the value of the loans to be held by UK Finance (the entity set up by the government to handle our interests in the banks we have bailed out recently).

— The companies would agree to buy back the shares at either the issue value or the prevailing market price-whichever was the greater— at any time during the three year period of the loan.

— UK Finance would be free in the meantime to sell the shares on the open market giving the company involved the first option to buy back.

— The profit from any share sale would revert to UK finance and ultimately the public purse.

**Figure 3 Funding a TSTW scheme**

The advantages of this approach to funding a temporary short time working scheme are as follows:

— It would not require any “new” money from the government since it would draw upon the existing £300 billion already invested in the banks.

— It ensures that taxpayers’ money is used to subsidise taxpayers.

— Maintaining pay levels in this way helps to ensure that demand is bolstered which fits more readily with the government’s demand boosting strategies.

— It would, to a limited extent, restore some sense of balance in terms of where public funding is to be channelled since to date the vast majority of state financial aid has been swallowed up by the banking sector.

— It addresses the “moral hazard” argument in that there would be a modest cost (spread over three years) to the participating companies.

— It ensures that we do not “privatise profit and nationalise debt”.
The revenues flowing through to UK Finance could be used to invest in new public training infrastructure and support the sort of training that will be needed to implement new approaches to sustainable economic growth. The manufacturing sector has the potential to play a key role here and, depending upon how it is supported, could result in the UK gaining real competitive advantage in a range of products and services linked to the challenge posed by climate change.

Linking a Short Time Working Compensation Scheme to Strategic Training Needs

It is increasingly clear that the national business model the UK has implemented is no longer fit for purpose. It has proved disproportionately vulnerable to the global downturn in economic demand and has failed to respond meaningfully to the challenges posed by climate change. Yet there is an urgent need to develop a new national economic model that is both robust in the face of economic downturns and attuned to the needs of sustainable economic development. Developing a new skill set within the manufacturing sector workforce is going to be crucial here. Ensuring that appropriate training and skills enhancement is a quid pro quo for employers using the short time working compensation scheme would enable employees to acquire the sort of skills that will be required for the future. Some of this could be funded from the government’s train to gain scheme.

In addition, employers participating in the scheme would be expected to agree:

— Forward business plans that recognised that at the end of the period of short time working there was an expectation to return to the employment levels which existed prior to the commencement of short time working.

— A guarantee from the employer that there would be no compulsory redundancies within a period of 12 months from the return to normal working.

— The terms of the short time working period would be the subject of a collective agreement between the employee representatives and the employer.

To summarise, there is clear need to restore aggregate expenditure levels to ensure a steady reflation of the UK economy. To date government attempts to stimulate the economy have been constrained by the sluggishness of Bank lending but also by the effect that rising unemployment is having on consumer confidence. Negative signals from the labour market, such as increasing levels of short term working, are bound to further adversely affect consumption patterns and thus hold back any recovery in demand. Moreover, there is a real risk that without any direct support for companies and their wage and salary bills, skilled workers will be lost to key parts of the economy and in particular to the manufacturing sector. Elsewhere in the EU governments have recognised the importance of maintaining their skilled workforce and have understood the value of firm specific human capital. The UK should urgently be following suite here. The need for a temporary short time working compensation scheme is compelling and essential if the UK is to benefit from opportunities that are presented as the global economy begins to recover.

The size of the workforce in manufacturing may have halved over the 30 years since 1978 (as can be seen from Table 1b) but the sector remains the second biggest in terms of contribution to GDP and in the foreseeable future is likely to have a crucial role in helping to make a green alternative economic strategy a reality. There is both employment growth and export potential here if the government is bold enough to link support for the sector with appropriate investment in training infrastructure. It should also be noted that the ability of the service sector to pull the UK out of the current recession will be severely limited by the restructuring of the banking and finance sector whilst the size of public sector debt will effectively constrain growth potential from this direction.

A temporary short time working compensation scheme is in this context an important strategic step towards rebuilding the manufacturing sector and providing the UK with a manufacturing base that is both competitive and fit for purpose in the challenging times that lie ahead.

May 2009

Supplementary memorandum submitted by Unite the Union

Government’s Support to the Car Industry

Unite the Union, is the UK’s largest trade union with almost two million members across the private and public sectors. The union’s members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.

