

Select Committee on International Trade – Submission of Evidence on the Impact of Covid19 on International Trade from the UK Fashion & Textile Association

Impact on UK trade internationally over the short, medium and long term:

1. The outbreak of Covid19, the corresponding cancellation of orders and business and the subsequent UK lockdown have had an immediate and dramatic effect on all businesses. Due to the complicated supply chains which exist within the UK fashion and textile industry, the companies we represent have been hit particularly hard and most are already struggling to survive. Whilst the lockdown will save lives, the damage done to the companies, many of which are small designer businesses or family-run private manufacturers, as well as the damage done to the economy by lockdown is already creating massive hardship for the industry although a minority of companies have transformed their businesses to take advantage of new opportunities during the crisis.
2. It is estimated that between 30% and 40% of SMEs in the UK fashion and textile industry will not survive beyond the end of 2020 due to the outbreak. Once the furlough schemes come to an end in June, we expect to see the closure of a large number of SMEs including high profile fashion designers, textile designers, fashion and textile retailers and smaller manufacturers. Many people hoped that the support from the Chancellor would support them through the crisis but have found that they are not eligible to qualify. We expect that these business models, which have not been understood well before the crisis, will leave many households to question whether entrepreneurial business is still viable in the UK and look for paid employment elsewhere.
3. As exports are the lifeblood of our industries, especially for UK designed and manufactured products to markets including the US, Japan and the Far East, if the businesses fail, the UK's exports will also be severely and negatively impacted. The situation will be compounded if the UK government is unable to come to FTA agreements with the EU, US, Japan and others in early 2021.

Effectiveness of government intervention to support businesses during the Covid19 outbreak:

4. Whilst the Chancellor's support packages have helped to keep people home and safe in the short term, there are very many areas where the schemes are not fit for purpose for our industry and this will impact exporting businesses, especially those which are "Born Global" (i.e. they have little or no market for their UK designed or manufactured products). In particular, loan schemes are difficult to access, rates and other support schemes are not universally available (i.e. only for the hospitality sector) and the furlough scheme is costly to the taxpayer and inflexible compared with other better schemes in parts of the EU, especially as the UK starts to attempt to get back to work. There is a lack of support for owner/drivers and manufacturers who represent the lion's share of our UK fashion and textile exporters.
5. Due to the timing of the outbreak, fashion and textile companies have been hit on a number of fronts. Firstly they have lost or expect to lose payments for goods they

had already produced for shipment to customers, in February and March. In some cases, they shipped the goods. In others they may still be in their UK or other warehouses. In other cases, the goods are expected to be returned to them once the lockdown is over but by this time they will almost certainly be obsolete. Secondly, most exporters have reported the almost total cancellation of orders for forward order goods for the rest of the year. They have, therefore lost most of the revenue from their sales in 2019 and have little or no prospect of business looking forward to the rest of 2020.

6. For larger companies, CBILS will help them to stay afloat and transform those areas of business which can be transformed but for the majority of smaller SMEs and microbusinesses, more debt is not the answer and UKFT has been pressing DIT and the government to consider an emergency fund to help these companies. In addition, we have been told of many cases of companies being told that they were initially eligible for CBILS only to be rejected by the banks.
7. UKFT has recently conducted a survey of member and non-member companies across the fashion and textile industry. All were exporting before Covid19. The following are the highlights.
 - The vast majority, 70% said they had orders cancelled as a result of Coronavirus
 - 66% have furloughed staff under the CJRS
 - 62% have said they expect job losses as a result of Covid19
 - Only just over half, 53% of businesses, are managing to operating in some way or other
 - 38.2% are using or planning to use the small business grants but a massive 43% say they are not eligible
 - 36% are using or planning to use CBILS, 46% not and 18% not eligible - but subsequent questioning suggests that most companies are finding CBILS very difficult to access and that the banks are not being supportive in spite of the government's 100% support
 - 26% are using or planning to use the employer refund of SSP, 40% are not
 - 35% are using or planning to use the business rates relief scheme, 15.8% not and 49.5% not eligible
8. We have also conducted a similar survey on the lack of rate relief for manufacturers and the aggregate responses as of today are as follows:
 - 95% of manufacturers have lost between 95% and 100% of their sales

