



International Trade Committee

Oral evidence: The Covid-19 pandemic and international trade, HC 286

Wednesday 6 May 2020

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[Watch the meeting](#)

Members present: Angus Brendan MacNeill (Chair); Robert Courts; Mark Garnier; Paul Girvan; Sir Mark Hendrick; Mark Menzies; Martin Vickers; Matt Western; Mick Whitley.

Questions 139 - 161

Witnesses

I: Carlos López-Gómez, Head of Policy Links, Institute for Manufacturing, University of Cambridge, Stephen Phipson CBE, Chief Executive, Make UK, and Elizabeth De Jong, Director of Policy, Freight Transport Association.

II: Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders, Philip Law, Director General, British Plastics Federation, and Paul Alger MBE, International Business Director, UK Fashion and Textile Association.

Written evidence from witnesses:

- [Paul Alger MBE, UK Fashion and Textile Association](#)



Examination of witnesses

Witnesses: Mike Hawes, Philip Law and Paul Alger.

Q139 **Chair:** Moving to the second panel, can I ask you to introduce yourselves? We are running a bit over time, so we will have a bit of negotiating to do to see if we can stretch that. Could we start with Paul, first?

Paul Alger: I am Director of International Business for the UK Fashion and Textile Association. We work with suppliers, primarily, of fashion and textiles to export accounts and to the UK high street. We also work with retailers. I will try to cover as much as I can from lots of different viewpoints.

Mike Hawes: I am the Chief Executive of the Society of the Motor Manufacturers and Traders. We cover the majority of the automotive industry in the UK, manufacturing and its supply chain, and retail—all the manufacturers have franchise dealers—and the after-market as well, so everyone from Jaguar Land Rover to Halfords.

Philip Law: I am Director General of the British Plastics Federation, which is the trade association for the UK plastics industry, which we interpret as the raw materials' suppliers, the equipment suppliers, the product manufacturers, and the recyclers.

Q140 **Chair:** That allows me to give a good plug for Stornoway Plastics in my own constituency, in Stornoway obviously.

Thank you very much for coming this afternoon. If we can kick off with a generalist question, can you summarise how the Covid-19 pandemic has affected global supply chains in your respective areas.

Mike Hawes: All right, focusing on supply chains. Obviously, in terms of UK manufacturing, it stopped. It stopped in mid-March. Some of it is beginning to open this week. Some suppliers have operated throughout because some of them are obviously supplying parts into after-market—we still need to service vehicles—and some are still providing into customers abroad, who were maybe less affected or had been delayed. Certainly when the USA went into lockdown, China was coming out, so for some suppliers it was more of a seamless challenge.

Overall, however, the challenge facing the supply chain is one of what has been generally an international stop. We are predominantly part of the European automotive industry and Italy, Spain and Germany, the big manufacturing countries, were shut. The majority of manufacturers had to seriously downscale their production, which obviously flowed through to tier 2, 3 and 4 suppliers. The challenge they face now is how to restart, because that needs a degree of co-ordination, and is not easy to achieve.



Philip Law: The plastics industry is a pretty widely variegated animal, with some 20-plus discrete sectors, all with their own individual characteristics. To some extent it defies generalisation. Sectors such as packaging have been driven by the high demand for food and hygiene products, disinfectants, and so on, and have been extremely busy. Other sectors, such as those feeding into the automotive industry, have been pretty badly hit. Probably the worst hit, however, are the firms supplying the construction industry where business fell off a cliff face; many construction sites have closed, but some are now opening.

On the supply side—for that varied picture on demand—there have been supply problems but these are now being sorted out. For example, there was difficulty in the supply of some plastics raw materials. It is a global situation. Supplies come in from all over the world, particularly Europe, the Middle East, Asia and the United States, and there was a particular problem with the supply of polypropylene, low-density polyethylene, high-density polyethylene, and so on. Supply in Asia was badly affected by closures in South Korea, for example.

Q141 **Chair:** Can you give examples of how that feeds through to where people will notice the lack of these products in their day-to-day lives?

Philip Law: These problems have now sorted themselves out and supply has been restored. We are not seeing too many problems across the board.

Paul Alger: The impact of Covid-19 and the lockdown on the UK fashion and textile industry was a massive and immediate shutdown of a large part of commercial activity. From the supply side—and we work very closely with exports, supplying export accounts—most of the companies that delivered goods in January, February and March found that they were not able to be paid for those goods and almost overnight any forward order business for autumn, winter and beyond, has either dried up or has been put on hold.

The designers clearly were the most fragile, I would say, in this and immediately started to look to how they were going to survive. There are reports that perhaps between 30% and 40% of our designer businesses may or may not survive beyond the end of the year. Retailers were dramatically affected, clearly. All of them were required to close very early on, leaving them with large amounts of stock. In many ways, however—and this picks up points made by Make UK earlier—the hardest hit in some ways are the manufacturers because manufacturers have been forced to close very early on; most of their business has dried up.