It is the leading union in the automotive and motor components industry with a membership of over 60,000. As part of the union’s continuing dialogue with government it has stressed the need for the supportive package for the industry to include a viable compensation scheme for workers faced with reduced hours, short time working and lay offs.

Unite gave oral evidence to the Committee on 10 June 2009 and the Committee subsequently sought further information from Unite of the following:
(i) an estimate of the cost of a Temporary Short Time Working Compensation Scheme in the UK Motor Industry; and

(ii) examples of the success of the Pro Act Scheme in Wales.

This submission is in response to that request. Unite commissioned Denis Gregory, Ruskin College Oxford for the estimate of the cost of the Temporary Short Time Working Compensation Scheme in the UK Motor Industry.

This evidence should be read in conjunction with the original written submission supplemented by the oral evidence given by Dave Osborne and Roger Maddison of Unite.

**ESTIMATING THE COST OF A TEMPORARY SHORT TIME WORKING COMPENSATION SCHEME IN THE UK MOTOR INDUSTRY**

The Annual Survey on Hours and Earnings (ASHE) carried out in April each year provides a ‘snapshot’ of earnings levels and hours of work right across the economy. We have drawn upon the latest published data from this survey in order to provide an estimate of the cost of a temporary short time working compensation scheme (TSTWCS) for the UK motor industry.

For the purposes of this note we define the UK motor industry as comprising:

— motor vehicle manufacture;
— the manufacture of trailers and semi trailers, and
— the manufacture of parts and components for the motor industry.

Table 1 below shows Employment levels and median earnings and weekly pay costs at April 2008 in these three sub sectors.

### Table 1

<table>
<thead>
<tr>
<th>SIC Classification</th>
<th>Total employees</th>
<th>Total male Employees</th>
<th>Total full time male employees</th>
<th>Median weekly earnings of full time male employees</th>
<th>Estimated total weekly pay cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle manufacture</td>
<td>94,000</td>
<td>89,000</td>
<td>81,000</td>
<td>£595.50</td>
<td>£48,235,500</td>
</tr>
<tr>
<td>Manufacture of trailers and semi-trailers</td>
<td>25,000</td>
<td>22,000</td>
<td>21,000</td>
<td>£450.70</td>
<td>£9,464,700</td>
</tr>
<tr>
<td>Manufacture of parts and components</td>
<td>75,000</td>
<td>63,000</td>
<td>61,000</td>
<td>£494.40</td>
<td>£30,158,400</td>
</tr>
<tr>
<td>Total for the sector as a whole</td>
<td>194,000</td>
<td>174,000</td>
<td>163,000</td>
<td>£538.20</td>
<td>£87,726,600</td>
</tr>
</tbody>
</table>

*Source: ASHE 2008 Table 16.1.*

As can be seen from table 1, male employees dominate the sector, they account for 84% of all employees here. Accordingly we have taken full time male median earnings as the basis for estimating the cost of a temporary short time working compensation scheme.

In April 2008 the weekly total of gross pay in the overall sector as can be seen is £87,726,600. Grossing this up for a full year yields a figure of around £4.5 billion. The cost of weekly pay in the current year will be affected by wage and salary increases negotiated since April 2008. This would suggest that the figure of £4.5 billion should be increased by around 4% to adjust for upward movement in earnings since April last year. This yields a figure of just under £4.7 billion for the current year. However, this is likely to be an overestimate as we have experienced job losses, short time working and wage concessions in the sector in the last 12 months. In view of these events, the 2008 estimate of £4.5 billion is probably nearer the mark for 2009.

Estimating the cost of a TSTWCS depends upon the nature of the subsidy, the number of employees it covers and the duration of the payments made. For the purpose of giving policy makers some idea of the costs involved we have used a range of assumptions namely:

— the TUC’s recently proposed short time working compensation scheme that would pay 60% of median earnings forms the basis of the scheme;
— that 10% of full time male employees in the motor industry draw the subsidy for (a) six months and (b) 12 months (low level option);
— that 30% of full time male employees in the motor industry draw the subsidy for (a) six months and (b) 12 months (medium level option); and
— that 60% of full time male employees in the motor industry draw the subsidy for (a) six months and (b) 12 months (high level option).