Medium and long term impacts of Covid 19 and how should government seek to mitigate these:

9. Once the country begins to get back to work, all companies (large and small) are going to need help to regrow their export businesses. UKFT is working on an industry recovery plan but the following are some of the immediate requests, all of which will need additional government support and/or flexibility. Importantly, we believe that smaller and larger companies should be eligible for support, including more established brands, as most will be looking to build their businesses from zero. Our EU competitors already have a similar approach.
 - A flexible furlough scheme to get businesses back to work gradually, especially our niche manufacturers of luxury export products in London, Scotland, the Midlands and the North

- A new enhanced and properly sourced Tradeshow Access Programme led by industry with government to promote the UK at key international trade fairs with higher grants
 - Wiping clean of the slate on all trade fair and mission activity
 - Industry led sectoral trade and research missions for established and new companies – especially looking at the USA, Japan, Korea and China
 - Store promotions in overseas markets to encourage purchase of UK manufactured and designed goods
 - Significantly more active support from our Embassies and Posts for industries and companies looking to get back on their feet
10. UK is still at a disadvantage compared with many of our EU competitors, especially France and Italy, where support schemes are more generous and allow for longer term industry planning. Some have been much quicker than the UK to plan for the end to lockdown and increase their support in certain areas. For example, French companies in our sector can claim up to 60% of trade fair costs through their trade association (from Défi) up to a ceiling of €18,000 and companies of all sizes and experience may be supported as long as they are participating in the scheme, compared with £1200 per company in the UK where only companies which have not had 6 grants before may apply.

How to facilitate international trade in essential goods:

11. The Covid19 outbreak has taught us that an overdependence of imported PPE and other goods leaves the UK dangerously and unacceptably exposed if there are further outbreaks of the virus or other viruses. UKFT believes that the government should be looking working with us to develop a plan to ensure that UK manufacturers are encouraged to invest in essential equipment and skills. Changes to NHS and MOD procurement procedures and contracts and the presumption that “cheapest is always best” would give UK manufacturers the potential to benefit from longer-term contracts, provide much needed jobs in the UK and ensure that the UK had the right equipment and UK supply mechanisms. Potentially, the goods could also be exported if the UK were able to develop the right expertise and a reputation for excellence, as other European countries do. UKFT believes that this is not a difficult task as a lot of high performance fabric already originates here. The industry has the ambition and the capability to make a difference if NHS and MOD contracts are varied.

How can DIT work across government departments to address issues relating to Covid19:

12. Generally speaking, we have seen that DIT and BEIS have worked well together in our sector. We believe that the right information has been fed across the chain and up to government and the treasury.
13. We have spoken to Minister Stuart who seemed open to speaking with us about urgent changes to the TAP scheme. We would also like to work with DIT to look

again at some of its targets and activities to make sure they align with industry and national priorities.

14. The two areas government have a uniquely essential role in are: providing money and high-level convening. We would like to see DIT doing much more to support small and medium exporters, recognizing that for many, CBILS loans are not the answer and that repackaging existing support is not the answer. We would also like the government to look again at the possibility of creating a UK investment bank to support exporters over and above the UK Export Finance remit which leaves too much trust and control with the banking system, which has been tested and found to be wanting throughout the crisis.
15. For the longer term, and not specific to Covid19, we believe that there is the potential for DIT to offer 3 year planning for schemes such as the Tradeshow Access Programme, trade missions and other promotions. DIT maintain that the treasury will not allow this to happen but most other government expenditure is budgeted in advance. Long term budgeting allows industries and companies to plan ahead to make investments.

