

## **Manufacturing Speech – 24 April**

It's a great pleasure to be in Birmingham today, at the largest high-tech manufacturing event in the country, in what used to be (and still is) the spiritual home of British industry.

It's a pity that I can't be standing here with the big man of the city, Digby Jones, who was due to attend this week. Doubtless Digby is feeling a little sorry for himself right now – and although I'm sure that he would have loved to be here, it's tough when you're holed up in Labour HQ, undergoing a strict programme of 're-education', learning once again to love Gordon.

On a more serious note, I find it extraordinary that there has been no proper representation from the Department which used to be concerned with trade and industry. It's all the more extraordinary given that one of the thousand subjects that is currently under review by this Government is the manufacturing sector.

It doesn't fill you with much confidence to learn that Baroness Vadera, who will be responsible for the review, and whose formative experiences were crafted in the darkest days of Gordon Brown's Chancellorship, hasn't even bothered to turn up this week. Her excuse that this event clashes with next week's local elections is very odd – particularly since you've received a visit from the Science Minister.

This is illustrative of the Government as a whole. The fact is that they're fast running out of steam. They look exhausted and directionless, paralysed by indecision and choked by incoherence. They're not fighting

for the country, they're not fighting for political ideals – they're merely fighting each other. Hunkered down in their departments, Cabinet Ministers are struggling for every inch of turf, every centimetre of influence. Communication across Whitehall is freezing up. And the Prime Minister himself has been frighteningly incapable of getting a grip on this mess.

And this comes at exactly the point when our markets are most volatile, commodity prices are skyrocketing and our wider economy is vulnerable to a massive slowdown. Britain cannot afford at this critical moment to have such purposeless, such dithering and drift in government. Right now our companies and industries need reassurance and stability.

Manufacturing has done extremely well in the last few months, despite the tremors across the wider economic landscape. This is a great tribute to your resilience. Over the last thirty years, let's be honest, manufacturers have had to deal with a painful transition, as our economy has shifted in favour of services. The sector has bled over a million manufacturing jobs since 1997. But right now you're thriving and adapting to the changing climate. Manufacturing still represents half of all British exports, amounting to approximately £175 billion, while your productivity has now outstripped the entire economy.

With these facts, it must be one of the great fallacies – and one of the great political idiocies – to view the UK as a service-sector economy.

Services account for three quarters of our GDP; and yes, it does support 80 per cent of our employment. But if we continue to act as though the City is our only engine of growth, not only will we expose ourselves

more to the shocks and knocks of the volatile financial markets, we will ignore the huge contribution that you yourselves make to our economy. What's worse, we could completely fail to capitalise on the vast opportunities that lie ahead for manufacturing in the future.

I want to talk a bit about manufacturing, how it's changed and evolved, where I think the Government has failed, and - where I can - outline our emerging thinking on what we need to do to ensure that we continue to have a manufacturing sector that is globally competitive and highly-skilled – in short, a modest aspiration: to have the best high-tech manufacturing sector in the world.

Manufacturing has changed dramatically in the last decade. It's no longer a dirty industry or a dirty word. Out go the nostalgic image of smoke stacks, sprawling factories and long production lines; in will come the robots, lasers, and highly skilled labour of modern plants. But it's as if the Government haven't caught on to this yet. We're currently in the desperate situation where companies are not only competing against themselves but also against the tough environment created by the Government; not succeeding because of the Government but actually despite it.

Modern manufacturing has stretched the value chain far beyond what it used to be. Now we're seeing industry engaged in research, design, development, technology; from the drawing board right through to the market-place and beyond. Nowadays, manufacturing is clever, ingeniously designed and – with the emergence of nano- and bio-technology – it's often very small. It sounds a little bit like me...

Globalisation has also led companies to base different parts of their operations in different parts of the world – creating high levels of flexibility in their business models.

This increasingly globalised, and increasingly competitive, environment presents a huge challenge to Britain: under these conditions, how do we retain, support and actively enhance our British manufacturing base?

The Government has tried but failed to answer this question. It grappled with the issue in its Manufacturing Strategy published back in 2002. The then-Secretary of State, Pat Hewitt, said at that time: ‘manufacturing matters’. Not according to a forthright (anonymous) executive at Rolls Royce, who was quoted in the *Financial Times* last autumn when the company established a new test centre near Düsseldorf instead of Derby: ‘The Germans,’ he said, ‘value manufacturing. There is better productivity and they have a better education system. Government has chosen not to be competitive. Britain has caused this industry to export its capabilities’.

The fact is that many businesses, not just our flagship automobile firm, are now looking at the UK with a wary eye. Our skills are thought to be insufficient; our entrepreneurial climate has been damaged by overregulation; our competitiveness has been hampered by one of the most complex tax systems in the world; our method of attracting inward investment is fragmented; and our main vehicle for export promotion is weak.

If we don’t have a Department for Business that stands up for British business, then my fear is that the forces of globalised competition will

leave many of our small and large companies behind. In its current mutation, DBERR threatens to do just that.

But I'm not here just to score cheap political points. I don't want merely to inveigh against the Government. The obvious question that follows from all this is: well, what would your lot do?

