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Manufacturing UK: 2020 Vision

An update to Manufacturing: Into the Future

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December 2011

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Foreword:

Len McCluskey

By Unite General Secretary, Len McCluskey

After almost 18 months of the coalition government we are facing a stagnating economy which for many of our members means reduced living standards or worse still unemployment. The reason for the state of the economy is clear to all except the government and its most loyal supporters, its plundering of the public sector and its failure to accept responsibility for providing the investment impetus needed to compensate for those cuts has meant that manufacturing has lost confidence itself.

Just after the government was elected Unite set out its key priorities for our manufacturing industries. We were hopeful that the new government would pick up and build on the platform that Labour had created to kick-start the future of manufacturing. Once again the rhetoric failed to deliver the reality. The so-called party of business has relied upon the market, so recently failed, to provide the answers.

Unite remains committed to its support for manufacturing as part of its alternative economic strategy. I see the manufacturing vision that this document sets out as the blueprint for sustainable manufacturing in the UK. Sustainable jobs; sustainable products and sustainable processes. The lack of an industrial policy and strategy from this government is a betrayal of the sector and Unite will not stand idly by whilst government failure destroys the prospect of the highly skilled jobs which the UK is capable of creating over the coming years.

Investment is the key to manufacturing success. At a time of world wide economic recession governments have to play the substitute's role where the private sector fails to deliver. That is why we repeat our assertions on procurement and the role that it can play to support manufacturing; why the creation of a strategic investment bank is essential to provide the funds which the private banking sector has failed to do; and it is why we emphasise the need for corporate governance to protect jobs in the UK not sell them to the highest bidder.

I commend this document to you and urge you to use it in discussions with your employers, local political representatives and the local community. Together we can put manufacturing back in to the position it once held in the UK.

Len McCluskey
General Secretary

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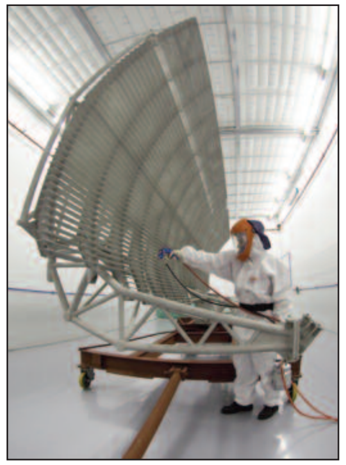


Introduction

This latest manufacturing policy document from Unite follows on from the three previous publications, The Manufacturing Agenda (2004), The Future of Manufacturing (2006) and Manufacturing; Into the Future (2010). The common theme running through these documents has been the recognition that a strong and sustainable manufacturing sector is essential to the economic prosperity of the UK.

Never has that been more apparent than in the current economic cycle where a global financial recession has left the UK, with its over reliance on Financial Services, seeking to pull out of an economic recession and return to economic growth. Just over 12 months ago Unite set out its 10 pillars of growth for manufacturing. Unite stands by those pillars which have been replicated by a range of subsequent publications from independent research bodies and employer associations. Those pillars are:

- **Build a framework of policies to defend strategically important industries**
- **Continued financial support through interventionist policies**
- **Targeted support for small and medium sized enterprises**
- **Better use of government purchasing power to secure manufacturing jobs in the UK**
- **Maximising the opportunities that the low carbon revolution offers**
- **Delivery of an education and skills framework which meets all industry's needs**
- **Creating a university structure which builds on the science base so necessary to secure high skilled jobs**
- **Create right investment environment for Research and Development**
- **Creation of a level playing field to deliver security and fair pricing for energy**
- **A framework of legislation which promotes transparency and engagement for all stakeholders in the future of manufacturing**

Since that publication we have experienced a year of the new coalition government. The 12 months have been splattered with well reported rhetoric extolling the virtues of manufacturing and the newly discovered need for manufacturing to pull the country out of the recession. Unfortunately it has been just that, rhetoric. Actions speak louder than words and the actions so far have fallen woefully short of what is needed to provide the support for manufacturing which has been missing for so long. A promised growth strategy and industrial policy failed to materialise in the latter part of 2010 and instead a publication with little of no vision was produced[1].

In March 2011, ahead of the Budget, Unite Assistant General Secretary Tony Burke wrote to the Chancellor to call for a coherent and pragmatic strategy for manufacturing growth. He asked government to:

- **Facilitate loans at competitive rates to enable SMEs and micro companies to increase capital investment in new machinery, technology and equipment. Unite has also consistently called for a Strategic Investment Bank or a "Bank for Industry" where manufacturing companies of all sizes have access to investment funding at an affordable rate.**
- **Use government procurement opportunities to ensure goods and services purchased are manufactured or produced in the UK by UK based companies employing UK based workers.**
- **To review the current level of employer training available with a view to compelling manufacturing employers to train their workers and if they do not, then a statutory levy should be introduced.**

Unite has determined that in line with the policy decided by National Sector and National Policy conferences, it should update last year's publication and produce its own vision of what is needed to secure the future of manufacturing in the UK.

1 The path to strong, sustainable and balanced growth – Nov 2010 HM Treasury and DBIS

Economic environment

For manufacturing to thrive the economy must provide demand for products and encourage good return on investment. The government's current approach has dampened domestic demand through public spending cuts, increasing unemployment and high inflation. The global economy has also mitigated against manufacturing growth with reduced demand and high prices for commodities and energy.

Government has failed to address the economic demands of industry so far with access to funding still difficult to obtain at the right price despite the low level of bank interest rate which is not reflected in the cost of borrowing. Its refusal to sanction the necessary loans to Sheffield Forgemasters was a knee-jerk political reaction rather than a considered approach to manufacturing growth and sustainable jobs. In addition small and medium sized enterprises in particular are struggling to access fundng and yet it is the SME sector of manufacturing which accounts for 50% of manufacturing contribution to GDP[2].

Instead of government delivering manufacturing jobs through its procurement policy, the Bombardier affair has threatened the very existence of a UK based train building capacity. In supporting the growth of SMEs, government also has to provide the prime companies with the incentives to expand and grow and with growth forecasts worldwide being downgraded on an almost monthly basis, the need for government stimulus has never been more apparent.

Current UK production levels and forecasts provide little indication that manufacturing is likely to provide the growth recovery upon which the government plans are predicated. Manufacturing output has been shown to be in decline throughout the first half of 2011 as measured by the Markit/CIPS UK Manufacturing Purchasing Managers Index. According to manufacturers this has been due to subdued domestic demand, particularly from the construction sector. Exports though had been growing assisted greatly by the weak pound in the first half of 2011 but figures published in August showed that this growth was slowing down.

> Britain remains an engineering powerhouse, but it is suffering from crumbling infrastructure, a growing skills shortage and thirty years of neglect by successive governments. The coalition has been making all the right noises about rebalancing the economy, but these figures show the urgency with which they need to follow this up with firm, concrete action. This means boosting skills through high-level - not just low-skilled - apprenticeships, significantly increasing investment in our infrastructure and making the most out of our world-class knowledge economy by easing Intellectual Property rights registration." - Institute of Mechanical Engineers 1st August 2011

The cut backs in public sector expenditure have already had a direct impact on manufacturing with defence cuts leading to job losses in British Aerospace and Selex Galileo.

