

24 March 2010

MANUFACTURING SUMMIT – EXECUTIVE SUMMARY

KEY MESSAGES

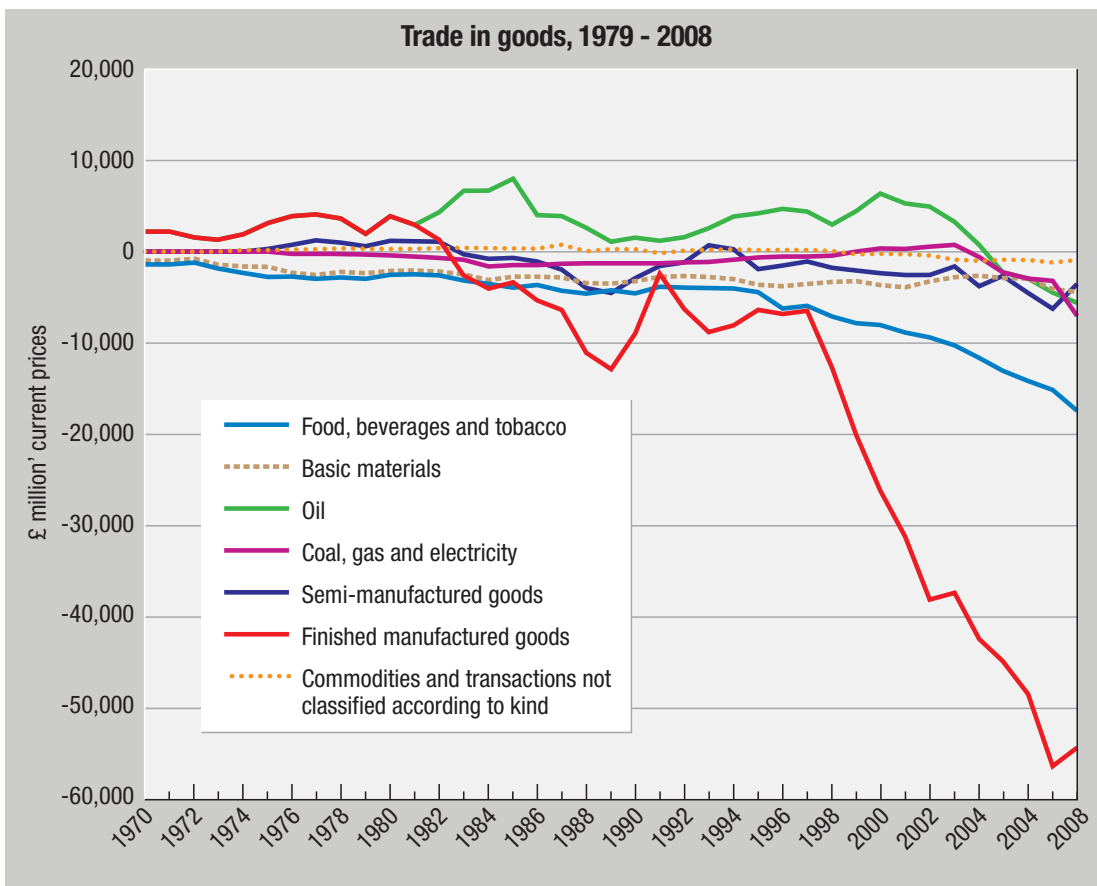
RE-INDUSTRIALISATION OF THE UK represents the best hope for the nation to return to economic prosperity over the next decade. Consumers cannot be expected to lead the recovery.

- The scale of Government debt argues against a public-sector led recovery.
- Manufacturing, through increased exports and import substitution, offers a realistic way forward to a rapid recovery in the nation's fortunes.
- The table below shows that a 10% increase in manufacturing exports (surely not an impossible target following the market-forced devaluation of Sterling) and a 10% decrease in the imports of manufactured goods (consumers commit to “buy British”) would produce a £45bn annual improvement in the balance of payments. This sum is equivalent to the net contribution from financial services.
- A more enlightened Government procurement strategy, and stronger political leadership and commitment to manufacturing, would greatly assist the process.

