

## **Engineering and Machinery Alliance's evidence to inquiry of the International Trade Committee into the impact of Coronavirus (COVID-19) pandemic on international trade**

### **About EAMA**

The Engineering and Machinery Alliance is an alliance of trade associations working with government, and covering machines, tooling, automation, robotics, component manufacturing, distribution, and maintenance, including compressed air and fluid power. We represent companies that make the machines and tools that firms use to make things; and many of their customers.

Companies represented by EAMA very often work across sectors – from space and rail to oil and gas, from pharmaceutical laboratories to mineral extraction abroad. They have excelled in their response to the need for ventilators and other medical equipment. They often do not fit easily into the 'vertical' categorisations of sectors of the economy and the contribution of these companies can be overlooked as a result. They are essential, nonetheless. The companies vary in size and ultimate ownership, from small to very large, UK-owned to ownership abroad.

Before the COVID-19 crisis struck, there was already an urgent need to boost UK manufacturing. The importance of the sector is ably set out in recent reports\*\* by Oxford Economics for the Manufacturing Technologies Association (an EAMA member) and by the Institute for Manufacturing at the University of Cambridge for BEIS.

### **Inquiry questions and EAMA's responses**

**What impact will the global COVID-19 pandemic have on UK businesses trading internationally, in the short-, medium- and long-term?**

In the short term, for exporters: a sharp downturn in orders, concern about when orders will pick up, and increased uncertainty as to whether customers will have the ability to pay.

The immediate impact saw significant disruption to supply chains, notably from China and Italy but also other countries dependent on supplies from China, affecting the ability to fulfil orders. As a point of detail, this could affect the ability of firms to claim annual investment allowance in respect of capital equipment and we have lodged that concern with HM Treasury.

Overall, profitability is expected to fall sharply, undermining the ability to re-invest.

*\*EAMA members: Agricultural Engineers Association; British Compressed Air Society; British Fluid Power Association; British Plastics Federation; British Turned Parts Manufacturers Association; Gambica; Gauge and Tool Makers Association; Manufacturing Technologies Association; Picon; Solids Handling & Processing Association*

*\*\*<https://www.oxfordeconomics.com/recent-releases/bd178a1a-dbb9-4651-9b0c4aac020e109f>  
<https://www.ifm.eng.cam.ac.uk/upload>*

Longer term, firms are re-appraising the resilience of their supply chains. Shortening supply chains is being considered. Japan's decision to make \$2.2 billion available to firms bringing manufacturing back to Japan from China has been widely noted.

The likely path of the pandemic is as yet unclear and there is much debate about the pace and pattern of economic recovery, globally, regionally and at national level. We anticipate reductions in demand, leading to growing protectionist pressure and increased cultural tendency towards domestic sourcing among purchasers, for example in the US.

Reductions in international air travel, either due to legal restrictions or reluctance to fly, are expected to have significant impact on the ability to explore markets, forge new trading relationships in the engineering sector that rely on trust, and to maintain existing relationships. Service support will in become more challenging.

The ventilator challenge and subsequent calls for help in provision of medical equipment has brought an outstanding response from the UK supply chain, far exceeding the government's expectations, from which several lessons may be learned. There is more capability in the UK supply chain than was recognised, and firms are willing and capable to respond to OEM and Tier 1 demand, if they are asked. There are also gaps in UK capability.

UK firms showed extraordinary flexibility. There are some high-profile examples – for example car manufacturers turning to medical supply work. But there are many more examples in the supply chain, from companies showing ability to work across sectors, and to innovate. Firms represented by EAMA's members demonstrated their ability to apply technology across sectors – our members supply sectors across the economy, from space to oil and gas, from pharmaceutical laboratories to minerals extraction – as well as making and maintaining essential equipment used in the NHS.

Sector trade associations can play a significant role in helping companies to find suppliers. Several EAMA members have played an outstanding role in helping to mobilise their members, helping to find suppliers for OEMs, and being focal point for innovation and collaboration among companies.

**How effectively has the Government responded, both in the UK and in overseas posts, to the short-term negative impact of the pandemic on UK businesses trading internationally? What further steps could be taken to mitigate this impact?**

The critical issue for firms is to be able to respond effectively to demand as it picks up in export markets. This relies on effective communications and market intelligence and, crucially, the ability to mobilise and to have enough working capital to fund the supply chain; equally, to ensure payment from customers. Firms will find it difficult to assess credit risk and we are greatly concerned, at time of writing, about the prospect of a significant worsening of the trade credit insurance market.

A key issue for firms before the pandemic was support from UK Export Finance. UKEF was having insufficient impact with SMEs before the crisis – as in previous EAMA evidence to the committee. Its extension of insurance to EU and US markets are helpful but it is unclear as yet how great an impact the policy changes at UKEF have had, or how effective its overall support has been.

Greater flexibility is sought from the CJRS (furloughing scheme), to allow workers to return to work at short notice to meet changes in export demand without the penalty of losing furlough entitlement.

**What medium- and long-term negative impacts could arise from the pandemic for UK businesses trading internationally? As above.**

**What steps could the Government take to mitigate these impacts?**

DIT's Export Strategy (2018) identified that effective joining-up of government actions with trade associations was critical to success. EAMA has identified a range of actions that DIT could take to propel that thinking forward and to support exporters, which were to be presented at a DIT forum on Advanced Engineering in March. Our underlying principle was a further development of the good relationship we already have, to make it more productive, process-driven, and targeted. This could easily be adapted to take account of the extraordinary pressures arising from the impact of COVID-19.

**What steps can UK businesses take to mitigate the negative impacts of the pandemic on international trade?**

Trade associations, including many of EAMA's members, are already much engaged in supporting international trade, providing advice to firms, and arranging pavilions at trade shows abroad. They can help in the channelling of information and good practice within business communities and from government. Strengthening the relationship between DIT and trade associations can help significantly to mitigate the impact of the pandemic.

**How best can the UK Government facilitate trade in essential goods during the pandemic?**

Government can help by promoting international co-operation and setting an example. It is important that we maintain good trading relationships, including with European countries.

**How should the Department for International Trade work with the rest of central government, as well as devolved, local and regional government, to deliver a coordinated response to the pandemic?**

Co-ordination should include with trade bodies, as is implicit in the Export Strategy 2018 (as above).

**How can the UK Government engage with countries at the World Trade Organization and bilateral trading partners – including those with which the UK has a significant trading relationship or one facilitating trade in priority goods – to promote international cooperation and a coordinated global response to the pandemic?**

We have no comment to make in reply to this question.

**How might the pandemic impact global trade patterns and international supply chains in the long-term?**

An increase in protectionism is anticipated, globally, as described above. It may be too early to say with any confidence how significant that trend will prove to be in the long term.

EAMA supports efforts to raise understanding of the UK's supply chain capabilities and competitiveness, which are insufficiently recognised by OEMs and Tier 1 suppliers, both in the domestic context and for international projects. One of EAMA's members, GTMA (Gauge and Tool

Makers), initiated the Reshoring UK web resource, now supported by 20 trade associations. That should not be confused with protectionism. It is important that the UK remains an outward looking and competitive market.

For the UK's manufacturing base to flourish, we urge support for investment aimed at boosting productivity and competitiveness, and more effective export support from DIT, as above. The investment regime must be right for family-owned SMEs, to encourage exporting; in addition, the health of our vital manufacturing sector depends greatly on productive foreign direct investment (FDI), establishing and developing businesses in the UK.

**Jack Semple**  
**Alliance Secretary**  
**April 24<sup>th</sup> 2020**