If you look at the number of businesses still managing to trade through this in the fashion and textile industry, it is approximately 60% in some way or another, but if you look at manufacturers, then between 95% and 100% feel that they have lost 95% or more of their short and medium-term business so it has had a major effect.



Q142 **Chair:** That is a huge risk—30% to 40% going to the wall by the end of 2020. What could and should be done? What would you like to see happen to protect them?

Paul Alger: Certainly the immediate response, with the coronavirus job retention scheme, has helped a lot of companies to start to weather the storm while they are waiting for their export business and their home business, indeed, to come back. A lot of them are very small and may not necessarily qualify for a lot of the support that is out there, so we have been working very closely with different levels of Government across the whole piece. It has been a good experience of working across Government.

One of the challenges that we are beginning to see is how we start to prepare companies to re-open their businesses. The all or nothing side of the UK's furlough scheme is causing particular concern because there may not be the business trust to re-open manufacturing very quickly, certainly not at 100% capacity. A lot of people are committed to try to do that, so they would like furlough to be flexible enough for them to do that on a progressive basis.

Chair: It is all or nothing; you are either in it or you are out of it and there is no sliding backwards and forwards.

Paul Alger: I am thinking of the continental European model, for example, where you have a partial furlough. For example, an employer may be able to furlough people for 50% of their time rather than the whole of their time. Clearly, that would enable them to retain skills needed in those businesses as they start to recover from this.

Q143 **Chair:** Thank you for that clarification. Can I come to Mike Hawes? The Association of European Vehicle Logistics says that financial distress at small and medium-sized suppliers, including specialist toolmakers and outbound vehicle logistics carriers, means that the automotive supply chains will be at risk for some time to come. How accurate do you think that analysis is, maybe even for the fabric sector, the seat manufacturers, and the supply chains in the automotive industry we have been talking about before in previous years, are all quite important? What is your own take on that, Mike?

Mike Hawes: It is probably fairly close to the truth. If we look across our sector, some have been able to operate, but even if they have been able to operate it is at much lower volumes because the majority of their business tends to be in the UK or Europe, or a combination thereof.

I do not want to be a harbinger of doom but the real challenge to them may not necessarily have hit yet. We have in place, as Paul mentioned, the furlough scheme, which has been a lifesaver. It has saved a lot of livelihoods, and I certainly agree with the need for more flexibility.

There have been financial schemes to try to assist with liquidity. They have been difficult, first to get hold of the banks—because the banks



HOUSE OF COMMONS

were besieged and I have some sympathy with the banks in that regard—and now, in terms of the qualification process and with some of the testing, it is not flowing through as quickly as possible.

Why I say the real pinch point may not have come, for a lot of the supply chain that will likely come when they restart. At the moment, close everything down, reduce your outgoings; basically hunker down. As you re-open, you start again having to take people off furlough, start paying them, and you have to pay your own sub-suppliers, getting raw materials, turn the lights on, turn the energy on, and all that. Your outgoings increase dramatically yet you are still not yet being paid for your products because obviously there is a gap there. That is where you are going to need the finance and that is when companies that are very exposed financially will be at their most prone.

Chair: Thank you. Can I move to the great, kind, and most forgiving, Martin Vickers?

Q144 **Martin Vickers:** A question aimed at Mr Alger. Some of the big fashion labels have been accused of behaving unethically towards suppliers, particularly those in developing countries, by cancelling orders, refusing to pay, demanding extra discounts, and so on. Can you confirm that that is the case? How common do you think that sort of behaviour is? How do you view it and what can be done to stamp it out?

Paul Alger: Thank you for the question; it is a very good question. This is not the first time that we have come across this type of practice, but I can confirm that it is there. I can confirm that it is something that we as an industry are very worried about. A lot of larger retailers have already announced that they will not make any payments out to their smaller suppliers for anything up to six months. It is a knee-jerk reaction. They obviously have major problems of their own.

One has to remember that the retailers, most of them, have had to close completely and have no ability to sell on merchandise themselves, so their own finances are in a certain amount of difficulty. Many of them are in a position where they could get CBILS loans, for example, and the type of support the Chancellor has offered is quite well suited to some of them. We are seeing that retailers are being fairly difficult on payments, but there are some examples where international retailers, in particular, are being more flexible and more supportive.

What I think is a concern is that this has the ability to go right the way through the supply chain because for larger companies to stop paying their suppliers effectively passes the pain of this down to the smaller guys, who are less able to cope with it, and that then causes all sorts of problems further down the line. We also have to remember, however, that landlords have a responsibility here as well. Retailers will say, quite rightly, that their landlords are expecting to be paid 100% of what they are owed. We would like to look at a more holistic approach.



