

**Written evidence submitted by Howard Kimberley (CEO at Aeromet International Limited)**

We are writing to bring to your direct attention an important issue precluding some UK businesses (such as Aeromet) from accessing UK-government back loan schemes to secure continuity in the wake of COVID-19. This letter is being submitted within the terms of reference of the existing Treasury Committee Inquiry – the Economic impact of coronavirus.

In Aeromet’s case, the survival of a key UK aerospace business - and with it many hundreds of UK manufacturing jobs - is now under acute threat because of the particular issue highlighted in this letter.

**Brief Background**

Aeromet International Limited is a world leader in producing high integrity components for the aerospace and defence industries. Aeromet casts aluminium and magnesium alloys using both precision sand and investment processes and is a critical supplier to Airbus, Boeing, and Rolls-Royce PLC amongst others. Aeromet has over 350 UK employees and supports many smaller specialist suppliers and sub-contractors within the UK aerospace supply chain.

Aeromet is a high growth business. Over the last several years, over one hundred new UK jobs have been created (+40%), additional manufacturing space has been taken on, and Aeromet has been selected as supplier of choice on many new, high profile aerospace programmes, including supplying Boeing’s new factory in Sheffield. Aeromet also supports Airbus’s wing build lines in Broughton, and Rolls-Royce’s assembly lines in Derby. All of the necessary investment (amounting to over £7m) to seed this growth has been funded with loans from Aeromet’s shareholders.

Like many small and medium-sized businesses, Aeromet has been unable to secure suitable further financing facilities from conventional sources in the wake of COVID-19, and with liquidity now rapidly running out, is now reliant for its survival on being able to access UK government funding support.

**The Issue**

We understand that the UK’s coronavirus business loan schemes for small, medium and large companies fall under the EU’s rules about the aid member states can give to companies. EU rules of course apply to the UK until the Brexit transition period ends in 2021.

As things stand, the rules state that government-backed loans cannot be given to Undertakings In Difficulty (“UIDs”). There are various definitions of such undertakings, one being that accumulated losses exceed 50 per cent of their subscribed share capital. This rigid definition precludes loans from reaching businesses that are viable, who have invested heavily by increasing operating expenditures to support programmes that will return revenue in future periods, and/or whose long term capital base comprises mostly shareholder loan, rather than equity share capital. Aeromet is such a company.

We understand that the European lobbying group Invest Europe has written to the European Commission to flag this issue on behalf of various groups, including the British Venture Capital Association. The issue has also been reported in the UK media (Sky News, *Coronavirus: Companies face EU state aid battle to access loan scheme*, 27 April 2020). We are, however, concerned that the significance of the issue may not have been sufficiently well publicised, or its ramifications for certain high growth businesses perhaps fully understood.

Many ambitious and successful UK businesses with strong prospects of being able to repay any government-backed loans will technically be considered to be a UID under the current framework. This means accredited banks tasked with applying state aid rules for the purposes of CBILS and CLBILS, are unable to lend to these companies under the UK schemes.

With a healthy orderbook, sole source positions and valuable long-term sales contracts, Aeromet can clearly demonstrate not only viability as a business, but also the critical role it plays in supporting the UK and international

aerospace supply chains. Furthermore, Aeromet has received specific support letters from each of Airbus, Boeing and Rolls-Royce intended for disclosure to potential loan providers to help inform the viability assessment.

In a nutshell, it is only the blunt UID test - that Aeromet cannot pass based on strict application of the current definition - that stands between the survival of a world-class UK aerospace business, and possible collapse through lack of liquidity brought on by COVID-19-related market dislocation.

We believe many other UK businesses will be in a similar position to Aeromet. However, we are not completely assured that the same rigid test is necessarily being applied in all cases in other EU states.

### **Our Request**

We would respectfully ask that the Committee consider making appropriate representations for further relaxation of the European Commission rules so they are appropriate for businesses that have borrowed heavily to fund future growth and that are otherwise positioned to perform well (save for the current crisis).

We understand that in the current environment, any reasonable amendment notified to the European Commission is very likely to be approved within one to two days. The situation for Aeromet is becoming critical, and we should therefore be most grateful to receive the Committee's urgent attention and support.

*May 2020*