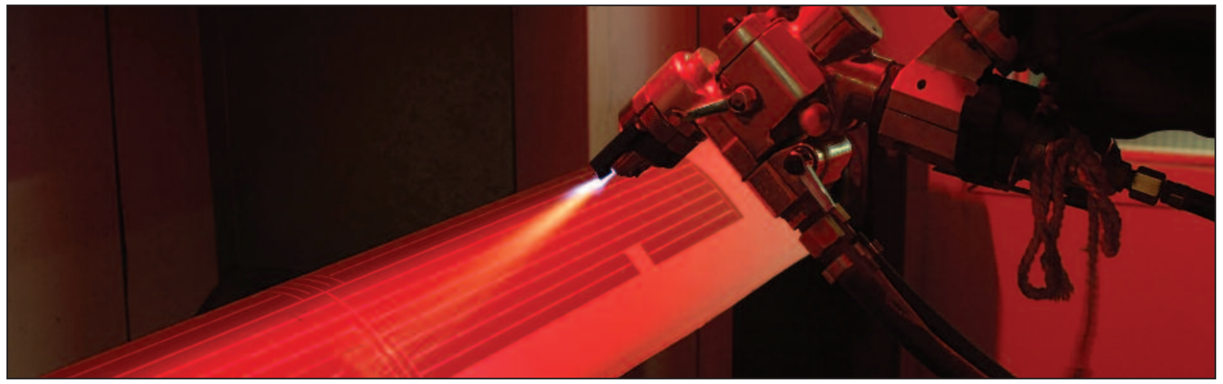
The positive signs rest mainly with the automotive industry with significant investment across main companies such as Nissan, Toyota, GM and Jaguar Land Rover. However, to maximise growth in this sector more needs to be done to generate a home grown supply chain.

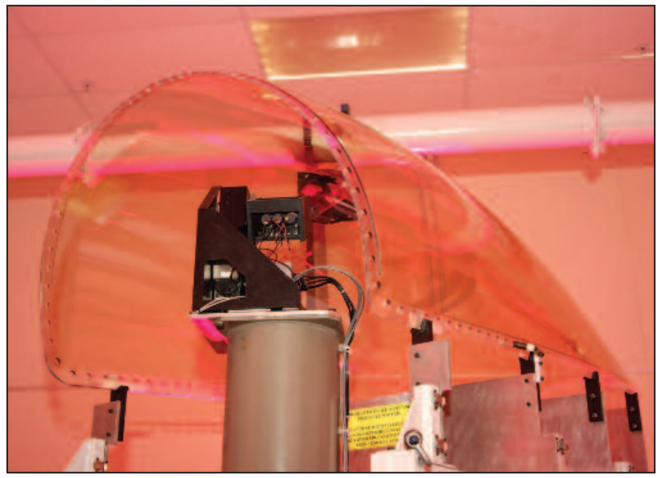
Later we look again at the low carbon economy and bring the visionary opportunities up to date but also raise concerns about the pace of change. We also examine the procurement changes which are still needed and return again to the skills debate which has yet to deliver the response that industry needs. Productivity has been a good news story as far as the UK is concerned over recent years but although the growth rate has been faster than most of our competitors, we started from a much lower base and have still to go some way before we match our main competitors. Germany, France, Italy and the USA all had higher levels than the UK based on 2009 figures[3]. Although manufacturing productivity in 2010 showed significant improvement on 2009, in the main this was due to the negative impact of the recession and the return to small growth during 2010. The Gross Domestic Product (GDP) figures at the end of June 2011 showed manufacturing growth to have dipped by 0.3% in the 2nd quarter suggesting that performance has now flattened out and manufacturing is suffering from the impact of the public spending cuts which have still yet to be fully implemented.

If manufacturing is to provide the medium to long term recovery needed in the UK the economic climate has to be right. Not all of this is in the hands of the government but there are clear steps that can and should be taken. These include ensuring that interest rates remain competitive and encourage investment; looking at corporate governance issues which prevent adverse impact of ownership changes; and developing an active industrial strategy which provides the same support as that already existing in other EU countries such as France and Germany.

Perhaps most importantly is the need for policy to recognise that manufacturing is a generic description of a multitude of processes and functions. Whilst macro industrial policies can establish the overall economic and strategic environment within which industry can thrive, the individual needs of different aspects of manufacturing will require different responses. The international dimension of manufacturing cannot be ignored and if the UK is to see a return to a sustainable manufacturing base in the global market then skills, innovation and corporate governance will all be key factors in achieving this.

The following sections address these and other issues and presents a vision for the next 10 years.





Chemical industry:

- Turnover in excess of £57 billion pa
- Trade surplus of £7 billion in 2010
- Spends over £2 billion a year on new capital investment
- R&D expenditure is equivalent to 10 per cent of sales
- Employs over 170,000 people in 3,000 companies

2 Sir Alan Rudge ERA Foundation – May 2011 – Cranfield National Manufacturing Debate
3 ONS Productivity 29th June 2010

Corporate governance

Twelve months ago Unite set out its demands for change in the UK's liberal takeover regulations which lays bare the UK's industrial fabric and the jobs of workers employed within it. Since then the ownership of UK Manufacturing has demonstrated all too often why this absence of regulation undermines the growth of manufacturing in the UK.

- Since Walsted Private Equity group took over the Wyndeham group in late 2008 they have made 550 people redundant at Wyndeham Heron, Southernprint, St Ives Plymouth, St Ives Roche and Apple Web.
- Finnish owned Nokia has announced it will shed 7,000 jobs as part of a plan to refocus the company on smartphones. The firm said 4,000 jobs worldwide will be cut - including a total of 700 jobs from Nokia's UK sites. Nokia will also transfer a further 3,000 employees to consultancy group, Accenture.
- Bendicks and Werthers chocolate and sweet production is moved to East Germany by the German owned company with the loss of 140 jobs.
- Pfizer closed its world class R&D site at short notice, with little consultation with the 2,400 strong workforce.
- Eaton Corporation (USA) announced it was proposing to offshore all Midland Electrical Manufacturing's (MEM) power distribution production to Eastern Europe (Romania) and Asia (Malaysia), which means manufacturing of all these products will leave Birmingham, but still carry the prestigious MEM brand name, which will result in the loss of 140 highly skilled jobs
- Bakkovör (Icelandic) displayed incompetency at management level which led to 170 workers' jobs in Spalding being put on the line during 2011 as the company lost out on major contracts.

More than one year on from Kraft's controversial takeover of Cadbury, the global firm's intentions towards thousands of UK workers remain shrouded in mystery - and we are still no closer to a Cadbury Law to defend UK-based companies against predatory purchases.

The Business Select Committee published its report in May this year on the Kraft inquiry - 'Is Kraft working for Cadbury'. Unite supported the committee's recommendations on future takeovers including the requirement that statements on keeping factories for defined periods should be binding. It also recommended that Kraft must maintain employment levels and inform the Committee of any change in their plans

At the same time the Takeover Panel during 2011 has been consulting on its own Takeover Code and Unite has made a detailed submission to the Panel. In this submission Unite recognised and welcomed the amendments proposed in the consultation document but serious concerns remain about the fact that no one involved in determining the outcome of a takeover bid is required to take account of the long-term interest of the target company. While the amendments do contain greater recognition of the interests of offeree company employees, Unite still feel more can be done in order to provide greater clarity and stability for these stakeholders in the long term.