HOUSE OF COMMONS

We certainly would like to see the Government intervening with larger companies to prevent them in any way that is possible from not paying their smaller suppliers. That is something we would like to see, but also, perhaps, a larger conversation with landlords about how we share the pain of this period of commercial activity.

Q145 **Martin Vickers:** I take note of what you say about the Government and clearly, I am sure, they will take note of that and are applying pressure where they can.

Moving on to potential future crises or problems, do you think further Government action is needed, perhaps legislation?

Paul Alger: The UK has always been very reluctant to legislate in these areas but it may be that something needs to be done, certainly for the short to medium term, to ensure some liquidity for these companies. I don't think anybody would want us to be saying that long term, but certainly for the short term, there is a very urgent need to make sure that small companies are not forced out of business by people not paying their bills.

Q146 **Robert Courts:** We have talked about global supply chains and the effect that the pandemic has had on them. Could you all comment, please, on the impact that the pandemic has had in terms of global patterns of demand for the goods, the end-product goods that are manufactured by the industries that you represent, and also, of course, correspondingly, how that has affected your members' ability to export? The two things may go together, of course.

Paul Alger: Initially, most of our export business ground to a halt very quickly. The majority of the niche fashion products that the UK exports often come from manufacturers and designers. The manufacturers are particularly badly hit by the lack of export business for their businesses because they often have very little business in the home market, and the fact that there is very little air transport at the moment is a major issue because the vast majority of our sector uses airfreight because we are looking at a just-in-time system. It has become very difficult.

For the longer term, I would say once that comes back, the issues are more likely to be perhaps slightly further away from home. One of the problems that we are seeing—not just for the UK manufacturing supply partners but also UK retailers cancelling large numbers of orders from countries such as Bangladesh, for example—is some of our import partners understandably affected, that will create other problems elsewhere. Businesses that go out of business, for example, in countries such as Bangladesh, may not come back, so when the larger retailers want to go back to them, they may have other problems that they cannot solve.

Q147 **Robert Courts:** I probably ought to unpack it more specifically. There is the issue around the ability to export but there is also the issue of demand. I imagine—but I don't want to put words in your mouth—that at



the moment it is too early to say whether demand has collapsed or whether it has just abated for the time being.

Paul Alger: It is too early to say. Most companies have furloughed a large number of their staff so they are not there to answer those questions when we ask them.

Our perception is that online business will bounce back much more quickly than bricks and mortar, for example, and we have had cases of companies that have done very well through this crisis because they had stock and were able to sell that online to UK consumers. But I think you are right. I do think it is too early to know what the trend will be.

Philip Law: Export demand has clearly dropped. For example, the Chinese economy shrank by 6.5% in the first quarter. We carried out a survey of all our exporting companies. About 52% said that their export business will drop significantly over the next year. A lot of our members are small or medium-sized firms and their point of entry into an export market is usually through an overseas exhibition. Of course, all those exhibitions are now being pushed back into next year and there are no exhibitions to go to. In fact, 63% of our members said they will not be exhibiting at any trade fair for the next 12 months. That is clearly quite a problem.

We have noticed that companies that are supplying OEMs in overseas markets are experiencing a fairly steady-state situation, but the big problem is the drop off in demand being experienced by customers under more local management.

Mike Hawes: Obviously, we produce consumer goods in terms of the end result, and if you saw the results we put out yesterday, registrations of new cars in the UK were down 97% compared with April last year. That pattern is very similar to huge swathes of Western Europe and elsewhere.

Q148 **Robert Courts:** Can I just pause you at that point? I don't mean to interrupt, but just so I am clear in my mind, is that because of people not ordering or because they are not being delivered to be registered? There is a lag, isn't there? You order a car and it is registered later.

Mike Hawes: Basically, only this week in some markets have showrooms been allowed to open. Obviously certain countries managed the lockdown in different ways. Some countries are more severe, shutting down manufacturing, shutting down all retail, shutting down online deliveries and so forth. Here, you could do online ordering and delivery, but when you are spending the equivalent of on average £25,000 on a vehicle, you want to touch it and feel it before you buy it and that is something you have not been able to do.

In terms of demand, the first thing to do and what we need here is obviously to open the retail sector. In the first wave of opening we want to see showrooms—as they have done in Germany—have a staggered opening. That allows some of the stock that is in the system to flow



HOUSE OF COMMONS

through. There will be a natural, but not huge, pent up demand. Then we would have to see what the levels of demand are. That is obviously a reflection of business and consumer confidence taking a severe hit. There is still nervousness and uncertainty about people's livelihoods, so we would expect there to be a potential for significant drop in demand.

