Ad hoc All Party Group on the Vehicle Component industry

Briefing paper

Introduction

The automotive industry has been one of the hardest hit sectors of the economy following the credit crunch and economic downturn. The industry's supply chain – the component industry – has also been hit by a similarly bleak turn of events.

The component industry is highly skilled, employs 100,000[1] people and prior to the current downturn was a vibrant and viable part of our manufacturing base. Yet without prompt and effective action, it faces a grim future: widespread redundancies have already taken place, but so far we have only witnessed the tip of the iceberg.

Perhaps even more worrying is that if these jobs are lost, it is highly likely they will be lost forever, as when the downturn comes, they will go to other countries.

About the ad hoc group

In response to concerns from the industry, independent observers, and trade union representatives, we have formed an ad hoc group of Parliamentarians from all parties. A list of those who have been active in the group is attached as an appendix.

It is our view that well-targeted intervention now can save an industry that over the long-term is viable and robust.

The ad hoc group has received input from the Society of Motor Manufacturers and Traders (SMMT), Unite the Union and individual car component manufacturers.

Challenges facing the UK vehicle component industry

The automotive industry is facing highly unusual challenges arising directly from a steep fall in demand as a result of the downturn. Monthly vehicle registration figures have been declining at an increasing rate for a year, and are now running at over half of their level 12 months ago.

All vehicle manufacturers based in the UK have introduced non-production days. Some plants have stopped production on a temporary basis or introduced short-time working. The economic slowdown has therefore also directly affected component suppliers - if vehicles are not being produced, they don't need the parts to go in them. Over the past 12 months, individual companies have seen their revenue fall to a third of previous levels.

[1] Source: Society of Motor Manufacturers and Traders

Key asks

Because the UK component industry is fundamentally viable, intervention to support the industry through this short-term, yet exceptionally difficult, period is quite justified and necessary.

By proposing measures that focus on the demand side, staff training and environmental performance, narrow protectionism can by avoided while achieving wider policy goals.

We would ask the Government to introduce:

1. Support to ensure staff can remain employed – a burden that needs to be shared between employees, employers and the Government

2. Support for car finance to stimulate the demand side

3. Appropriately structured scrappage – subsidising the replacement of old cars in favour of newer more environmentally friendly models, taking their full carbon footprint into account

4. Access to credit and liquidity – companies throughout the supply chain need specific help in addressing short-term problems and quick access to credit and liquidity is a priority.

More details and supporting evidence for each of these proposals is outlined below.

Success factors

Any intervention, however well intentioned, runs the risk of failure, if critical success factors are overlooked. We believe it is important that the implementation of these proposals should be:

- Simple, accessible and available quickly – the industry needs rapid action to avert collapse

- Shared and encourage joint working – we believe it is important that the costs and rewards of any proposals should be handled in a partnership involving employers, component companies and Government

- Focused and clear in its objectives – for example, it would be perverse if, in an attempt to reduce carbon emissions, scrappage schemes encouraged the importation of new vehicles. It is therefore important that the entire carbon footprint of vehicles subsidised under the scheme is taken into account (i.e. manufacture, shipping and on-going running costs).

The nature of the automotive industry is global and actions taken in other countries, particularly across the European market, will affect UK manufacturing and jobs. It is therefore important that we ensure consistency with other European countries that avoid market distortions and have clear policies to stimulate the purchase of new cleaner and safer vehicles.

Further information and supporting evidence

1. Short-time working subsidies training support

The rationale for a scheme to support short time working is to retain labour capacity and associated skills so that they can be made available as soon as the upturn arrives.

In Wales, the ProAct programme was introduced on 2 Jan 09 to support short-time working and provide support for training costs. The cost of this initiative is met by three parties: the employer that pays staff a significant proportion of employment costs while receiving disproportionately less work; employees, who receive up to 70% of basic pay (reducing rates below this amount can jeopardise employee financial stability such that the scheme becomes impractical); the Government which subsidises training and employment on a short-term basis, safe in the knowledge that once normal market conditions resume, the industry will still be viable.