Corporate governance is not just about large corporate entities and takeovers. The future of UK manufacturing will rely heavily on innovation and small and medium sized enterprises. The UK has a history of innovative products and design but has a weakness in conversion to marketable products. Seed funding for companies with good ideas should be available through a designated government agency with the government taking a small equity share in the business. Coupled with this should be access to design and marketing expertise which provides the mentoring necessary to convert ideas to sustainable products. The French model known as *Fonds Strategique D'Investissement (FSI)* is an example of how this could work. The FSI is incorporated as a company with the government having a 49% stake and the balance owned by the Caisse des Depots. FSI funds are managed through a board of 7 people, four from government and three from the private sector. A governance body made up of trade unions, MPs and business associations is asked to advise on investment strategies. The FSI invests only in equity taking a small stake designed to assist with growth and competitiveness for French owned companies. Further examination of this type of initiative is an important part of developing corporate governance in a way that promotes growth and sustains UK companies.

Unite has campaigned strongly on corporate governance and will continue to do so. As the next 10 years unfold we can expect to see private equity funds to step forward again as the economy comes out of recession and mergers and acquisitions once again become popular. The problem with merger and acquisitions is that they do not grow our economy. They rarely create a new job - and in fact often the reverse. Private equity funds provide the complication of added debt to company balance sheets leading inevitably to staff cut-backs and other short-term economy measures in the company, combined with a lack of long-term investment.
In addition, high loans mean that high interest rates deplete company resources, and increase sensitivity to sudden changes in the market. International research[4] in to private equity buyouts of existing companies found that the problems associated with buyouts, are chiefly increased short-term thinking, rapid changes, poor knowledge of operations and less cooperation with trade unions.

Food Drink & Tobacco Industry

- Single largest manufacturing sector in the UK, with a turnover of £72.3bn, with a gross value added of £20.0bn,
- Accounts for 15% of the total manufacturing sector
- Employs up to 405,000 workers
- Invests over £1bn in to R&D each year
- Including alcoholic drinks, total food and drink exports were worth £16.1bn in 2010
- Tax revenue from tobacco in 2010/11 amounted to £11.1 billion
- There are over 6,000 food and drink manufacturers

Unite has called for[5] the establishment of a Takeover Commission and for workers and their representatives to be informed and consulted on the business and financing plan of any takeover prior to the acquisition. Through their trade unions, workers should have the right, equivalent to that of pension fund trustees, to seek fair compensation and protection should substantially greater levels of leverage be part of a takeover. Banks are able to charge risk adjusted rates of interest, pension trustees exercise the right to demand greater up-front funding to compensate for added risk, but currently workers are not consulted, let alone protected or compensated.

Whilst manufacturing has to accept responsibility for its own survival, the ownership and governance of industry in the UK will be a vital factor in its ability to survive in a global market.

4 Owned by Private Equity - Emma Tjärnback, Unionen Research and Policy Department – Nov 2009
5 Unite evidence to the The Takeover Panel's Code Committee review of certain aspects of the regulation of takeover bids – August 2010

Procurement

Last year we set out clearly in *Manufacturing: Into the Future* the vital contribution that a positive public procurement policy can make to the manufacturing industries based in the UK. During the past 12 months the decision regarding the Thameslink carriages contract which placed the order with the Siemens consortium illustrated that the UK government has still to apply the EU Directive on Procurement in the positive manner which other EU states manage to do. The Department of Transport's decision in June 2011 to award the Thameslink contract to Siemens rather than Bombardier raised again questions about UK Government's application of EU procurement rules. The Coalition government has argued that the procurement process, begun by the Labour government, was to blame for the decision. However, the EU Commission has responded that the procurement rules exist to ensure value for money for taxpayers.

The Financial Times published a summary of contracts in July 2011 awarded for rolling stock, and the countries that won them:

- Germany: Deutsche Bahn ordered up to 300 intercity high speed trains in May 2011. €6 billion contract awarded to Siemens of Germany.
- Britain: Eurostar ordered Velaro high-speed trains in October 2010. €600 million contract awarded to Siemens of Germany.
- Britain: Department of Transport ordered 500 vehicles for InterCity Express scheme in February 2009. £4.5 billion contract awarded to Hitachi; with the manufacturing to take place in Japan and the UK.
- France: SNCF ordered up to 800 regional electric trains in February 2010. €8 billion contract awarded to Bombardier of France.[6]

As part of the government's current Growth Review Vince Cable, Secretary of State for Business, Innovation and Skills, has decided that the government would consider its application of EU procurement rules in the next stage of the Growth Review. He stated:

> "Philip Hammond, the Transport Secretary, and I recently wrote to the PM to highlight the issue of public procurement and how we should manage the process in the public sector to sustain a competitive supply base that meets the UK's strategic needs within EU procurement rules. We recognise that there is a need to examine the wider issue of whether the UK is making best use of the application of the EU procurement rules."[7]

The European Commission launched a review of the EU's public procurement rules in January 2011. Included within its remit was whether the EU public procurement rules should be modified to allow other policy objectives such as promotion of innovation or environmental or social considerations to be better taken into account. Many stakeholders, especially businesses, showed a general reluctance to the idea of using public procurement in support of other policy objectives, and oppose most of the ideas to foster for instance green or social procurement. Other stakeholders, notably civil society organisations are strongly in favour of such strategic use and advocate radical changes to the very principles of EU public procurement policy.

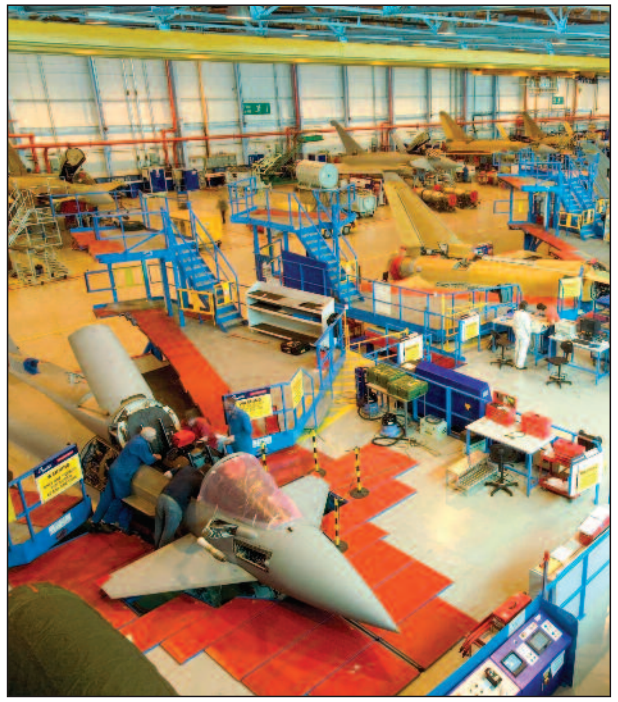
It is clear from the consultation report[8] that any changes to the directive proposed will focus on simplifying rules and procedures to allow better access for SMEs to procurement contracts both at home and abroad. Whilst this is welcome the better use of social considerations which a majority of contracting authorities, civil society organisations and Member States should be better spelt out in the Directives occupies little space in the report.