That is why most markets—we have seen that initially in China, in Korea, Japan, Germany, France, Italy, and Romania—are all looking at potential short-term market stimulus measures to try to boost demand. It is about restarting manufacturing as much as retail; kick-starting it so it can help to kick-start the economy.

In terms of the supply chain, obviously it is responding to syncopated timing in different markets. In China, automotive is getting back to where it was whereas here we are still in lockdown. It is a varied picture. We are part of a global industry. Thank goodness for that because otherwise we would still be in total lockdown with no sight of where the demand will come from.

Q149 Sir Mark Hendrick: My question is directed to Mr Alger. In his submission, he talked about the problem of being "born global". I think Mr Alger is particularly critical of the Chancellor's support packages. Could you tell us what your view is on, as you put it, being "born global"? How has that affected the businesses in your industry? How is the pandemic affecting them because they are, as you put it, "born global"?

Paul Alger: I would like to say I am not so much critical of the Chancellor's support packages but would like to see some of them go a bit further. The coronavirus job retention scheme and the scheme for the self-employed were very much in line with our requests. An issue in our industry is that we are still seeing a large number of smaller designers who, for example, pay their rates as part of their rent and, therefore, are unable to take advantage of much of the support that is available. We refer to some of those businesses as the forgotten middle, but we are generally very supportive of most of the Chancellor's very good work.

What we would like to see is a return to exports because the "born global" generation, as we call it, are companies that are perhaps not particularly well known in the UK, brands that are not particularly well known in the UK but which are great British brands, and where a major part of their production is sent overseas, for example, to the United States, Japan. I can give as an example brands such as Margaret Howell—a household name in Japan—a major exporter of British and European products, but is not particularly known here. Most of the designers that we see on the catwalk at London Fashion Week have a much larger percentage of exports to major international retailers than they have close to home. That is our concern.

Q150 Sir Mark Hendrick: On that point, I travel to China quite often—though obviously not recently—and I have seen so-called British or English brands in huge shops in big, fashionable shopping malls, brands that I



HOUSE OF COMMONS

have never heard of or seen on the high street. Is this the sort of business you are talking about? I would have thought, certainly in the case of China—which is a big market now it has opened up—those brands would be doing okay.

Paul Alger: Yes, absolutely. You are quite right. We see China beginning to bounce back very quickly from a consumer-spend point of view. That is a market of particular interest to us. Japan will be another one. For example, the number of UK brands represented on the Japanese high street is perhaps more representative of the UK fashion system than our own domestic market sometimes. However, exports are the lifeblood of those companies.

If you look to companies such as Johnstons of Elgin in Scotland—a large part of what they do will be exporting luxury brands most probably to Europe or North America, and they will also provide merchandise to the major department stores—those types of manufacturing companies are very focused on their exports because that is where the high-value, luxury products that the UK is known for are appreciated and where consumers have the money to buy them.

Therefore, we would very much like to see a return to trade show activity, for example in the autumn, when companies start to re-open. We would like to see some of those more established brands being supported at some of those trade shows because they have not been for some time. It is very important from our point of view to make sure that we support those brands with, for example, the wiping clean of the Tradeshow Access Programme slate, which we have spoken to the Minister about, because those companies will be a good return on investment for the UK; they create valuable, quality jobs in the UK.

Chair: I am sure those in the Harris Tweed industry will also have their ears pricked up. Can I cross the border and turn to Mark Menzies, from Fylde.

Mark Menzies: Everyone has noticed, Chairman, you have been plugging Stornoway Plastics and now Harris Tweed. There is no stopping you.

Chair: Can you repeat that again?

Mark Menzies: I said you have been plugging Stornoway Plastics and Harris Tweed; there is no stopping you.

Chair: One more time?

Q151 **Mark Menzies:** No. I am not, no. This question is for all three panellists, but to start with, Mike Hawes, please. How effectively has the UK Government been helping respective industries to deal with the disruption that the pandemic has caused to international trade?

Mike Hawes: First, the strategy has been about business survival and we fully support that as a priority. Yes, I do think there is scope for improvement on the liquidity schemes because initially access, and then



HOUSE OF COMMONS

qualification for them, is still quite challenging, especially when you have to look at forecasts and it is so difficult to make a forecast for the next 12 months.

The job retention scheme was an essential piece of the jigsaw, but what it does do is just to put the UK in a similar position to many of our competitor countries that already had such schemes. For those countries, it was a case of turning on the tap, and the fact that we have gone from nothing—a blank sheet of paper—to it paying out in a matter of weeks is extraordinary. Obviously we want to see the scheme refined, and I would like to see something for the long-term because ours is a cyclical industry for those working in it. During the financial crisis, automotive was similarly staring into an abyss.

