



Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Friday 25 September 2009

Dear Mr Darling,

Support for extension of the car scrappage scheme

In April, we wrote to you, in advance of the Budget statement, outlining the need for action to support manufacturing through this recession and ensure it is well placed to take advantage of the upturn. We highlighted the difficulties facing the automotive and basic metals industries and called for targeted interventions to boost demand in these sectors.

The Budget announcement of a £300 million car scrappage scheme was welcomed by industry, and along with schemes in other European countries, has been successful in stemming the decline in production. As a result, highly skilled jobs within manufacturing have been retained.

New car registrations have picked up over the Summer with a corresponding increase in output in sectors which produce or supply to motor vehicles. Nevertheless, output in both motor vehicles and basic metals remains 34% and 28% below pre-recession levels respectively. It is far from certain that consumer demand for motor vehicles can remain at these levels without government and industry providing incentives to replace older vehicles. There are, therefore, clear risks that the recent upward trend will go into reverse once the current scrappage scheme expires. The attached annex outlines EEF's analysis of the scrappage scheme's impact.

The government's recent response to the Business and Enterprise Select Committee's enquiry into the automotive industry in the UK¹ details the contribution the sector makes to the economy. It also recognised that, internationally, the industry is at a turning point as growth in demand moves eastward and car manufacturers work to reduce emissions. For the UK sector to succeed in this backdrop it must continue to survive through a period when underlying consumer demand is likely to remain weak.

¹ Department for Business Innovation and Skills (2009) Government's response to Business & Enterprise Select Committee's 'The Automotive Industry in the UK' report

We are, therefore, writing to support recommendations put forward by the Society of Motor Manufacturers and Traders (SMMT) to extend the current car scrappage scheme until the end of February 2010. The current scheme has had a positive impact on automotive manufacturers and important supply chains. Further economic weakness could result in cutbacks in production and capacity that damage the future competitiveness of UK manufacturing and the prospects of building a better balanced economy.

Yours sincerely,



**Gilbert Toppin,
Chief Executive, EEF**



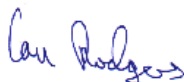
**Michael Johnson
Chief Executive,
British Printing Industries
Federation**



**Steve Elliott
Chief Executive,
Chemical Industry
Association**



**Graham Dewhurst
Director General,
The Manufacturing
Technologies Association**



**Ian Rodgers
Director,
UK Steel**



**Rob Oliver
Chief Executive,
Construction Equipment
Association**

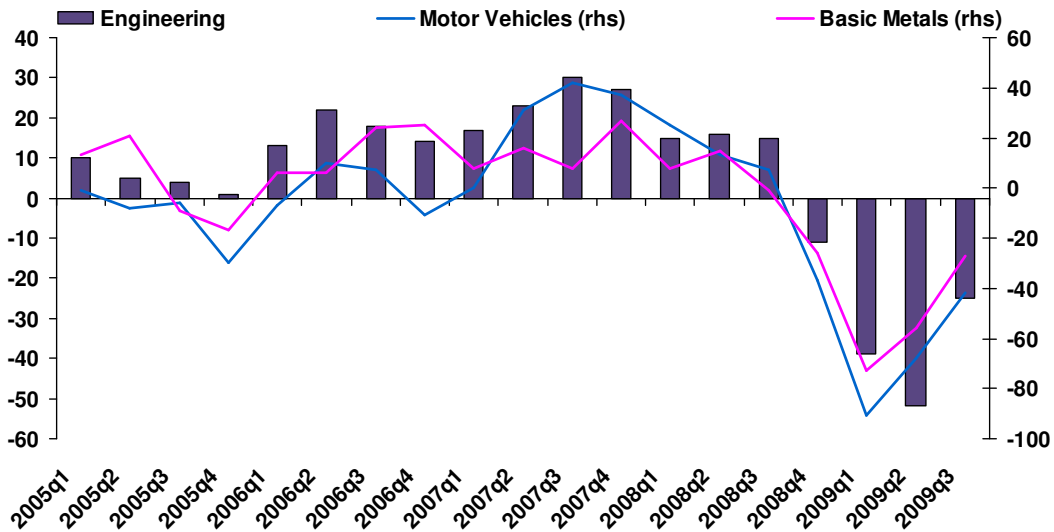


**Peter Davis
Director General,
British Plastics Federation**

Annex – Impact of scrappage scheme

EEF's Business Trends Survey shows that while motor vehicles and basic metals were the first sectors hit by the recession, they have also been the first to see an improvement in conditions (see Chart 1). Output balances for the two sectors plunged to record lows in the first quarter of 2009. The third quarter survey shows whilst conditions across the sector have stabilised in recent months, the pace of decline has moderated after a turbulent twelve months of steep declines in output and orders. Research by Oxford Economics also shows that every £1 of government spending in the auto industry leads to £2.4 in benefits for the wider economy. The scrappage-driven turnaround in the auto industry and basic metals sectors has helped put a floor – even if temporarily – under the manufacturing recession.

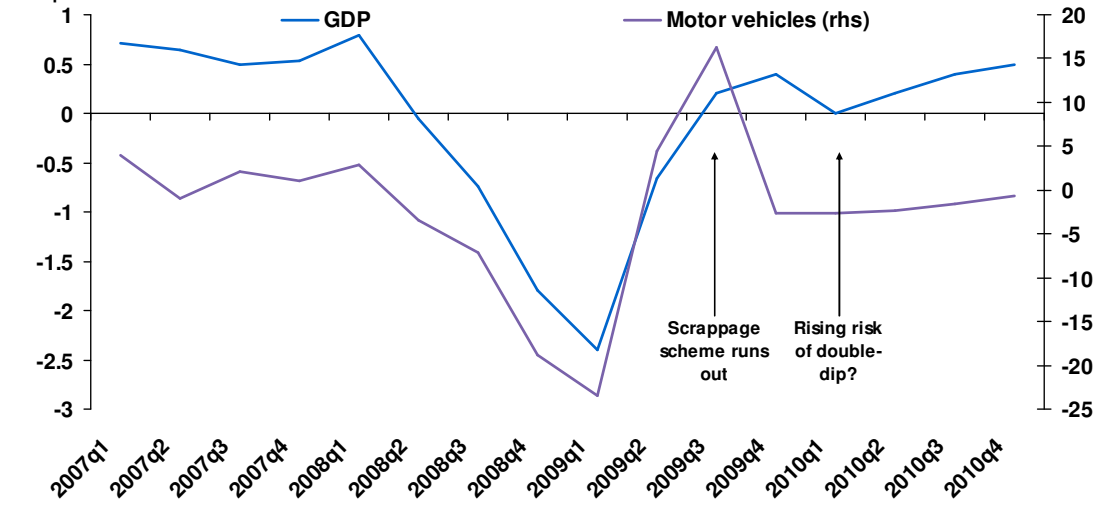
Chart 1. Auto industry contributed to manufacturing recession, % balance change in output, past three months



Source: EEF Business Trends Survey

Although the current climate has stabilised, output levels are still below pre-recession levels. Wary about the prospect of a sustained recovery and ongoing concerns about access to credit and cashflow means investment intentions remain low. Consequently any relapse in auto industry output, coupled with the expected deterioration of the UK aerospace and defence industry in 2010, could pull manufacturing and the economy back into recession in the New Year (see chart 2).

Chart 2. Removing scrappage support could trigger double dip, % q-q change in output



Source: EEF Business Trends Survey