6 Financial Times, 6 July 2011, p4
7 Department for Business, Innovation and Skills, Vince Cable responds to Bombardier announcement, 5 July 2011
8 Green Paper on the modernisation of EU public procurement policy - Towards a more efficient European Procurement Market - EUROPEAN COMMISSION, Directorate General Internal Market and Services 24th June 2011

Policy objectives

Building on the recommendations set out in *Manufacturing: Into the Future* Unite will want to see government over the next five years developing a procurement policy which acknowledges the life-time cost of a contract including both social and environmental factors. Clearly that will include the labour market implications in the UK and the positive contribution to skill development and innovation through research and development which such contracts can provide.

Unite will work to influence these policies objectives through collaboration with companies, industry and politicians at local and national level.



Aerospace & Shipbuilding industry:

- Turnover in excess of £22.2 billion per annum
- Exports worth £15.45 billion to the UK economy
- Highly developed supply chain employing more than 140,000 people
- R&D expenditure amounted to £1.7 billion in 2010
- UK has one of the largest Aerospace industries in the world, 2nd only to the USA
- Highly skilled and technologically advanced workforce

Low carbon industrial strategy

Since the publication of *Manufacturing: Into the Future* in June 2010 the election of the coalition government has brought with it developments which have the potential to impact greatly on the viability of some of the UK's strategically important industries. The new government has determined to become the first country in the world to introduce a carbon price floor for the power generation sector, as announced in the coalition government's 2011 budget.

The carbon price floor, intended as a means of boosting cash flow from energy companies into low carbon infrastructure, will come into effect on 1st April 2013 and is additional to the existing EU Emissions Trading Scheme (ETS).

Analysts at Thomson Reuters Company 'Point Carbon' have analysed the cost to UK business of the carbon price floor to be an additional £9.3 billion burden on UK manufacturing by the year 2020.[9]

Although the government announced plans to introduce a floor for EU permits of £16 per tonne from April 2013, rising to £30 per tonne by 2020 the carbon price could be pushed to £48 per tonne by 2020 due to tax rates, while the rest of the EU ETS would see a price of £32. In effect the UK is taking unilateral action to embed the price of carbon, putting its actions far out in front of its EU counterparts and any international economies.

This new tax on carbon adds to the already damaging affects that the high cost of energy and the carbon reduction commitment (CRC) has placed on industry in the UK. Warnings are already coming from companies like INEOS that its chlorine plant in Runcorn could become uneconomical and from TATA Steel facing similar problems. One major construction company claims it will soon cost less to import its cement from Spain than to produce it at its UK plant.

In the previous document attention was drawn to our members working in the energy intensive industries such as iron and steel, cement, chemicals and pulp and paper making. Since then Unite has been involved with the TUC in a collaborative project with the Energy Intensive Users Group (EIUG) to highlight the contribution that such industries make to manufacturing as a whole in the UK. In July 2011 a report[10] commissioned by the TUC and EIUG was published by the Centre for Low Carbon Futures which considered innovative low carbon technology solutions needed for these key industries to remain sustainable in the future. The conclusions reached in this report reflect again the broad principles upon which the Unite 10 pillars for manufacturing growth are based including maximising the opportunities for low carbon manufacturing and the creation of a level playing field to deliver fair pricing for energy. Failure to address the conclusions reached in this report will have serious implications for members employed in these energy intensive industries and the overall manufacturing strategy in the UK.

Environmental considerations can only fairly be considered on a global basis but they must form part of any sustainable industrial policy in the future. As the 10 pillars of the Unite manufacturing policy state such a policy must include the maximisation of opportunity that the low carbon revolution provides whilst creating a level playing field to deliver security and fair pricing for energy. The structure of "green taxes" must be such so as not to stifle manufacturing growth or export it to parts of the world where such taxes do not exist, but to create a sustainable industrial strategy which embraces equity and viable employment.

Unite would advocate a medium to long term strategic approach to these issues building on the recommendations published in the previous policy document. It would be foolish to suggest that the market will take care of the environmental considerations or that it alone would deliver the answers

9 Engineering & Technology magazine 14th April 2011
10 Technology Innovation for Energy Intensive Industry in the UK, July 2011 – The Centre for Low Carbon Futures

for the UK manufacturing sector. Historically in the UK and elsewhere industrial policy has delivered positive results particularly where these strategies have been linked to social advancement and other public policy.

Automotive Industry

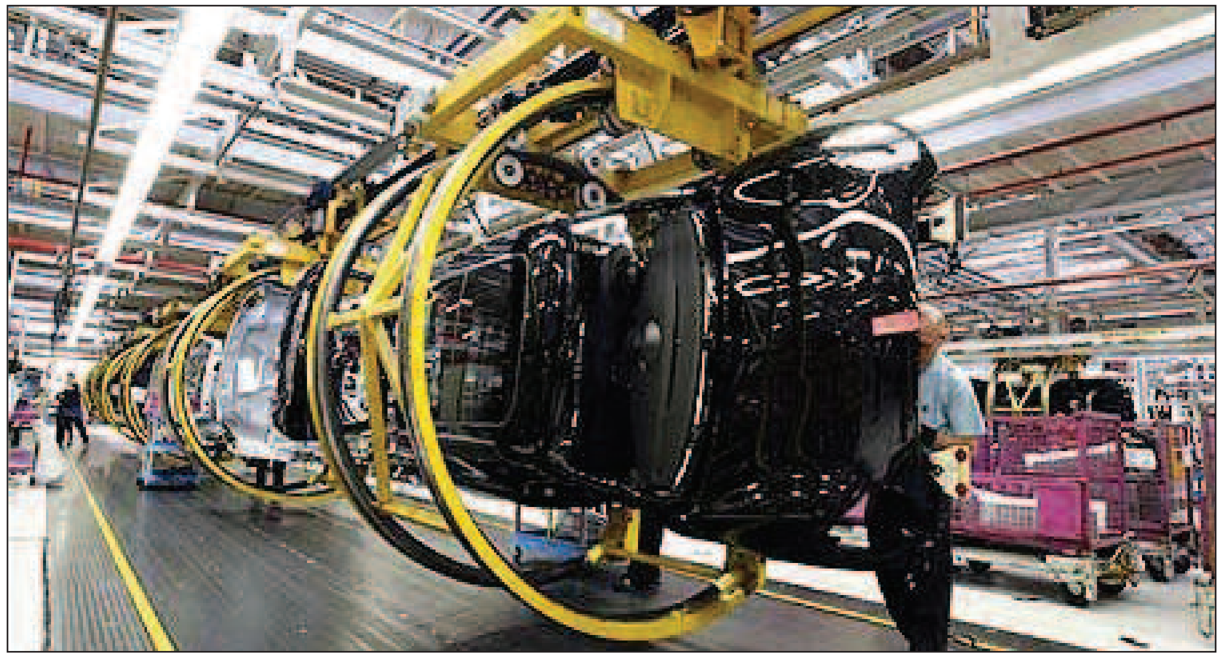
- Turnover of £52 billion per year
- The automotive industry employs over 700,000 people
- Contributes £8.5 billion value added to the UK economy
- Over £1.5 billion is spent annually on R&D by automotive companies
- The industry has the fourth highest R&D spend in Europe in 2010
- Contributes over 10% of total UK exports, delivering an average annual export value of more than £25bn over the last five years.