There is still some scope for improvement. One of the big challenges will be liquidity so I think we still need to look at every mechanism to keep cash in businesses—that means the business rate holidays, VAT postponement, and so on—for a period of time, for manufacturing, because that is when businesses will be most exposed.

We then have to look to restart, which is where we are now. That is about making sure that there is a clear message to go back, that we have safe working environments. We have guidance for both retail and manufacturing environments and we believe it will align with the Government's guidance when that comes out.

The point I want to make in terms of the focus of your Committee is that we are an international industry; 80% of what we produce is exported. We need to make sure that there are no barriers to trade going up. Invariably when markets, businesses, economies, are under threat, they tend to draw in so we need to make sure that they are facilitated. The challenge before the Department for International Trade is still a significant one, given the uncertainty that will happen at the end of the year.

Q152 Mark Menzies: A quick supplementary on that point. How much concern is there within your sector about the big fleet customers: the car hire companies that aim at tourists and so on, the big business fleets and purchasers? How much concern is there that some of those future orders will be cancelled and, potentially, cars you thought you would be producing will be stockpiled up?

Mike Hawes: That is something we need to avoid. There are obviously obligations in terms of ordering, but when we look at the medium term that is when there is the most uncertainty. As we come out of this, what is business confidence like and how does it feed through to orders? What is the consumer confidence like? As we know, the UK economy and growth is often built on consumer spending. People will be evaluating where they are.



HOUSE OF COMMONS

Initially—and I am pretty sure we will not be the only industry in this regard—we will probably need some sort of market mechanism to encourage the restart of consumer spending on the economy, and it is about restart, focusing on we need to get the wheels turning. The benefits, I would hope, if you are producing some sort of incentive, you would more than get your money back in terms of increased economic activity.

Paul Alger: Very similar in our industry. The fashion side of our industry is very much consumer driven so seeing people wanting to go out and buy goods in stores, wanting to continue to buy online. One of the conversations that we are having in our industry at the moment is that Amazon has done extremely well in our country out of the last few weeks, possibly to the detriment of some of our larger department stores. When we are through the initial crisis, it would be nice to think that we will take a holistic approach to who pays the rates and who pays the taxes. This is something that lots of retailers are very keen to see.

I guess that we will continue to see that online retail will do very well but some people will struggle with stock, for example if imports do not increase. We would also like to see the development of smaller, local shops when we come through this. One of the trends we see is that people have spent quite a lot of time in their local areas, becoming familiar with local retailers. We would like to see that there is potential for the support of local retailers who are the first companies, usually, that will take a risk on something new, on a new brand, on a new designer. We would certainly like to see more of that.

Q153 **Mark Menzies:** I am told the Harris Tweed industry is very good at this sort of thing. Mr Law, what about your sector?

Philip Law: I am full of admiration for the way the Government have stitched together this pretty comprehensive aid package in a relatively short space of time. Where there have been aberrations, they have been quick to modify packages and make them more appropriate for the circumstances.

We have been putting some emphasis on telling Government that there should be an immediate focus on getting construction moving again, getting building sites open again. Building is a locomotive for the economy as a whole. Once buildings are up, you need to fill them with furnishings, with office equipment, domestic electrical appliances, and so on. We do see construction as a strategic area and we are very pleased that some housebuilders are going back to work now. B&Q and the like are opening up. These are the signs we want to see. We have to get the country back to safe working as soon as possible, as long as that is consistent with the overall safe situation with the virus.

Chair: Thank you, Mr Menzies, for the mentions there of Stornoway Plastics and Harris Tweed. It is much appreciated and I am not sure everybody got that.



Q154 **Robert Courts:** I will come straight back to Mr Law. I think I am right in saying that you have said in the past that the plastics industry should be classified as a key part of the national infrastructure and that the Government should provide the essential support to keep plastics manufacturers and their supply chains in operation. I think that is right, even if that is not something that you have said. Would you like to say how the Government have responded?

Philip Law: We have seen a variety of letters that have gone out to various sectors: the food and drinks sector, the construction sector and there was one relating to the whole of manufacturing. I recently had a letter from Rebecca Pow at DEFRA praising the plastics industry and its contribution to the overall effort. We have had daily briefings with BEIS, which have been very valuable. We are moving to a position where we are getting the recognition that we feel we deserve.

Q155 **Martin Vickers:** A question specifically for Mr Alger. In your written evidence on behalf of Export Partners UK, you say that the Department for International Trade needs to upgrade its support for exporters to help them recover from the present crisis. Can you explain a little more how you would like to see that develop?