UK Balance of Payments 2008 (Main Items only)

	<i>£ billions</i>			
	Credits	Debits	Balance	%GDP
Surplus Items				
Financial services & insurance	60.8	15.3	45.5	3.2
Knowledge-intensive services	67.0	39.0	28.0	1.9
Investment income	262.6	235.0	27.6	1.9
Deficit Items				
Manufactures	193.6	251.4	-57.8	-4.0
Food, beverages and tobacco	13.7	31.1	-17.4	-1.2
Transport and travel	40.5	57.6	-17.1	-1.2
Energy (Oil, coal, elec, gas etc)	35.4	47.8	-12.4	-0.9
Current Account	700.6	725.7	-25.1	-1.7

The graph below highlights the single most important fact behind the current manufacturing debate. Exports of finished manufactured goods suffered a dramatic deterioration in the decade from 1998, as an over-valued exchange rate sucked in imports and presented UK manufacturers with an unrealistic barrier to exports. Add to the exchange rate problem a lack of investment, skills shortages, ill-informed government procurement, legislation and “culture” which favoured financial services, and burgeoning energy costs and it is not surprising that manufacturing declined as a percentage of GDP from 20% to 14% over this decade. The surplus in services could not make up for the deficit in manufacturing, leading to a huge shortfall on the current account – requiring the nation to sell debt and assets to balance the books. The sale of these assets, including a significant part of the UK industrial base, has amounted to some £700bn in the last 10 years.



The **4 March 2010 Manufacturing Summit** identified five key issues that have to be addressed urgently by the major political parties in the UK in order that our balance of trade is re-balanced by a 10% increase in manufacturing exports and 10% reduction in imports.

This Executive Summary provides some of the ways this could be achieved by prompt Government action.

I. GROWING SKILLS

- Priority programmes that lead to a significant growth in the UK's Engineering, Technology and Science skills/knowledge base.
- Increase vocational and academic programmes within schools that encourage and attract young people into the science and technology sectors.
- Provide incentives that give school teachers the opportunity of experiencing manufacturing industry at its best through specific training programmes.
- Establish incentives that will attract significantly more UK undergraduates and postgraduates into engineering and technology degree courses at UK Universities.
- Increase the number of Trust/Foundation schools and Academies to promote collaboration between schools and manufacturing industry. Student aspirations could be developed significantly and the pursuit of a career in the manufacturing sector encouraged.
- Encourage the growth of engineering and technology apprenticeships in manufacturing industry using methods well established in European countries.

2. POLITICAL CONSENSUS

- A long term visible commitment and action plan from the Government, Treasury and Whitehall officials to rebuild the UK's manufacturing base. (There should be no more talk from political leaders about a "post-industrial Britain".)
- The Government should take measures to explain the important role of UK owned manufacturing companies to the nation.
- Government should seek urgently to take measures to reverse the decline of UK manufacturing as a % of the UK GDP.
- Establish an "Innovation Bank" and specific financial incentive measures that encourage entrepreneurs and inventors within the design and manufacturing sector to develop new and successful business from ideas/inventions.
- Provide fiscal incentives to improve the very low levels of investment in the UK in productive plant and machinery and in training in comparison with international competitors.
- Continue to increase investment via the Technology Strategy Board (TSB) in advanced manufacturing, low carbon, etc. R&D industry/university collaborative programmes.
- Encourage UK citizens to consider "buy British" whenever possible when purchasing manufactured goods.
- Within a potential austere financial climate over the coming years, the Government and Treasury should still seek to prioritise its spending on UK manufactured equipment and services.
- The Government should look to put in place measures that ensure UK manufacturing industry is correctly valued and reverse the situation of recent years where foreign organisations have taken over large sections of UK manufacturing industry at below true market value.
- Government should put in place effective venture capital and banking arrangements that actively support SMEs in their design, new product development and manufacturing activities.

3. CULTURAL CHANGE

- A sustained campaign should be mounted by the Government and media channels to persuade the country – especially parents, teachers and students that manufacturing is essential and exciting.
- A culture of innovation and entrepreneurship should be actively encouraged and rewarded by Government ministers and their departments.
- TV channels and the press should seek to change the image of manufacturing by highlighting the high-tech creative aspects of design, new product development and manufacture rather than the out dated images so often seen.
- There should be a drive to boost young people's interest in engineering and science by appointing a number of famous engineering ambassadors to promote the excitement within the sector — Richard Hammond, for example.

4. SIMPLIFIED INCENTIVES

- Grants, credits, taxes and regulations should be rationalised by Government to incentivise research, innovation and investment.
- Government should seek to reduce significantly the level of bureaucracy that stifles manufacturing SMEs and thereby take advantage more easily of capital investment, training and export opportunities.

5. ENERGY COSTS

- The UK Government's ambitious targets to cut CO₂ emissions have led to UK manufacturers being put at a competitive disadvantage with other countries and this disadvantage is forecast to increase further. Targets need to be rationalised.
- The UK Government should ensure British manufacturing companies pay energy costs and carbon taxes comparable to those of their European competitors.