How should government work with WTO and bilateral trading partners:

16. One of the largest threats to our industry would be the end of the UK's preferential access to the EU's markets, both in and of themselves but also because the majority of our exports to non-EU countries are planned and confirmed at tradeshow and other meetings in the EU. The ability of British business people to be able to travel to the EU and take their samples and goods there easily and at no extra cost is central to the continued prosperity of the UK and the survival of the industry.
17. The UK fashion and textile industry would like to see an immediate extension of the transition period as the UK leaves the EU Customs Union, followed by a rapid push to conclude EU trade deal and US & Japan.
18. We believe that the UK should also be using its new independence from the EU to work with the WTO to push for reduction in global tariffs and a removal of TBTs.

Impact of the pandemic on global trade patterns and international supply chains:

19. The impact of the pandemic has been immediate and massive with many important and dangerous repercussions. Some are referenced elsewhere in this submission.
20. In addition to those, in the UK we are seeing larger UK (and some international) companies deferring or cancelling payments to suppliers who are smaller. This pushes the financial pain further down the supply chain and into other sectors. The cancellation of so many import and export orders by major UK retailers will also have the effect of taking work away from UK and other international manufacturers, designers and suppliers. In particular, countries like India, Pakistan and Bangladesh are expected to especially badly affected, leaving workers there also without jobs.
21. In the UK, the domino effect caused by the cancellations and deferments is causing huge damage to the UK manufacturing supply chain. UK manufacturers of fashion and textiles are running short of essential components for their UK production, whether these can be sourced in the UK or overseas. Freight is difficult and

expensive, even for PPE products! The UK's fragile fashion and textile manufacturing industry expects to see a number of mills and factories close as soon as the CJRS comes to an end at a time when no other jobs will be available in the industry. This will, in turn, lead to the skills we have been investing in leaving the industry unless urgent short and medium financial support is offered to businesses. Retailers and UK manufacturers are deeply worried about the prospect of the UK not having an EU and Turkey FTA in place by the end of the year.

Other issues and considerations:

Coronavirus Job Retention Scheme

22. The UK Job Retention Scheme offers an all or nothing furlough approach. Whilst initially it was essential to get as many workers on some form of support as possible, employers, especially manufacturers whose products are mostly exported, are finding that the scheme is inflexible and the scheme still fails to address the forgotten middle of people and companies who take their salaries from dividends or other arrangements.
23. We believe the UK scheme should be amended to also allow employers to furlough on a part time basis. In the UK, the definition of the furlough regime is that there is "no work". In other EU companies they recognise that there may be "less work", giving employers the ability to use a percentage of the normal contracted hours, confirmed by the employer on a monthly basis.
24. Allowing 'part-time furlough' would make a huge difference to employers, employees and the cost of the scheme to HMT and would help business plan to get back to normality over a shorter period of time.
25. Factories would have a better chance of being able to organise social distancing if they could split their team into two or more shifts and have, for example, half of their workers on the factory floor for the period of time the employer needs to cover the work which is there to be done
26. The taxpayer, instead of having to pay 80% of the costs up to £2500 per employee, could make dramatic savings in those areas where employees still want their staff to work
27. If the government intends to help businesses stay afloat during and after the current crisis the directors must be able to undertake administrative tasks while on furlough.

Owner-Drivers of micros and SMEs

28. The fashion industry has a very large number of owner/drivers running micro or SME businesses who are companies with small turnovers but where the owner pays themselves a minimal amount through PAYE and the rest through dividends or draw down. These owner-drivers are a vital part of the creative industries and currently receive very minimal or no support for the government schemes. Most of them export more than they sell in the UK.
29. UKFT recommend that either the furlough scheme or self-employment scheme be extended to those that receive a significant majority of their income from dividends

or draw down. This support should be capped at the £2,500 a month limit of all other schemes. There could also be a cap on the size of businesses that could access this support based on company turnover.

30. *The Scottish government has very recently introduced wider and deeper support on rates and grants for businesses that fall outside of the scope of existing schemes and we desperately need a similar package in England and Wales.*

12-month business rates holiday for all retail, hospitality, leisure and nursery businesses in England

31. This package has been generally well received but it creates an unfairness in the system as it does not recognise similar levels of disruption in other industries.
32. We believe that all affected industries should be supported in this manner but would like to make a special case for UK manufacturers to be included. All businesses in Scotland and 95% of businesses in England and Wales have shut. There are no orders coming in and many existing orders are being cancelled. Companies are having to fund the employment costs while the furlough scheme is established yet during all of this they are still expected to pay rates. Companies are rapidly running out of cash and a rates holiday would be a huge relief to many SME businesses.