Paul Alger: Yes, certainly. I should probably explain that Export Partners UK is a group of not-for-profit trade associations that work very closely with Government, so this is a different role. One of the challenges that we often find in the UK is that our immediate competitors often outspend us. One of the areas where they do this is traditionally trade show support, but it can be other areas.

Certainly from an EPUK point of view we are very keen to see the Government do things, like, for example, wipe clean the Tradeshow Access Programme slate so that companies that have already had support at trade shows, when things come back from this, they are able to have that support again, because many of our exporters across all industries will feel as though they are starting almost from zero after this. It is going to be a long-term plan. We are going to need to see this as a marathon and not a sprint.

We would like to see for some industries, not all, some online support to help companies to develop their own online support. That is particularly important for consumer goods industries where they may want to export online rather than going to trade shows. There are other things, so companies are asking for support in advertising, promoting their brands, and generally flying the flag for Britain when we come back to the point where companies can travel overseas and promote their exports.

We have had a very good and robust series of conversations across all Government Departments, including DIT. The Minister has been very open to the concept of online trade shows and seminars. We are also very keen to see a far greater engagement with our overseas embassies and posts, particularly in those markets like the United States, Japan,



HOUSE OF COMMONS

where we very much hope there will be free trade agreements next year with the UK. It is taking advantage to a certain degree of the opportunity to look at the way that the UK promotes itself and to do things better. Some of these things do not need a huge amount of money. They just need a little bit more flexibility.

Mike Hawes: I would endorse what Paul was saying. We take a lot of small companies, increasingly tech companies, to trade shows. What we see is the same thing. I was at the consumer electronics show in Vegas, which does seem a long time ago in a very different world, but that was only in January. The UK pavilion was the biggest it has ever been but it was still dwarfed by the French, the Koreans and others.

One of the key things—just to build on what Paul said—is about planning. If we take space at a trade show we normally have to book at our risk 18 months in advance. The timescale under which the Tradeshow Access Programme looks like is normally you get six months' visibility. It makes it very hard to plan and to sell and to get buy-in from the small companies, most of which have never exported before, and this is the way to get them into export.

Philip Law: I support everything that has been said there. In particular, the timing question is crucial. We are in touch with some first-rate people at DIT but the system in which they operate is suboptimal in its decision-making and the timing of the decisions in relationship to the dates of the show. We need time to recruit for the shows, to market the shows, to prepare for the shows. We have to, in many instances, pay for the stand space beforehand. It requires adequate lead time to be able to do that. We do not want to hear at the very last minute that we have got the grants to go to CHINAPLAS or another fair.

There are other innovative things that could be done by DIT to look at, for example, virtual trade fairs, also helping in the funding of foreign language websites for companies to make it easier for foreign customers to access them. A few years ago there was a successful initiative carried out by the China Britain Business Association, which allowed firms to take office space in its Chinese premises and use those as a base for exploring the market. A number of firms did this and were able to establish a foothold in China on the back of that. That was very successful. We feel that that model could be usefully replicated in markets like India and Brazil, and we recommend that that is looked at in some depth.

Q156 **Mick Whitley:** What can and should be done by Governments and businesses respectively to ensure greater resilience of manufacturing supply chains in the future?

Mike Hawes: It is always going to be difficult in what is part of a global industry. If I think back to earthquakes, tsunami, Fukushima, we found out as a result of that, that about 40 miles away from the Fukushima power plant was a small producer of a particular mineral that went into a dye, which went into a paint, which went to a major conglomerate, which



HOUSE OF COMMONS

basically went into most paints on every single vehicle made in the world. That did, at the time, obviously expose to a certain extent the fragility of global supply chains. Where we are now is not necessarily new territory.

Resilience is more important, but the key issue—always when you are dealing with this—is obviously looking at: what are the capabilities, what are the capacities, what are the qualities and what are the costs? Invariably you will make a purchasing decision based on those four or five factors, with innovation in there as well. They are not easily substituted. Invariably you do not want to be exposed to one particular supplier or sub-supplier so you will make a purchasing decision based on those factors wherever they can operate. Making sure we do have, for instance, international free-flowing trade is critical, making sure there are support mechanisms to manage out some of these challenges when they occur. I was talking to a colleague in Jaguar Land Rover a couple of weeks ago and he has spent his entire career in the industry and he said this is about the seventh major crisis he has seen in the industry. They come along with more frequency than perhaps we remember.

We do know. You try to build robustness into the system among the supply chain. At the end of the day we are a volume business. Cost is critically important. So is quality. Not everyone can deliver that same level of quality. We want to improve across the supply chain, wherever it is located, as best you can but making sure we can keep free-flowing of goods and services and support businesses when these crises happen is fundamental.