A low carbon industrial strategy is dependent upon an ambitious international agenda coupled locally with intelligent target industries and public support through procurement and investment in innovation and science. Unite welcomes the establishment of the nine Engineering and Physical Sciences Research Council Centres for Innovative Manufacturing and notes that one of these centres is focussed on industrial sustainability with the purpose of researching:

- how to make current products in a low-carbon, resource-efficient manner
- how to transform factories and products
- to explore changes to the entire industrial system

These form the key research challenges within industrial sustainability and the outcomes will feed in to the government's Technology and Innovation Centres. As Unite manufacturing sectors develop their own industrial strategies it is important that the union plays it part in contributing to work process changes which aid sustainability and in so doing create greater job security.

The low carbon market will be $20 trillion by 2020. Over the next two decades the world economy is predicted to double. This represents a huge opportunity for UK manufacturing and the sector needs to establish its position in this market.



SMEs

There is a general acceptance that SMEs offer the growth potential for UK manufacturing going forward. For this potential to be fully realised funding and skills remain key factors. Elsewhere in this document we repeat the contribution that government procurement policies can make to the sustainability of SMEs in the supply chain. During the first 12 months of this government some recognition of this has been made with attempts to simplify the procurement process for small businesses. Similarly the EU Commission is also looking at ways of removing some of the barriers that prevent small businesses from accessing procurement opportunities across the EU.

Access to funding

In March 2011 the Associate Parliamentary Manufacturing Group (APMG) brought together representatives from small and medium sized business with parliamentarians to discuss access to funding and despite some improvements in lending there was widespread consensus that fragmentation of finance and support for manufacturing businesses remains a problem in the UK.

New figures from the Bank of England's 'Trends in Lending' report show that although there was a marked increase in demand for finance, lending to small businesses fell in the three months to May 2011.

An independent survey conducted by the BBA Taskforce[11] – made up of the major banks, business organisations and trade bodies– shows that businesses with up to nine members of staff are most likely to be initially refused finance. Further, the figures show that more than half (55%) of businesses with up to nine employees had not applied for a loan in the last 12 months because they expected to be turned down. Overall, 52 per cent of small firms (with up to 249 employees) said that applying for a loan caused too much hassle, was too costly, or that they were being asked for too much security.

If SMEs are to deliver the growth in manufacturing and provide the invaluable supply chain essential to attract tier one manufacturing plants to the UK, then government cannot rely upon the private banking sector to deliver the level of funding at an acceptable level of cost needed.

The Green Investment Bank, announced in 2010 but still to come to fruition, excludes access from SMEs, a problem which Unite has already highlighted to government and the opposition. SMEs are able to develop and commercialise products rapidly in niche areas. By its very nature green technology and processes will require innovative solutions, an area where SMEs have an edge. SMEs should have access to the Green Investment Bank to spur green growth and technology.

To deliver the low carbon technologies, goods and processes which will help transition the UK toward a green economy, innovation will have to be at the heart of the solution. The Glover Report[12] summed up the innovative benefits of SMEs to the UK economy:

> "SMEs can bring innovation through the early exploitation of new technology, providing products or services in new or underdeveloped markets, or by using innovation to differentiate themselves from established market players."

Notwithstanding this issue, given the need for funding for growth in manufacturing companies in the new high value technology sectors, it is apparent that the conservatism which banks have traditionally displayed towards more risky ventures will mitigate still further the accessibility of funding.

11 British Bankers Association Taskforce Independent Survey – July 2011
12 Accelerating the SME economic engine: through transparent, simple and strategic procurement, Chapter 1, November 2008

Other European countries have long recognised this problem and have established state owned strategic investment funds to meet this need. The French *Fonds Strategique D'Investisssiment* (FSI) offers such a model allowing the government to take small stakes in SMEs and innovative companies.

Unite has argued for the creation of a State Investment Bank possibly using the existing government holdings in the banking industry as a vehicle for this. Whilst the proposed Green Investment Bank is a partial step in this direction its remit is limited. The stronger case for the UK to adopt the state investment bank model is based on the need to leverage additional investment in a wider range of sectors and to help reduce its dependence on property and finance. Such a bank would have the capacity to raise large amounts of funds on the commercial markets, backed by a smaller capital base provided by the state. A state investment bank could be set up on a commercial basis to be run by an independent board, with all stakeholders represented, subject to a remit to generate a long-term return based on investment in British business in a diverse spread of sectors and in infrastructure. This is the model that has been used by successful state banks in other European countries and around the world.

Printing & Packaging industry

- Sales by companies in the printing industry is around £14.5 billion
- Printing industry employs around 130,000
- UK packaging manufacturing industry has annual sales of £10 billion
- Employs 85,000 people – representing 3% of the UK's manufacturing workforce
- Productivity is more than double that of all industries' average performance
- UK packaging industry leads the world in packaging innovation

Skills – the knowledge economy

- Long-term planning and strong management are essential if the UK manufacturing sector is to be competitive.
- Improving existing skills, adding new skills and increasing the capacity of skills are all essential for this improvement in productivity and growth. The poor level of manufacturing management in the UK is a significant area of weakness.
- This area requires attention to bring UK manufacturing management capabilities up to the level of the world's best.
- Improving the image of manufacturing is crucial in attracting young people with the right skills

The recommendations made in *Manufacturing: Into the Future* remain at the core of Unite's manufacturing skills policy. The past ten years has changed the shape of UK manufacturing profoundly and as such the education, skills and knowledge of workers required by employers has also changed. The future of manufacturing in the UK will be heavily reliant upon highly skilled, technologically intensive and innovative sectors. There has been a systematic loss over the past decade of those manual, unskilled occupations which – at one time – dominated the manufacturing sector. For example, in 1970, around one fifth of the UK workforce were 'knowledge workers' today two fifths are 'knowledge workers' and by 2020 it will be over half[13].

The delivery of skilled workers to meet the needs of manufacturing over the next decade requires government to develop structural policy initiatives which enable people who have the knowledge and education to go on to become apprentices or graduates and who want to work in the manufacturing sector. It is vital that government puts in place the right education and skills policies to ensure the sector attracts those people at the forefront of engineering, R&D and innovation.

Despite significant investment in skills and training the UK working age population still has lower skills than the workforces in France, Germany and the USA[14].

The current picture

Most workers would agree that there is a constant need for re-training, up-skilling and skills development. This approach not only offers employers a highly skilled workforce with which they can achieve the goals and ambitions of their industry but also offers individual workers the wider developmental opportunities that education and training can bring.

Unite has promoted the Pan Business Redeployment as one mechanism that can successfully assist in the retention of skills within industry at times when companies face dips in demand. However the removal of Regional Development Agencies and the halving of funding is undermining the prospect of such initiatives being expanded to new regions.

This means that employers must ensure there is good, effective workplace training on offer to allow workers to engage with training for their own development. It is vital that employers recognise their role in ensuring there is a highly skilled workforce for the UK economy. Unfortunately evidence has shown that although the UK has relatively high rates of workplace training, the training provided is often short term and generic in nature.