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Table 2
ESTIMATING THE COST OF THE TUC'S PROPOSED TSTWCS IN THE UK MOTOR INDUSTRY

<table>
<thead>
<tr>
<th>% of the workforce involved</th>
<th>Number of full time male employees</th>
<th>60% of Full time male median weekly earnings £</th>
<th>Total cost £</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>17,400</td>
<td>323</td>
<td>146,125,200</td>
</tr>
<tr>
<td>(a) six months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 12 months</td>
<td>17,400</td>
<td>323</td>
<td>292,250,400</td>
</tr>
<tr>
<td>30%</td>
<td>52,200</td>
<td>323</td>
<td>438,375,600</td>
</tr>
<tr>
<td>(a) six months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 12 months</td>
<td>52,200</td>
<td>323</td>
<td>876,751,200</td>
</tr>
<tr>
<td>60%</td>
<td>104,400</td>
<td>323</td>
<td>1,753,502,400</td>
</tr>
<tr>
<td>(a) six months</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 12 months</td>
<td>104,400</td>
<td>323</td>
<td></td>
</tr>
</tbody>
</table>

Source: estimated from ASHE 2008 Table 16.1.

As we can see, the maximum cost of a TSTWCS assuming that 60% of the male full time workforce were involved in a TUC type scheme for 12 months the cost of the subsidy would be £1.7 billion. At the other end of the scale, if 10% of the workforce were involved for 12 months the cost would be £292 million.

To put these estimates into a wider context it is worthwhile noting, according to the latest ASHE survey, that just over 1.1 million people were employed in Banking and Finance in April last year. The IMF estimated recently that by the end of February this year the UK government had spent £285 billion in upfront support to the banking and financial sector. More recent estimates put the figure at around £300 billion. In other words, since the crisis began the banks and financial institutions in the UK have swallowed the equivalent of 20% of our annual GDP. Roughly speaking this works out at around £272,727 per employee in the banking and financial sector. By contrast, taking our most extreme example in table 2 above where 60% of the motor industry workforce receives 60% of median earnings, the TSTWCS subsidy would come out at £16,796 per employee.

In terms of an equitable distribution of taxpayer support for workers caught up in the current financial crisis there is plainly a very strong case for a TSTWCS in the UK motor industry-desirable, affordable and effective.

Examples of Pro Act

The following are examples where the Pro Act scheme introduced in Wales has been applied to the Automotive Sector and prevented redundancies.

1. Calsonic, Llanelli
   This firm makes radiators for the car industry and employs 374. Employees were on short time working. Without Pro Act the company would have had to make redundancies and this would have resulted in the plant being below the critical mass for survival. Calsonic received the maximum Pro Act amount per employee. As a result Calsonic was able to train the whole workforce. It is now back on five day working and is in a position to secure the long term future of the plant.

2. Continental Teves, Ebbw Vale
   This firm employs 120 and manufactures brake callipers for a wide range of companies. The firm had reduced working hours by 20%. They did however have a forward order schedule. The company trained the employees so that they would be multi skilled and able to meet the requirements of the future orders. They received the maximum.

3. Arvin Meritor
   This firm has two sites in Cwmbran—one with 125 employees and the other with 320. It manufactures brake systems, one plant specialising in heavy vehicles. Without funding the firm would have made workers redundant. The Pro Act funding enabled the firm to be in the best position to be competitive in the future.

4. FSG, Llantrisant
   This firm employs 78 workers and applied for funding to train 28. The firm makes parts for oil and air filters and has been heavily hit by the decline in component orders. Pro Act funding means it is now more secure.

5. Melloy, Treforest
   This metal casting firm employs 57 and sought training funding for 15. If 15 jobs had been made redundant, the whole business would have gone to the wall. This also provides an example of rapid change in a company’s fortunes. In November last year the plant was successful with growing orders and an expanding workforce. By February it was facing difficulties. The 15 employees are trained in different disciplines and now our understanding is that business is picking up.
6. **Hi Lek, Port Talbot**

The workforce of 164 produces brake and system control cables. The bottom fell out of the market and the firm was looking to multi skill the workforce. They obtained the maximum support allowable.