Paul Alger: I would say very much the same as Mike has just said. This has been a wakeup call, if you look particularly at the PPE issue, which is aligned to our industry. This is a wakeup call for the fact that single sourcing policies can sometimes let you down. One of the things that has been most gratifying over the last three or four weeks has been to see the number of small fashion designers and larger fashion businesses stepping up to the plate, changing their business models, often at great personal and business expense to themselves, to produce masks and gowns and scrubs for the NHS. Now that we have some of those capabilities—and it is worth bearing in mind that the textiles that make a lot of these goods are manufactured in the UK already—we believe that there is the ability to build on that and to preserve some of it.

We were visiting, for example, a company called Try & Lilly in Liverpool in February that had been approached to do more things for the MoD and said that they would love to do more but they would want to know that there was the ability of a longer-term contract. Without wanting to skew the market, what we would certainly like to see is that there is potential for a level playing field, for example, in NHS contracts and MoD contracts that might give some of those UK companies the ability to tender for those contracts and create some jobs here in the UK.



HOUSE OF COMMONS

But we do need to be very careful because the pandemic could be not that far away, and because we rely so heavily on airfreight our industry is particularly vulnerable for when things go wrong.

Philip Law: From my perspective there are two points. One is clearly to diversify sources of supply, but also Government have a much stronger role in this whole foreign trade area in terms of: Government must invest more in export support, through exhibitions and through the ways that we have discussed before. With the double whammy of recovering from the difficulties caused by the virus and Brexit as well, these two things combined dictate that the Government must help business win new markets overseas through greater investment in that export business.

Q157 **Mick Whitley:** This is for Mr Alger and Mr Law: how do your respective industries view the idea of bringing home—near-shoring or on-shoring—manufacturing that is currently carried out abroad?

Paul Alger: Certainly from our point of view, from our industry, near-shoring and on-shoring has been going on at a steady pace over the last 10 years. This has been something driven by just-in-time, for example, in our supply chains and there is some very wonderful world class manufacturing at a niche level but also increasingly we are supplying the High Street and to places like the East Midlands, for example. It is something that we see as being very profitable for the UK. It is something we would like to see a lot more of. It is a good thing because it creates good jobs.

Philip Law: I would replicate that. I would say exactly the same. The plastics industry would dearly love to have much more on-shoring. If it is possible—there are difficulties here—but getting the big original equipment manufacturers to invest in the UK is the key basically.

It was a golden age for plastics processing in the UK when we had the major Japanese manufacturers here in the 1980s and 1990s. They left through economic reasons where it was more economic for them to manufacture in Asia than the UK. We would have to create a super-attractive proposition of inward investment incentives to be able to pull that off and a buoyant market here as well with easy access to the EU. That is the challenge.

Chair: With mention of a golden age, I can see somebody who might be able to remember that golden age, but certainly our own golden boy in Mark Garnier waiting patiently.

Mark Garnier: One quick mention of Harris Tweed.

Chair: Kindness reciprocated, thank you.

Q158 **Mark Garnier:** Mike, can I direct a question specifically to you? Obviously we had a lot to do with each other when I was a Minister and I learned a great deal from you and your members. It comes back to this point of on-shoring and how you can try to make yourself resilient.



HOUSE OF COMMONS

You identified four or five reasons why you contract out to other people, excellence and all the rest is very important. But one thing you did not mention was something that I remember very much from when we were doing business together and that was given the fact that you export 80% of your products—the automotive output is exported—the automotive sector is very keen to do a natural hedge on its currency exposure and to do that you then go off and cause a new order but in the currencies that you obviously have an exposure to. That is the first thing.

The second thing of course is your supply chain. You have a just-in-time supply chain and your OEMs pay at the last minute, thereby the supply chain, to a certain extent, is acting as a banker to the industry. The very big producers have very fine margins, which obviously benefits their ability to exploit markets.

When it comes to the potential of trying to build resilience within your supply chain, one of the answers is on-shoring or near-shoring but if you do that you are now breaking down your ability to choose those very high-quality producers. You are now having problems with your natural hedging. It could be an advantage with your just-in-time supply chain but there are various other factors that are coming in. Whereas some people say near-shore or on-shore; is that realistic?

The other important point is I understand that 80% of a vehicle can be manufactured in the UK but it is not manufactured in the UK so part of my question is also: to what extent can you shift around the manufacturing of parts? It is quite a complicated question but at least you understand it.

Mike Hawes: Potentially you might have partly answered it in the question. You are right, in terms of those criteria in which you choose a supplier or choose a customer or whatever, location is not—I did not mention location within them because you want the best cost, the best quality, the best reliability. Clearly if that manufacturer, that supplier, is close they should have an inbuilt advantage because obviously the logistics costs are much less.