As with the Welsh scheme, selection criteria can be applied to ensure the best possible impact and avoid blanket interventionism, for example eligible companies should:

- Have been inherently viable prior to the downturn – i.e. have the potential to survive the recession and be able to make a reasonable case that the lost work is temporary
- Be strategically important – this should be seen in terms of skills and function in the market, not just relating to size (i.e. SMEs can have important roles as well as large companies)
- Must have made, or have a date for introducing a significant level of short-time working, e.g. a minimum of 20%
- Be considering or have made redundancies and be able to show that short time working would have a positive impact on this

2. Car finance

There is voluminous anecdotal evidence to suggest that the availability of credit for purchasing cars has dropped dramatically over recent months. Because figures are not collected on the full range of credit mechanisms that specifically relate to car purchases, it is hard to quantify the full extent of this fall in credit availability, however, we do know that:

- Advances related to new car sales fell by 25% in Q4 2008 compared to Q4 2007 and 5% in the year to December 2008 compared to 2007. The number of new cars sold under dealer finance fell by 27% in Q4 2008 compared to Q4 2007, and by 3% in the year to December 2008 compared to 2007.[2]

- Also, non-secured credit card lending fell by:

  - 15.3% in the six months to Jan 09
  - 25.1% in the 12 months to Jan 09, and
  - 35.1% in the 24 months to Jan 09[3]

[2] Source: Finance and Leasing Association (FLA)
[3] Source: Bank of England series RLMH, VZOY, VZQN, VZQP

3. Scrappage

Evidence from Germany's scheme to pay a €2,500 (£2,330) scrappage premium to customers who trade in their 10 year old cars for newer, more fuel-efficient models is encouraging. Since the scheme's introduction, each month has seen a steady increase in year on year new car registrations. Latest figures from March suggest that the scheme has boosted demand by around an additional 39.9%, i.e. an extra 114,000 units to a total of 401,000 year on year. In Q1 2009 (Jan-Mar) the overall increase is 18%, i.e. up by 132,000 to 868,000 units.

The SMMT has proposed a similar scheme that would enable owners of cars and light commercial vehicles (LCVs) over nine years old to scrap them in return for a £2,000 incentive towards a new or nearly new vehicle. Its aim would be increasing new vehicle sales, therefore securing UK jobs whilst taking older and higher polluting vehicles off the roads. It should be targeted, i.e. cars and light vehicles over 9 years old, and temporary – i.e. should last for 18 months.

This is also a no- to low-cost option: as evidenced in Germany, their scrappage scheme is close to self-financing as an increase in sales boosts VAT revenues

4. Components Industry access to credit and liquidity

We welcome the good progress made by Government with the announced Automotive Assistance Programme (AAP). However companies have yet to be able to take advantage of the Government loan guarantees offered by the AAP and companies are becoming increasingly distressed. To ease the application process, communication between banks and companies should be improved. Significant improvement in the access to credit and finance for the automotive supply chain would benefit vehicle manufacturers and suppliers across all tiers.

Conclusion

The component supply industry includes many major multinational firms and a large number of SMEs. The New Automotive, Innovation and Growth Team (NAIGT)[4] will soon publish its final recommendations. Its objectives are to ensure the automotive industry is ready to take advantage of the opportunities that can be realised by UK industry when the economy begins to recover. This report is likely to echo the analysis underpinning this paper.

While the long-term fundamentals of the automotive components industry are sound, current trading conditions threaten the viability of many companies in the UK together with their skill- and technology-bases. It is our belief that the actions outlined in this paper will ensure this sector is able to survive and emerge from the downturn as a competitive force for UK industry in the global automotive market.

[4] An industry-led project facilitated by BERR's automotive unit that is developing a collective strategic view from the automotive industry on its innovation and growth challenges.

Appendix – membership of the Ad hoc All Party Group on the Vehicle Component industry

As an ad hoc group, we do not have a formal membership as such, but the list below identifies MPs who have been active in the Ad hoc All Party Group on the Vehicle Component industry to date.

- Tony Baldry
- Richard Burden
- Lorley Burt
- Rosie Cooper
- David Crausby
- Janet Dean
- David Drew
- Louise Ellman
- Fabian Hamilton
- George Howarth
- Lindsay Hoyle
- Brian Jenkins
- Fraser Kemp
- Julie Kirkbride
- Andrew Miller
- Margaret Moran
- Edward O'Hara
- James Plaskitt
- Andrew Selous
- Angela Smith (Basildon)
- Anne Snelgrove
- David Taylor
- Mark Todd
- Derek Twigg
- Nicholas Winterton