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Keynote

Hello, ladies and gentlemen. Thank you for that kind introduction.

I'd like to start by thanking the EEF for inviting me to speak here today on the future of British manufacturing.

As anyone who knows me will confirm, I'm evangelical…some might say obsessed…with the role, importance and potential of manufacturing in the UK.

Which means that, as chairman of the UK's biggest manufacturing exporter, I'm probably in the right job!

It also means that the topic chosen for this conference — Competiveness in the Global Community — is something I think about every day.

It's also an issue that transcends industry itself … raising implications for society and government.

So, I'll be proposing a "growth test" that I believe the UK should apply to every policy decision … to help our manufacturers punch their weight in a fiercely competitive world … and continue their heritage of fantastic innovation.

And what a heritage it is. From CT Scans to Radar; from the Television to the Steam Turbine; and…in my own company, BAE Systems…from the vertical lift technology first seen in the Harrier jump jet, to…believe it or not…the microwave oven!

All brilliant innovations. But today, it takes more than world-leading innovation to compete globally. To describe what else we need, I'm going to attack a

myth…highlight two tough challenges…and single out three great opportunities.

So…what's the myth about manufacturing in the UK?

Well, there's one massive myth…with two sides to it. One side is that we don't make anything any more in this country. The other side is that we can drive sustained—and sustainable—economic growth…*without* a vibrant, competitive and growing manufacturing sector.

Let me examine the first side first.

In 2010, the Department for Business, Innovation and Skills published a study called Manufacturing in the UK. It found that manufacturing was the third largest sector in terms of share of UK GDP, behind only business services…and the combined wholesale and retail sectors.

The report added that manufacturing employed some 2.6 million people, representing over 8 per cent of total employment. And it generated 140 billion pounds in gross value added…representing just over 11 per cent of the economy. That's a bigger share than financial services. And nobody says we don't do that any more.

It's truly extraordinary that our economic self-image is so distorted in this way. We remain one of the world's ten largest manufacturing nations…and our overall manufacturing output is 56 per cent *higher* now than it was in 1990

So, do we make things? Yes, we do!

The other side of the myth…that we can recover without manufacturing…is equally misguided.

With due respect to the UK's world-class retail sector…we won't revitalise the UK's global economic competitiveness by opening more shops.

No…the only way our economy will **really** recover…is if our high-value manufacturing and exports are maintained, galvanized and recalibrated. The quickest-acting…and highest-octane…fuel for growth in any economy, is a blisteringly strong export performance.

Historically, we've seen that in Germany...and today we're seeing it in China.

Having tackled the myth…now for the two challenges facing UK manufacturing.

The first is skills. A strong and sustained rise in manufacturing exports…will be achievable only if it's underpinned by world-class productivity, powered by high-value engineering skills and education.

We need the right skills in the right places at the right time…and in the right quantities. Getting all that right is not easy. But when you do, the effect is electrifying. Look at Silicon Valley…or, here in the UK, the high-tech and biotech cluster around Cambridge.

Make no mistake, the UK nurtures innovative engineering skills on a par with—often better than—any in the world. But we need more. A lot more. Engineering UK reckons this country will require an additional 2.2 million new employees with engineering skills over the next 5 to 10 years.

Our industry – the manufacturing industry – alone needs an additional 587,000 engineers and technicians by 2017, just to stand still.
Half a million more engineers and technicians .... just to sustain manufacturing alone!!! That's equivalent to the population of Sheffield!

Progress is being made. But to develop skilled people in this kind of numbers, we'll need an unwavering and sustained national commitment…to encouraging more of our young people to take up 'STEM' subjects in schools…and then to honing the best of these in our outstanding universities.

Industry must play its part too…and at BAE Systems, we're striving to do our bit. We employ more qualified engineers than anyone else in the UK. And we're committed to developing technological skills…as evidenced by the 1,000 apprentices and 300 graduates we have in training … numbers that we intend to sustain in the future. In addition to our graduate scheme, we are also looking to hire a further 200 graduates 'direct to role' in our cyber business. We also invest heavily in our Skills 2020 programme…which aims to ensure UK manufacturing engineering will have the skills needed to compete globally in the future.

Help in tackling the skills challenge can come from unexpected quarters. Look at the boost that Dr Brian Cox's cool television persona has delivered to applications to study physics and maths at UK universities.

But to really unlock the innovative potential in the next generation of the UK workforce…we need nothing short of a national re-evaluation and transformation of the role and status of engineering…and other STEM disciplines. That's the first underlying challenge facing us.
And the second is that the UK needs to play to its strengths.

We're in an age of specialisation, when countries establish their global competitiveness and 'brand'…not around being generally good at most things … but by becoming renowned as world-beaters in a handful of specific activities.

So, what are we really good at? Given my day-job, I'll start my list with innovative, high-value, high-exporting engineering and manufacturing…such as aerospace and defence engineering…including fast-growing 'frontier' areas like countering cyber security threats. Elsewhere in engineering, the UK is a

world leader in things like the technology for Formula One cars…software, such as computer games…chips for mobile phones…and light alloy metals.

We're also enormously enabled by the fact that our language is the lingua franca of the modern world…that London is arguably the leading world city…and that our ability to bridge the Channel, the Atlantic, and all oceans and skies of the world is unrivalled.

So, what's the challenge for UK manufacturing? It's to recognise what things we're especially good at…embrace them…and drive them forward, by investing time, money and skills in them. This isn't a time to hide lights under bushels. We need to acknowledge our strengths, and play to them. Which may not be very 'British'…but needs doing.