When this is coupled with evidence from the OECD that the provision of job related training in the UK has dropped back to 1993 levels it is difficult to see how the UK can remain part of the knowledge economy and stimulate the growth required to remain competitive[15]. For example, in Austria, Germany and Switzerland, around 25% of employers offer apprenticeships, compared to just 8% in the UK[16].

13 Employability and Skills in the UK: Redefining the debate, The Work Foundation-November 2010.
14 DBIS Skills for sustainable growth – November 2010.
15 OECD 2010 – economic survey, United Kingdom.
16 The state of apprenticeships in 2010, Centre for Economic Performance, H Steedman, August 2010.

The German VET (Vocational education and training) system, whilst not perfect, is deeply embedded and widely respected in German society. The system offers qualifications in a broad spectrum of professions and can flexibly adapt to the changing needs of the labour market. The dual system is especially well developed in Germany, integrating work based and school based learning to prepare apprentices for the transition to full time employment. Around 60% of all young people in Germany learn a profession within the dual system of vocational education and training.

There are around 350 state recognised training occupations. The period of training is usually two to three years and is concluded by a state examination. During this time, the apprentice is financially remunerated. Access to this training is not formally linked to a specific school certificate. However, most employers expect secondary school graduation at least. The level of the degree depends on the requirements of the specific occupation. The system is based on statutory training regulations and administered by the Chambers of Industry and Commerce.

The VET system as a whole is well resourced, combining public and private funding. Germany has maintained strong financial support for the system and maintained the apprenticeship offer for the VET system even through the economic crisis.

A major strength of the dual system is the high degree of engagement and ownership on the part of employers and other social partners. The system also has an intricate system of checks and balances at the national, state, municipal and company level which ensures that the short term needs of employers do not distort broader education and economic goals.

Unite believes there must be an holistic approach to the skills agenda which recognises that for an economy to produce a highly skilled workforce there must be an excellent education system and a system of training which follows through symbiotically with everyone working together. At present education and skills policy shifts every time there is a new government resulting in a short term, piecemeal approach that benefits no-one.

OECD secretary-General Angel Gurria said "education is an essential investment for responding to changes in technology and demographics that are re-shaping labour markets"[17]

Recent evidence shows that the UK is also weak in the vital intermediate technical skills that are increasingly important as jobs become more highly skilled and technological change accelerates[18] In her review of vocational education Professor Alison Wolf found that while high quality vocational training is available to some young people, between a quarter and a third of 16-19 year olds are undertaking vocational courses with little or no labour market value[19].

Government investment in skills

Benefits of hindsight have shown that the previous focus on giving extra help to those with lower skill levels has proved detrimental to tackling the challenges involved with the highly educated and highly skilled workers which the UK economy needs to push growth and competitiveness.

17 OECD 50 – Better policies for better lives, jobs and skills section.
18 BIS - Skills for sustainable growth, November 2010.
19 Review of Vocational Education: The Wolf Report, Professor Alison Wolf, March 2011.

The significant and sustained government investment in apprenticeships has been most welcome and has provided a means for those who do not wish to follow a university led pathway to achieve the high level education and skills which are needed by modern manufacturing methods. As part of the 2011 Budget, government announced a £180 million package for 50,000 extra apprenticeship places, including 10,000 advanced level and higher apprenticeships targeted at smaller employers.

It is vital that government continues to invest heavily in apprenticeships and also focuses attention on ensuring the number of STEM[20] students remains consistently high. With industries such as aerospace and automotive having centres of excellence located in the UK, it is vital that there is a pool of highly skilled workers to ensure the work remains in the UK.

Sector Skills Councils

Unite has also questioned the effectiveness of the Sector Skills Councils (SSCs) in their commitment to responding to employer needs. The SSCs do have an important role to play in drawing up education and training pathways for specific sectors and also creating the fundamental skill sets needed within the industrial sectors and some of the SSCs are better at this than others.

The recent initiative by COGENT, the skills council for Chemicals, Process and Nuclear sectors creating in consultation with the industry and trade unions a Technical Apprenticeships Service (TAS) providing real apprenticeships for real apprentices, which will support sector employers to source and employ apprentices, making it easier to take on apprentices by removing the barriers that get in the way. The TAS will be of particular benefit to SMEs, and will include local support networks. The TAS will also offer progression routes to higher education to apprentices who complete their frameworks and an alumni programme will be established to support the promotion of apprenticeships to school children.

In addition COGENT is launching a SME Gold Standard Skills Tool which will assist in developing a tailored approach for SMEs and a project for a Life Sciences Skills Pathways which will establish a new vocational or work-based pathway allowing young people and adults alike to progress from school through apprenticeships and work based foundation degrees into these industry critical technical roles and beyond.

All these projects will draw on joint funding from employers and the government, via the Skills Funding Agency (SFA) and the UK Commission for Employment and Skills (UKCES) through the government's Growth and Innovation Fund. AGS Tony Burke is a member of the COGENT Board.

SEMTA, the advanced manufacturing skills council, in a recent report[21] identified the scale of the task facing UK manufacturing over the next 5 years with 354,000 employees retiring, a decline in the number of jobs of 122,000, leaving a net requirement of 232,000 recruits. The proportions of the workforce in higher level jobs will increase. The net requirement for technical roles is nearly 114,000 engineers, scientists and technologists (16,000 per annum). Their findings concluded that employers and Government need to work together to ensure that the right skills are available to support growth and innovation opportunities now and in the future, particularly those already identified as critical to the low carbon agenda.

Education policy

Unite remains seriously concerned about the creation of a 'market' for the education system which could be seen as a retrograde step and a wholesale change to the way education is funded in the UK. This position opened the door for the Russell group of universities to push to charge more for

20 Science, Technology, Engineering and Maths courses.
21 Expert skills support to improve the sector's performance - SEMTA June 2011

tuition fees and has raised concerns that students from less affluent backgrounds will not be able to afford a university education.

It is vital that the skills and training agenda be demand rather than supply led. Further education colleges have a similar culture and it is difficult to break these barriers to learning and skills provision without a root and branch review. The funding process for courses at FE colleges needs to be simplified and there must be a more ambitious vision for what young people will be learning and the pathways needed to facilitate this.

Oil and Gas Industry

Refineries

- In 2009, gross sales by downstream oil companies in the UK were £69 billion
- The refining and marketing industry employs around 16,000 people
- The UK has the fourth largest total refining capacity in the EU at over 1.7 million barrels per day

Offshore exploration & production

- In 2010, the sector was the largest industrial investor, spending £6 billion.
- In 2010, the UK's balance of trade in goods and services was boosted by oil and gas production to the tune of £30 billion.
- The supply chain added more than £5 billion in the export of goods and services
- 32,000 people directly employed by oil and gas companies and major contractors

Unite reserves judgement on the proposed university technical colleges, which have been formed to provide technology orientated courses of study and will focus on drawing together both vocational and academic training. Employers will play a large part in these colleges in helping to plan what the student will study ensuring the qualifications on offer are relevant to the world of work. Unite will revisit this initiative to review how successful it has been in bringing the skills and training stakeholders together.

Manufacturing has suffered from an outdated image portraying the sector as dirty, low paid work which is not recognised by society in general. The sector also suffers from negative headlines in the media. News stories about the impact of the economic downturn and consequential job losses and factory closures, coupled with stories about manufacturing industry being off-shored, downsized or completely destroyed do not help the industry to recruit the highly qualified young people it needs.