7. **Excel Engineering, Llanell**

This firm is a mixed manufacturer of heavy and light engineering, mainly for the automotive industry. It employs 25. The firm received funding for training 12 workers making them multi skilled. Without this training the company would have been faced with making redundancies.

8. **Eprit Engineering, Llantrisant**

This very specialist manufacturer employs five. It supplies the air and oil filter industry who supply Honda. It had to quickly develop new business and train. Pro Act funding enabled the company to multi skill its workforce, thus placing it in a stronger position to win new business if further work is lost.

7 July 2009

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**Memorandum submitted by the Department for Business, Innovation & Skills**

1. **Overview**

At the oral evidence session on 10 June 2009 I undertook to provide the Business and Enterprise Select Committee with a supplementary memorandum to provide further information to the Committee to inform their inquiry into the Automotive Assistance Programme.

This supplementary memorandum covers: government support available to the automotive industry; the AAP internal scrutiny panel; relative unemployment rates in the UK and Germany, and short time working.

2. **Support for the Automotive Industry**

The Government provides support for the automotive industry in three ways: directly, indirectly and through other support mechanisms which are not specific to the industry. Consequently, it would not be possible to give an exact figure for the total support which is available to the industry. The following is a snapshot of these three channels of funding and is not intended to be applied as an exhaustive list, but does provide an overview picture of the wide range of Government support open to the industry.

The direct support schemes are AAP, scrappage and development towards lower carbon vehicles. The AAP aims to unlock a total bank and EIB support package of up to £2.3 billion. Scrappage amounts to a fund of £300 million made available up to March 2010. The funding for the development of low carbon vehicles consists of a number of short and longer term initiatives, from £250 million for the future promotion of ultra-low carbon vehicles purchases and related infrastructure to the £7.7 million funding taken forward by the Centre of Excellence for Low Carbon and Fuel Cells (Cenex); the £20 million public procurement programme (led by the Department for Transport), and the Premium Automotive R&D programme worth over £45 million.

Indirectly, the Government supports the industry through resourcing regulatory policy frameworks such as the BIS-led Vehicle Industry Policy and European Regulation (VIPER) group and the Competitive Automotive Regulatory System for the 21st Century (CARS21) High Level Group which negotiates on behalf of the industry on the European platform. There is also the New Automotive Innovation and Growth Team (NAIGT) where the Government has been working with the industry on key strategic issues for the future.

There is a wide range of additional Government support which the industry, particularly the supply chain, can tap into, from “Train to Gain”, to the wider portfolio of grants available to Small and Medium Enterprises (SMEs) to help for the individual.

A sample of the schemes available to SMEs are: the Enterprise Finance Guarantee Scheme (EFGS); Working Capital Scheme (WCS), and Capital for Enterprise Fund (CIF). The EFGS secures up to £1.3bn of additional bank loans to small firms with a turnover of up to £25 million. The WCS secures up to £20 billion of short term bank lending to companies with a turnover of up to £500 million. The CIF provides £75 million of equity, made up of £50 million of Government funds.

There is also the Government’s funding of the Regional Development Agencies (RDAs) and Business Link. The former runs the Grant for Business Investment (GBI) discretionary scheme that can provide a capital grant to businesses to support sustainable investment in England, which has to date awarded over £165 million.

Additionally, there is a separate £1 billion Government guarantee facility has been set up to support bank lending to small exporters from the Export Credit Guarantee Department, as well as the increase of the amount of lending available via the Small Firms Loan Guarantee Scheme by £60 million, to £360 million in financial year 2008/09.
For the individual, the Government provides support through a suite of welfare to work policies aimed at getting those without work back into employment as quickly as possible. For the issue of redundancies, there is the Rapid Response Service which is offered to every employer with 20 or more redundancies, or in local communities, who have been disproportionately affected by multiple smaller scale redundancies.

The automotive industry is also supported by the wider financial incentives such as the cut in the VAT rate by 2.5% and reduced vehicle excise duty.

3. AAP’s Scrutiny Panel

The AAP Scrutiny Panel comprises of HMG officials across 7 directorates of BIS, and officials from Her Majesty’s Treasury (HMT). In addition to this it is intended to have an external member formerly with the Industry Development Advisory Board (IDAB) to act in a non-executive role.

