

Rt Hon Alok Sharma MP
Secretary of State for Business, Energy and Industrial Strategy

Sent via email to: Secretary.State@beis.gov.uk

23 December 2020

Dear Alok

Re: Supporting our aerospace manufacturing supply chains through to the other side of the Covid-19 crisis

I am writing on behalf of the aerospace industry and supply chains across the West Midlands to highlight some useful ideas that came out of a roundtable meeting I chaired recently to explore how Covid-19 is affecting aerospace manufacturing SMEs.

A key part of the roundtable was to ask how we can best support these companies and their skilled employees, in part from a levelling-up perspective but more because the country needs these companies and people to be at their best to help pull the economy forward as we emerge from the pandemic.

These are sophisticated high-tech firms that make parts of aircraft and aero-engines in tiered supply chains for Airbus, Boeing, Rolls-Royce and other aerospace OEMs. As you will know, this is an advanced engineering sector in which the UK is a global leader and which has brought the country significant economic and employment benefits. In the West Midlands, we have deep manufacturing supply chains with strong local roots and aerospace is a key part of that firmament, having doubled in size in our region between 2005 and 2020.

I organised the roundtable with the Midlands Aerospace Alliance, our region's 300-member body for supporting the aircraft manufacturing supply chain. Our stakeholder group included industry leaders, MPs, Make UK, trade unions and LEP chairs including the Black Country LEP, which, with its strong local cluster, leads on aerospace for WMCA.

In simple terms, many of these companies have suffered a dramatic loss of business as the collapse of flying since early 2020 has worked its way down the tiered supply chains, from Heathrow to Wolverhampton. When consumers don't fly, airline incomes are hit, aircraft purchases are suspended or reduced, manufacturing supply chains slow or stop, and costs and workforces are cut. The challenges extend well beyond the OEMs such as Rolls-Royce and Airbus. We risk losing 25-30% of our skilled aerospace workforce, possibly 60,000 jobs across the UK when we take supply chains into account.

Two key issues left a lasting impression on me. First, companies in these supply chains are already taking decisive actions to address the challenges they face, whether managing their cashflow or, unfortunately, resizing their organisations.

Second, as far as government support for the economy is concerned, it struck me that we all need to think hard about the different timescales involved in different business sectors. Aerospace clearly works to much longer timescales than hospitality. Recovery from the effects of the pandemic will accordingly take much longer as the causal chain I set out above begins to be triggered by the eventual resumption of air traffic. It is therefore risky to withdraw

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government support measures prematurely, especially when our aerospace sector is still suffering from the repercussions of the collapse of flying earlier in the year. How can we make sure that our competitors in countries like France and Germany do not steal a march on us by retaining their capacity with low-interest loans for airlines that enable them to continue to buy aircraft, with financial support for supply chains and with furlough-type schemes that offer longer-term support for part-time employment that enables rare and valuable skills to be retained?

Our industry leaders across the Midlands are raring to go and get back to growth. There are ways we can get behind them. At the roundtable we came to three principal conclusions about what government, both national and regional, can do to help and I thought you would wish to hear about them.

Do everything we can to encourage a return to flying

This provides the ultimate market pull for our aerospace SMEs. It is of course already high on the agenda of several government departments but I think it is worth adding our own voice here. Actions could include: testing before and after flights, travel corridors to e.g. New York, effective national track and trace so quarantine periods are minimised, and even low-interest loans to airlines -- as several countries are offering -- so they can buy the aircraft they have ordered.

Preserve and grow the skills and capabilities of our supply chain companies

A “Skills Recharge” project that fits in with my own proposals to **Recharge the West Midlands: Kickstarting the West Midlands Economy** could help companies retain and grow skills and capabilities for the coming aerospace upturn, and for the long-term, rather than seeing them dissipate and inevitably prove very difficult to re-build. Dare I say, we could learn from good practice on short-time working in France and Germany, support small manufacturers directly to retain e.g. 25% of their workforce working for their companies half-time, with government support, furlough-like, for the additional hours. Then we could put these additional hours to excellent use in a significant training and retraining effort focused on innovation management and R&D skills, technical skills around electrification, additive manufacturing or digitalisation. A similar approach could be offered in other relevant sectors. We would love to pilot it in the West Midlands, as discussed with your team under “Project Great, but we’d need to start now!

A cashflow support fund for manufacturing SMEs with finance repayable based on business performance

Despite their best efforts to manage their cash, our companies are already stretched financially, often having to hold substantial inventories of materials and finished parts that were already in the supply chain when demand suddenly stopped. The risk is that they will be unable to finance growth when it returns and supply chains will become gummed up, for want of a better phrase. What we discussed at our round table was the value of providing “performance-based” financing repayable when business recovers as it surely will. Equity and asset-based finance are inherently limited as is well known, and our idea would be akin to the CityUK group’s “student loan” like proposal for the repayment of CBILs and other debt when the economy recovers. The key thing would be to ensure that any financial support is provided directly for all tiers of the supply chain not just the OEMs – and that’s not yet happening. And
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in aerospace, an injection of financial support will be required later in 2021, after the current CBILs system is due to end, if it is to fit with this industry's timescales. Again, we would be keen to pilot this kind of approach in the West Midlands.

If there are activities you can support or lead on in these areas, or if there is any further information you and your team require, we would be keen to work with our local industry and stakeholders to assist you.

Yours sincerely

A handwritten signature in black ink that reads "Andy Street".

Andy Street
Mayor of the West Midlands