We believe the manufacturing sector has a very strong future. This has nothing to do with being overly optimistic – it's to do with quiet and logical analysis. Look at how manufacturing companies in this country have adapted in the last ten years – and look at the potential that lies in the future.

As an example: in the next two decades, the UK as a whole will be adapting to the major changes taking place in the field of energy and the environment. UK companies, who have particular experience in the products providing low-carbon energy and energy efficiency, as well as our historical ties with the motor industry, will be particularly well-placed to harvest the rewards. Some firms such as have already had great success manufacturing

So I feel confident about manufacturing – there's no need to buy into that depressing narrative of decay and decline.

But government needs to act now if we're to prevent the erosion of the UK's manufacturing base. And there are four key issues that I think need to be addressed, and that under David Cameron, a Conservative government aims to address.

First, and most basically, we need to make it easier for people to do business in Britain. That means the top priority is to create stability for businesses; but at the same time ensuring that stability does not become political code for doing nothing. There are important reforms to make. We now have a tax system that's longer than India's; so George Osborne and his team are currently working with PricewaterhouseCoopers on simplifying our tax regime and the European School of Management on the creation of a real culture of enterprise.

Despite all the Government's talk about regulation and red tape, we're still seeing the equivalent of 14 new regulations being slung out of Whitehall every day; that's why I commissioned Sir David Arculus to take forward the work of John Redwood's report on deregulation to see how we can end the regulatory cascade that flows from Brussels to Whitehall to Town Hall. I'm pleased to say that Ian Peters of the EEF is a member of the board and will be advising Sir David on the specific regulatory issues surrounding manufacturing.

The second change we need to make is perhaps a more philosophical issue, but which has tangible consequences: the issue of long-term skills. I'm always struck by how, in my conversations with businessmen and women, the issue of skills is raised again and again. There is perennial despair. The fact is that we're not currently providing manufacturers with the calibre of individuals who are able to cope adequately in the modern world. We're still churning out people who can't read, write, count or speak. This doesn't just stifle enterprise – it's a tragedy for the millions of talented children who are being failed by our education system.

Teaching by targets is not the same as teaching people to think. We need young minds that are curious and engaged. Where is the new generation of engineers, mathematicians and scientists? I'd like to see ways in which we can establish partnerships between schools and manufacturing companies, inspiring young people to look beyond their own perceptions and see manufacturing as the exciting and incredibly dynamic industry that it obviously is. Although the splitting of the old DTI removed skills from my remit, it's an integral concern for business – and I will be working with my colleague David Willetts on ways to enthuse children and graduates about the importance of science and manufacturing.

Thirdly, we need to stand up for business more in this country. The message that I have got from manufacturers is that other countries support their businesses far better than we do. Conservatives are firm believers in free markets and free trade – and we should rightly ask questions when our refusal to encourage our own national champions to fly the flag for Britain appears not to rule out encouraging other countries' national champions to plant their own flag in the UK.

That Rolls Royce executive was right – we don't have an industrial strategy to speak of. The current role of government support is either too insignificant or too piecemeal; and our businesses suffer. While other countries support companies through funding for R&D, our Prime Minister devises the hugely complex system of R&D tax credits; while other countries are investing in science and technology, our Government cuts the science budget; while other countries actively encourage entrepreneurship, our Treasury responds with a tax on enterprise.

I can't stand here and promise tax cuts because we have no idea about what state the public purse will be in by the time we get into power. But I can at least say that as Secretary of State, I will make sure that we get our Department's spending priorities right. No more pointless, headline-grabbing schemes: a return to serious government for serious business.

With so many exporters in the room – and since we're in the city of Lord Jones – I just want to make one last point and outline our thinking on UK Trade and Investment. We're looking very hard at this organisation. For years it's been an incoherent, if not incompetent, body. It lacks strategy and structure. The final straw for many people came last summer when the budget ran dry for the Tradeshow Access Programme. The result has been a severe curtailment in the representation of our SMEs in overseas trade shows – and this at a point when our trade deficit has reached record proportions.

That's not quite what I'd call 'beating the drum for Britain', Digby.

So our view is that UKTI needs a radical structural change – not another cosmetic makeover. I'd like to see a trade body that was business-led, but accountable to Ministers; a powerful but single voice for UK PLC, not a competitor to the overseas offices of RDAs; and a hub of knowledge, with people who know that aimlessly shifting priorities to India and China doesn't make any sense when Europe and America are still the dominant markets for our smaller exporters.

So: improving our business culture by simplifying tax and cutting red tape; bringing your skills to our schools; standing up for British business;

and properly supporting our exports – this is just the beginning of what we want to do.

It's time for politicians of all parties to start paying more attention to manufacturing: to a sector with a famous past and a glorious future. As a first step, I will be writing to all my Parliamentary colleagues in the Conservative Party to impress upon them the importance of manufacturing and to encourage them to visit manufacturing firms in their constituency, so that we're all listening to what you have to say.

And over the next year, my team – Charles Hendry, Mark Prisk, Jonathan Djanogly and Geoffrey Clifton-Brown – will be developing many different ideas with all the relevant shadow departments – pressing the Government to act and preparing to act in government.