Small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief

33. Many exporting companies which are in dire and urgent need of this support fall outside the narrow band of SBRR and rates and are deemed ineligible.

The main cases are:

- Businesses which have been disrupted where the business is run from home (therefore rates may be unclear)
- Businesses which do not qualify because they pay rent to a landlord which includes their rates – especially for smaller designer businesses and designer makers
- Businesses which are small but because of their location in the country (but interestingly below the threshold for the hospitality sector)

34. We believe these arrangements should be revised and brought in line with those in place for the hospitality sector which is similarly affected but far more generously supported in almost identical circumstances.

35. *The Scottish government has very recently introduced wider and deeper support on rates and grants for businesses that fall outside of the scope of existing schemes and we desperately need a similar package in England and Wales.*

Grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000

36. We believe this level of funding should be available for all businesses and manufacturers whose business has been interrupted as a direct result of Covid. This

issue is especially important for our “heritage” UK manufacturers who export most of their output.

37. It is worth noting that the generous level of support was offered to those elements of the restaurant and hospitality industry, which were ordered to close by the government. This made good sense. However, since then, following mandatory social distancing and other requirements, all non-food stores have been obliged to close and most factories have found that their work force has followed the government’s advice to “Stay At Home”. They have also effectively been forced to close under the lockdown.
38. We believe that all companies which have been forced to close should be eligible for this grant if they are not already in receipt of the Small Business Grant.

Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank

39. There continue to be problems with this scheme as the banks are inundated and some are making the process more difficult than it ought to be.
40. The key issue with this loan scheme is that it is a loan and not a grant. Most of the fashion and textile businesses which have been affected by Covid19 have lost payments for goods already delivered for which they believe they will now not be paid – ever. For a large number of the small and micro-businesses and a large number of medium-sized manufacturers, they see the long-term challenges left by Covid19 as potentially insurmountable without interim support. Most refuse to add more debt to their businesses and/or personal liability where there is no guarantee that they will ever be able to pay it off.
41. We are also seeing cases of larger retailers telling their smaller suppliers that they will not pay any existing invoices for at least 6 months. In some cases, these retailers may have received support from other schemes and rent holidays, VAT and HMRC deferrals etc, they may even be able to access loans through CBILS, but they are still squeezing their smaller operator customers. Ideally, they should be using CBILS to cover their commitments, but many are choosing not to as they are deeply concerned that they are carrying excess stock. This is a very dangerous move as it pushes the hardship further down the supply chain and encourages business failure and administration. We believe that urgent and clear government intervention is needed to make it stop.

UKFT recommendation:

42. Rather than loans, we would like to see more exceptional grant or other direct financial support for companies which manufactured and/or delivered goods in the period January-March 2020 which will remain unpaid due to the specific timing of the outbreak.
43. Government to intervene to ensure that that large companies (some of which have received support from HMG) do not vary their payment terms to smaller UK (or other) suppliers which will only pass problems and hardship down through the supply chain.

44. Government to use the means at its disposal to ensure that larger businesses pay their smaller suppliers no later than 60 days after invoice date unless the supplier agrees to a later date.
45. Moving forward, we would like to see the setting up of a British Business Investment Bank to support companies in a proactive way.
46. Finally, in the past, the UK has been held back from supporting its businesses as the UK was part of the EU and had to respect its De Minimis rules (even if others were sometimes working around those rules). Now that the UK has left the EU, the UK may make its own rules on the level of support it can give to companies in specific industries. We believe that a joined-up approach to export support and a fresh approach to government procurement rules are open to the UK and would not prevent the UK from doing good FTAs with the EU, the USA and Japan.

UK Fashion & Textile Association, 23rd April 2020