There is a need for a unified approach from all stakeholders involved in the sector. This need for change in promoting the sector is especially crucial in relation to parents, teachers and careers advisors' perception of manufacturing and how viable it is as a career choice. A recent survey showed that 73%[22] of 11-16 year olds state that the principle influence on their career choice will be their parents.

Work being done currently by manufacturers to improve the image of manufacturing to young people looking at career options can be completely undone if parents have views about manufacturing which are negative and outmoded or have themselves worked in the manufacturing sector and have lost their jobs through the economic downturn. Unite works closely with employer bodies and individual companies in seeking to promote a positive image of modern manufacturing but more needs to be done by government to support such initiatives.

[22] www.epolitix.com

Workplace training

Unite remains committed to ensuring government continues to fund the Trade Union Learning Fund and recognises the good job trade unions are doing to encourage workplace learning.

Given the recognised problems that small and medium sized enterprises have in workplace training Unite has consistently advocated a system of mentoring with the large tier 1 companies in manufacturing through which training is shared regionally and industrially, lessening the burden on SMEs. However, the government's announcement it stopping implementation of the regulation allowing for the right to request time to train to be extended to workers in SMEs flies in the face of its recognition of the importance of developing skills and training. Government insists it is pursuing a 'growth' economic and industrial agenda but then shows that it is really only paying lip service to the sustained delivery of this agenda.

Towards 2020

Investment in skills is a long term initiative requiring shared investment from the state and employers. It thrives on consistency and relevance and failure to provide this will weaken the opportunities for growth and sustainability across the manufacturing sectors. Manufacturing's image is equally important if young highly skilled people are to be attracted into the high technology and innovative industries which is today's manufacturing sector.

Trade unions benefit to manufacturing

The contribution made by trade union organisation across manufacturing manifests itself through improved productivity and competitiveness, better morale, shared responsibility and is achieved due to better use of information and consultation and better conditions of employment.[23]

> "….it is only through workforce engagement and commitment that successful innovation can be achieved. Care must be taken to ensure that procedures and processes embody fairness – in performance management, in promotion, in setting bonus targets, and in resolving disputes. In this respect trade unions can be important custodians of good fair processes, and as communication routes that uphold the authenticity and integrity of management actions." - Will Hutton, The Work Foundation, 2010

It is no coincidence that within the private sector where union membership density is at its lowest, the leading manufacturers are those where trade union organisation is at its strongest. The hourly earnings of union members, according to the Labour Force Survey, averaged £14.00 in 2010, 16.7% more than the earnings of non-members (£12.00 per hour). The trade union wage premium in 2010 was 6.7% in the private sector despite the relatively low membership density across the sector.

But the influence goes beyond pay and conditions. The Department of Trade & Industry, (now DBIS), published a report in 2007 which assessed the benefits of trade union involvement and representation in the workplace. The benefits included improving labour retention and reducing absenteeism and where union health and safety representatives were present fewer working days were lost both due to accidents and work related ill health. The report found that employees that are listened to have more commitment to the company and are more productive. The report estimated that this improved productivity was worth between £3.4bn and £10.2bn to the economy.

The trade union response in organised workplaces during the recession in manufacturing illustrated the positive contribution made by unions which enabled thousands of jobs to be protected.

Likewise the trade union contribution to the industrial debate surrounding low carbon initiatives is of crucial importance. The European Commission Report on Industrial Relations in Europe 2010[24] highlighted how social partners contribute to the necessary greening of the economy and the corresponding transition to a low carbon economy. This is also reflected in the work being done at industry and company level in the UK and will be increased as Unite builds on the formal establishment of Environmental Workplace Representatives.

Metals Industry

(Steel: Aluminium: Foundries)

- The industries employ 48,900 people

Steel industry:

- In 2008 it contributed £2.9 billion to our balance of trade.

Aluminium

- Worth £425 million gross added value to the UK economy

Foundries:

- Turnover of £1.8 Billion

[23] The Work Foundation Annual Debate 2010: Are we heading for a fairer workplace? Will Hutton http://www.theworkfoundation.com/research/publications/publicationdetail.aspx?oItemId=248

[24] Industrial Relations in Europe 2010 published 2011.

Against this background Unite weighs the attempts by government to undermine the effectiveness of trade unions through its campaign to limit employment legislation and trade union rights on the grounds that this will in someway assist manufacturing back on to its feet. Unite rejects this argument as being based on a false premise that trade union organisation and employment rights inhibit growth when all the evidence points to the opposite.

We can learn from those countries where social dialogue is accepted more as the norm. Although our Information and Consultation Regulations are weak compared to some other EU states, the evidence suggests that those companies who have embraced the regulations are more productive and efficient and adaptable than their competitors.

Electronics & IT services industry

- UK electronics industry's turnover was £62.3 billion
- There are around 11,000 electronics enterprises in the UK
- Employing over 240,000 people
- The electronics and IT services sectors together account for approximately 4 per cent of the UK's gross domestic product and employ around a million people

As identified elsewhere in this document access to education and skills training is a key priority. In 2009 ahead of its own target of 22,000, over 24,000 Union Learning Reps had been trained and over 400 learning centres established. Research[25], commissioned by UnionLearn, shows that 73% of ULRs and over 50% of managers reported that ULRs have had a positive impact on the funding of training and increasing the level of employee participation in training.

The future of manufacturing in the UK over the coming decade and beyond will depend upon the continued positive contribution that trade unions make in ensuring a stable and productive workforce which is involved, trained and committed. At a policy level the social dialogue between Unite and manufacturing employer organisations such as Society of Motor Manufacturers, the Chemical Industries Association and the Food and Drink Federation, British Printing Industries Federation, Confederation Of Paper Industries also provides an opportunity to highlight the shared concerns that we have and to pursue political strategies which will benefit industry in the long term. Unite also welcomes and supports social dialogue at European level in the manufacturing sector including recent developments in the printing and papermaking sectors.

[25] Paper No 9 The impact of the union learning representative: A survey of ULRs and their employers. Bacon N, Hoque K. Nottingham university Business School April 2009

Conclusions and Key Manufacturing statistics

- The UK continues to be one of the world's largest manufacturers
- £140 billion per annum to the economy
- 55% of UK exports and over 2.5m workforce jobs
- 74% of business R&D
- The UK is the seventh largest exporter of high or medium-high technology goods in the OECD, representing 65% of total goods exports by the UK manufacturing sector
- 3rd largest destination for inward foreign direct investment in manufacturing in the OECD (behind US and Netherlands)
- Inward investment generated 94,000 jobs in 2009/10, a 20% rise on the previous year.
- Manufacturing is changing – 50% of capital expenditure in manufacturing is already in intangible assets like brands, training and design.

Recent surveys have shown differing fortunes for manufacturing and the speed of return to growth. 12 months in to this new parliament the overall growth figures indicate a period of stagnation at best with manufacturing performing the best with marginal growth figures.

It is clear that investment and exports have been particularly affected by the recession. However, significant opportunities exist in manufacturing, particularly around high value manufacturing. Despite the recent slowdown in global growth, the world economy is predicted to double in size over the next two decades driven by growth in emerging markets such as China and India. The transition to a low carbon economy will also present significant opportunities.