The way the industry is operating, it tends to be about—a ballpark figure—half the parts are produced or sourced from the UK and half come from abroad. There is, as you rightly identified, an inbuilt hedge into that because you are buying in dollars, you are buying in euros, you are buying in whatever currency you are sourcing that from.

Ultimately we look at the UK industry and it is probably only about 60% of the parts that we can build here. There are gaps that we just do not have a UK-based supplier. That is going to become potentially more pronounced as we move away from internal combustion engines towards electric vehicles. We have no major battery producer and that will potentially become 20%, 25% of the value of the finished vehicle. That is why Government and industry want to try to attract a major battery supplier to help keep the industry competitive.



You do need to try to make sure you have a competitive offer to attract. I go back to one of those first points I was making. It is about capability as well as capacity. It is a long-winded way of trying to say we will always try to look at the best suppliers, and suppliers themselves look for the best sub-suppliers, wherever that may be, but you are looking at costs, quality, innovation, reliability, which is becoming increasingly pronounced when you have that exposure.

Q159 **Mark Garnier:** Can you do it, though? Can this sector sort itself out in such a way that it is resilient to these shocks or is it too complicated?

Mike Hawes: To a certain extent it is—no one can be resilient to a pandemic.

Q160 **Mark Garnier:** In terms of the supply chain though, not necessarily your customer. It is the supply chain I am specifically thinking about.

Mike Hawes: Not to a pandemic. But if we had localised everything we would still be, perhaps, potentially in a worse position because everything would still be shut down while our major competitors, Germany, France, Italy, are accelerating away. We may have been slower going into it or something but they would be leading coming out.

You cannot roll back the clock. We are part of a global industry. Globalisation; this is undoubtedly bringing it under scrutiny but it is very hard to conceive people abandoning globalisation. It might be changed at the edges in terms of some of the exposure, some of the particularly risky elements of globalisation. I go back to batteries. At the moment most batteries come from China, Korea and Japan. Then you look at the components that go in them, the raw materials, and those are coming from places like—in the case of some of them—the Democratic Republic of Congo. For any company that is doing its risk analysis that is going to be a big flashing light. To a certain extent, you have to operate within the bounds of what is feasible and viable.

Chair: Talking of automotive, it would be wrong and remiss to go much further without coming to Matt Western who has indicated he wants to come in at this point.

Q161 **Matt Western:** Just on that point, a question not just on automotive but all three of you, but very briefly is: to what extent downstream businesses are looking at upstream supply and having to think about whether they may need to finance them or find some ways of securing them to ensure the resilience of that supply chain. I appreciate—not criticising Government here or anything—but there have been moves, there have been changes, there have been the bounce-back loans as of Monday. To what extent are you aware that some of the larger businesses are looking further upstream and thinking we need to protect our supply base?

Mike Hawes: Yes, absolutely. They will do that. They do do that. That is why it is important to keep those big businesses going because for all the



HOUSE OF COMMONS

support you put into the supply chain, if they do not have the orders it is almost a waste of time. First and foremost, you have to keep those large businesses, whether that is a tier 1 or an OEM, get them restarted, get them operating. They will almost by definition have to support sometime some of the suppliers and they keep a close eye and try to support where they can. Because they recognise, depending on the nature, depending on the OEM, they may have deeper pockets than the supply chains, so they have to support them. Not necessarily in finance but in management support and other support. It is a constructive relationship and different major brands will operate in a different way with their supply chain but everyone needs the supply chain and, equally, the supply chain needs the OEM.

Philip Law: In the plastics industry there have been one or two isolated examples of plastics processes becoming raw material producers themselves, but I do not think there are any examples being contemplated at the moment.

Paul Alger: We have not on the fashion side seen much of that. There are a couple of examples where textile companies have started to invest in smaller fashion manufacturers, particularly to try to bridge the gap on PPE and they are supporting them to help them to be able to survive. I would say the biggest complaint from our smaller suppliers is precisely—to go back to the earlier point—that not enough of this is happening.

Chair: We will draw to a close. We have run a little over time but not badly over time. I am still intrigued by what the answer might be to Mark Garnier. I am not sure if there is a question but the facts of the 80% of manufacturing of the motor vehicle could be done in the UK, what the difference to the current situation might be. Somebody somewhere might be able to give us that challenge.

Thank you all for your time today and your patience. Can I thank you too for the mentions of Harris Tweed and Stornoway Plastics? We should have mentioned Harris Gin, of course, which is maybe more appropriate in the current circumstances. Or North Uist Gin or Barra Gin, I think I have mentioned them all there, shamelessly. I hope you enjoyed your afternoon. It has certainly been worthwhile. There has been a lot of stuff floating about, a lot of food for thought, which we will look at afterwards and certainly a lot of good evidence for our report later. I wish you a good afternoon. It is beautiful here in the Hebrides and I hope it is where you are too.