The Panel is intended to meet regularly dependent on caseload and can consider multiple cases. However, it is intended the first few AAP cases will be taken through the full IDAB process in order to test our approach rigorously.

4. Unemployment Rates in the UK and Germany

Based on Eurostat’s figures, in the UK since 2000 the unemployment rate has been around 5% while Germany saw unemployment increase from 7.5% in the early part of the decade to 10.7% in the third-quarter of 2005. More recently, the unemployment rate has started to increase in the UK but decrease in Germany. In March 2009, the (seasonally adjusted) rate was 7.1% in the UK and 7.6% in Germany.

For the UK unemployment increases have been larger than falls in employment, due in part to population growth, but mostly due to the increase in the size of the UK’s labour market caused by people joining the labour force from previous economic inactivity.

5. Port Rates

Policy responsibility for this issue lies with the Department for Communities and Local Government.

In the Society for Manufacturing and Motor Trade’s (SMMT) written evidence to the Committee, they have asked the Government to defer the collection of business rates to the 2010 Revaluation. As background, the Committee should note that the Chancellor announced at the pre Budget Report 2008 that the Government will legislate to give businesses more time to pay in certain circumstances. Legislation has been laid before Parliament so that businesses facing such bills in those circumstances will not be required to pay their backdated liability within the financial year at present, and will be able to do so in equal interest-free instalments over 8 years.

Although a recent review of ports and the subsequent separate assessment of a number of new properties within ports highlighted the issue of the impact of backdated liability, the legislative changes implemented will apply to all ratepayers occupying properties that meet the criteria, including those in ports who meet the criteria, to benefit from a schedule of payments for backdated liability.

Port occupiers have told us that, where the designated port operator was regarded as liable to pay the business rates, the contractual arrangements between the port operator and port occupiers typically contained explicit or implicit fee elements to cover the business rates incurred by the port operator.

The Government understands that, under the current economic climate, it could be harder for businesses faced with significant unexpected backdated bills of more than 33 months from 1 April 2005 to discharge their liabilities.

The Communities Secretary still has the power to prescribe rules for ascertaining rateable values, and in theory, he could use those powers to prescribe rateable values for the individual businesses at ports. However, it is very difficult to see how exercising such powers would assist businesses at ports. This is because the businesses within ports would still be rated separately from the port as they should be, and they would still be faced with three years’ backdated liability payable immediately on top of the liability for this year.

The power to prescribe rateable value is not itself retrospective. So we cannot prescribe a value for a day before the order prescribing the value was made, and in order to deliver some benefit to the businesses, we would need to prescribe a value which generated results below the market rental value.

However, there are no other properties valued other than on the basis of market rent and there is no clear rationale for special treatment. In particular, there is no basis on which a low rateable value could be established. If the valuation methodology was challenged by any other ratepayer whose property is valued conventionally, it would be difficult to defend in rationality and reasonableness terms.

Most importantly, the Government cannot directly intervene between the ports and the occupying businesses as the liability for paying rates or not through tenancy agreements would be a private contractual agreement between the ports and the occupying businesses.

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6 Eurostat is the Statistical Office of the European Communities. Its task is to provide the European Union with statistics at European level that enable comparisons between countries and regions.
6. **Social Charges which support Short Time Working in other Countries**

The Government cannot comment on the social charges which support short time working in other countries. We believe that each country must make policies which best suit their own economic, social security and employment frameworks. Moreover, the Government could not introduce exactly the same programmes as in other countries because existing systems are different.

The British system of tax credits already provides an automatic increase in incomes to families when wage income is reduced as a result of a reduced working week, and the Government believe that our system of tax credits and help with credit is the best way to help businesses and workers.

Where short time working is necessary then the best use of non working time would be to re-train and up-skill those involved. With the benefits of devolution, each home nation within the UK is able to determine the training policy which best suit their needs. For example, in England the ‘Train to Gain’ budget has been injected with up to £100 million to assist the automotive industry. Whereas in Wales, the “ProAct” scheme provides up to £2,000 per person for training and a further £2,000 for a wage subsidy whilst this training is being undertaken.

I hope this information is of assistance to the Committee in completing its inquiry and I look forward to receiving a copy of the final report.

*30 June 2009*