An analysis undertaken by the Department of Business in 2009 found that in common with leading manufacturing countries such as Japan, Germany and the United States, the UK has increasingly specialised in higher-technology manufacturing industries such as aerospace and pharmaceuticals. This compares with emerging economies including Brazil, Russia, India and China which have specialised to a greater extent in lower technology industries such as textiles.

Over time, the competitive advantage of different countries in dynamic industries characterised by high levels of innovation and technological progress will change as new improved products are developed and brought to market. It is therefore important to consider also the UK's current strengths in different areas of technology as they can provide a useful indication of where the country's competitive advantages could lie in the future. Current patent activity suggests that the UK is presently relatively strong in the areas of organic chemistry, biotechnology/pharmaceuticals and medical technology and weaker in the areas of electronics, optics and nano-technology and information technology.[26]

[26] Manufacturing in the UK: an economic analysis of the sector – DBIS December 2010

It is interesting to note that the same analysis found that the main obstacles which created market failure in manufacturing relate to skills, innovation, investment, supply chain collaboration and institutions. The very same issues that Unite has continually argued to be strengthened.

Retention of manufacturing jobs

One of the challenges that UK manufacturing workers have faced has been the outsourcing of jobs to low wage economies. Traditionally, manufacturing firms have tended to offshore and outsource low value, high volume functions such as production and assembly. Increasingly, manufacturing firms are also offshoring and outsourcing higher value company functions including research and development.

Pharmaceutical Industry:

- Turnover £15.2 billion in 2008
- Invests approximately £11.8 million every day in R&D
- The industry employs 72,000 people, 27,000 of them in R&D
- The sector has generated an ever-widening trade surplus reaching almost £7 billion in 2009
- UK is placed in the top 10 most important sources of new medicines in the world

The extent to which further offshoring and outsourcing of higher value added activities is likely to occur over the coming decade is uncertain. This is because emerging economies remain challenging places to do business. There is, however, emerging evidence that UK manufacturing is beginning to repatriate production work.

A 2010 survey[27] by EEF/BDO found that one in seven UK manufacturing firms were bringing production back closer to home on account of cost savings not being as great as anticipated, products were getting to market too slowly, or the quality of goods produced was not of a sufficiently high standard.

Demographic trends

United Nations' population forecasts suggest that the world's population is expected to grow to around 7.6 billion by 2020. At the same time, the trend towards an ageing population will continue. Longer life expectancies and declining fertility rates, particularly in developed countries, are expected to mean that by 2020, the proportion of people aged over 65 in the world will have risen from 7.3% to 9.4%. Manufacturing industries which could benefit from this trend include life sciences, food and drink, electronics and automotive.

Investment and Innovation

Rising incomes and greater awareness of environmental consequences could also benefit manufacturing industries including automotive, aerospace, chemicals, space, and the wider low carbon and environmental goods and services sector.

In order to derive maximum benefit from these developments and compete in the global market UK manufacturing must focus on ways in which it can differentiate itself from the developing nations such as India, China and Brazil. Innovation is a key to this differentiation allowing UK manufacturers to bring new, more sophisticated and better quality products to the market.

27 EEF (2009) Manufacturing Advantage and uncertainty

Unite's 10 Pillars for Manufacturing

- **Build a framework of policies to defend strategically important industries**
- **Continued financial support through interventionist policies**
- **Targeted support for small and medium sized enterprises**
- **Better use of government purchasing power to secure manufacturing jobs in the UK**
- **Maximising the opportunities that the low carbon revolution offers**
- **Delivery of an education and skills framework which meets all industry's needs**
- **Creating a university structure which builds on the science base so necessary to secure high skilled jobs**
- **Create right investment environment for Research and Development**
- **Creation of a level playing field to deliver security and fair pricing for energy**
- **A framework of legislation which promotes transparency and engagement for all stakeholders in the future of manufacturing**

2020 Vision

The phrase meaning acuteness or clearness of vision. However, forecasting is notoriously fraught with difficulties and lays you open to ridicule. We know that our predictions in this document may be no more accurate than those of Sir William Preece who said, in 1878 (when Chief Engineer for the British Post Office): "The Americans have need of the telephone, but we do not. We have plenty of messenger boys".

Unite does have a vision for manufacturing over the coming decade and it is an optimistic one based on the positives that exist. Increasing productivity; strong innovation in key industries; high quality production output and exceptional skills within the existing workforce.

However, our vision is blurred by the failures of government to provide the support and environment necessary for manufacturing to build the confidence necessary to flourish in the global market. It also obscures the lack of quantity of manufacturing output essential to secure a manufacturing base for 2020. The reality is that a 20% increase in output would resolve a large part of the problem and, with appropriate support, is clearly achievable. As output in real terms has declined over the last 15 years, so the UK has relied more heavily on imports to support the manufacturing chain. Exports are vital to our economy, but difficult to increase substantially, given the weaknesses of the British manufacturing base now. A more realistic policy for fixing the balance of payments is to import less, by producing more goods, food and energy for the home market.

This document has built on the ideas which were set out last year in *Manufacturing: Into the Future*. The ten pillars set out in that document are as valid today as 12 months ago, but there is a danger that without appropriate government support in areas of education, governance and finance, the opportunities which are there to be grasped will slip away to those nations where manufacturing is truly at the heart of the economic agenda.

The thriving, high value manufacturing industries portrayed throughout this document vividly illustrate what can be achieved when the odds are stacked against you. But if tertiary education funding is cut and access denied to all but those who can afford to pay then the new skills and innovation for the future will not be developed. If UK manufacturing is increasingly subsumed by those who buy and sell companies for a quick profit then the medium long term investment so essential in modern manufacturing will be dissipated. And if our banks and financial institutions fail to deliver the funding necessary for industries to grow, and government refuses to provide an alternative source, then the investment needed to grow our industries will continue to be absent.

Unite is calling for more Government action, and less rhetoric, on boosting the UK's manufacturing sector. Without action now the threat to the future of manufacturing in the UK is real. The current 12% contribution to GDP does not represent a balanced economy, which economists and politicians alike agree, is what the UK needs.

In the next decade Unite is looking for growth in a manufacturing sector that represents all that is best in UK skills, innovation and productivity. The market alone will not deliver this vision but national strategic policy, coupled with genuine practical support from government can. Experience has demonstrated to us that without a focal point at the centre of government to push forward the necessary strategies, manufacturing will continue to be at the edge instead of the cutting edge of government policy. Unite has called in the past for a Minister for Manufacturing. Now it is calling for seat at the Cabinet table for such a Minister where the role of manufacturing can form a central part of the government's overall economic policy.

Within the next 10 years the UK has to address the long-run problem of relatively low business investment. Once the question of the supply of capital to business has been answered then it is vital to create the conditions under which the demand for that capital can grow. For this reason, an industrial policy is needed to improve the UK's performance on skills and on business innovation. On this set of foundations, the UK has a fighting chance to compete effectively across a range of export sectors in the global economy and particularly in emerging markets.

Manufacturing in the 21st century is more than simply the traditional view of the shop floor. It embraces an understanding of markets and technologies, product and process design through to operations, distribution, services and sustainability. This breadth of involvement is how manufacturing will be seen in 2020.