So…I've given you one myth…and two challenges. Now for the really exciting bit: three great opportunities for the UK.

But first…a few words on a bugbear of mine: morale. When looking at the future of the UK as a global economic and political force … too many people in this country appear deeply pessimistic.

Pessimism has become fashionably…and dangerously...endemic. It's even often paraded as realism, when in fact it masks opportunities and drains motivation.

I firmly believe that this pessimism is misplaced. In a fast-changing world, the UK has many inherent advantages. Quite aside from our world leadership in the areas I've just mentioned…we have a head start in terms of competing globally thanks to the four key factors of our language, our legal system, our time-zone … and the continuing position of London as a financial hub.

I've already referred to language and London…but don't underestimate the secure foundation for investment provided by our legal system. And the

fortuitous advantage of a time-zone at the centre of a 24-hour global trading market.

So we're in the right place at the right time with the right language! Churchill used to describe Britain's optimum position as at the point of intersection of the three circles of Europe, the US and the English-speaking world. We still are!

If we seize the three opportunities I'm going to highlight…then we'll build on those advantages to punch even more heavily above our weight than we do now.

The first opportunity picks up on what I said earlier…about manufacturing being the most powerful catalyst for economic growth. It's the opportunity for the government to put manufacturing at the very core of its growth strategy…as the key engine for economic recovery and regeneration.

Let me stress that I fully support the UK Government's focus on dealing with the fiscal deficit. Unless this is done, the UK will not be a credible home for businesses from this country or anywhere else.

But, having created this solid economic base, the question is how we can ensure that business, jobs and activity here will flourish. In this context…I warmly welcome the Government's publication last year of its 'Plan for Growth'…focusing on high-value engineering skills, manufacturing innovation and exports, as the keys to future expansion in the economy.

When the Prime Minister addressed the latest CBI conference, he said: "We need a fundamental rebalancing of the economy: more investment, more exports, a broader base to an economic future." I believe this must become the passion of the whole of government. There's no need for a Plan B…but manufacturing is vital if Plan A is to work.

Why? Because jobs in high-end manufacturing create more value than other forms of employment. By way of evidence, take a recent research report from Oxford Economics, entitled "The economic contribution of BAE Systems to the UK in 2009".

The report says BAE Systems "makes major contributions to UK GDP, taxes, investment, R&D and skills"…and it supports this conclusion with a wealth of statistics.

Don't worry, I'll only quote one. It's that productivity at BAE Systems is 34 per cent higher than the average for the UK manufacturing sector…and 85 per cent above the UK economy as a whole. So manufacturing doesn't just make things, it generates more value. In our case, nearly twice as much. Which drives growth.

So the UK's first opportunity is to put manufacturing's growth-generating power at the heart of our strategy for economic recovery.

The second opportunity is one of the ways the government could best do this. It's the 'growth test' I mentioned at the start.

In today's global economy…lower-value exports are increasingly dominated by emerging markets. To compete in such a world…and deliver the growth we so urgently need…the UK should take aggressive steps to capitalise on the inherent advantages of its advanced, high-value manufacturing engineering.

So…I see a great opportunity for the government to establish a key 'growth test'…which it could apply to every existing or new policy initiative, and major procurement decision.

This test would mean asking: 'In what way does this policy or decision contribute to national wealth creation and growth?' If its effect is not to further these goals, then the government should review its position…with a view to changing it to one that does foster growth.

There are already positive moves in this direction. Planning policy in particular has been spotlighted as a barrier to economic development…and here I welcome the government's work on the new National Planning Policy Framework as a real step forward.

My third opportunity builds on the first two. It's the opportunity for the UK to align all our efforts…across both government and industry…and also across institutions ranging from our universities to our embassies around the world…behind a concerted drive to achieve a 'blisteringly strong export performance'.

Alongside investment in engineering innovation and skills…our sustainable future growth also requires an ongoing commitment from the Foreign & Commonwealth Office…to furthering the UK's geopolitical **and** commercial interests.

Nobody should doubt the importance of the UK's ability to punch above its weight…in helping to drive exports. Our membership of bodies like the G20 and Security Council…our ability to intervene in conflict zones with military capability developed and supported within the UK … and our capacity to increase our exports to revitalise our growth: all of these elements are closely linked.

Why? Because every overseas order for innovative, high-value goods manufactured in the UK…whether in the automotive sector, aerospace, security or any other area…requires the reassurance that we are a world player…and helps to ensure we remain so.

Such orders help to sustain the UK's influence and global 'brand'…as an active and progressive player on the modern world stage. At the same time, they expand local knowledge and usage of UK-engineered technology…thus opening the door for other UK exports. The result is a 'win-win' for the UK economy, for UK plc, and ultimately for the living standards of all our citizens.

This then is my manufacturer's-eye view of how the UK can boost its competitiveness in the global community. But let me leave you with this one closing thought.

About four months ago, In November 2011, youth unemployment officially passed one million. On the same day, the BBC website ran a related story…about an advanced engineering company in Gloucestershire that's growing fast by exporting…but can't find enough skilled workers.

That juxtaposition spells out both the challenge and the opportunity in stark human terms. We need the right skills in the right numbers in the right places. Achieve that…and enhanced global competiveness will be within our grasp…driving stronger and more sustainable growth in manufacturing engineering, exports, and the UK economy as a whole.

Thank you.