



**UK TRADE & BUSINESS
COMMISSION**

UKTBC POST-SESSION REPORT: MANUFACTURING AND CONSTRUCTION

JANUARY 2023



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1. INTRODUCTION

The UK Trade and Business Commission brings together ten MPs from all nine Westminster parties and all four nations of the UK, along with business leaders and expert economists to provide independent scrutiny of the UK's trade deals and provide recommendations to the UK Government.

On the 19th of January 2023, the Commission took evidence on the UK's manufacturing and construction industries. Both industries have struggled with challenging economic conditions over the past year - and yet both sectors are pivotal to UK domestic growth.

Six expert witnesses provided evidence highlighting how post-Brexit changes have challenged both sectors and also outlined how trade agreements forged by the UK Government can grow a sector which provides many high-skilled, high-wage jobs, and historically demonstrates significant productivity for its size.

2. SESSION WITNESSES

PANEL 1: MANUFACTURING

- 🗣️ **FERGUS MCREYNOLDS**, Director of EU & International Affairs, Make UK
- 🗣️ **SIMON COLLINGWOOD**, Head of External Relations and Communications, AMRC
- 🗣️ **JACK SEMPLE**, Secretary, Engineering and Machinery Alliance (EAMA)

PANEL 2: CONSTRUCTION

- 🗣️ **D'MARISS COFFMAN**, Director, Bartlett School of Sustainable Construction, UCL
- 🗣️ **NOBLE FRANCIS**, Economics Director, Construction Products Association
- 🗣️ **VINCENT CLANCY**, Chief Executive, Turner & Townsend (on behalf of RICS)

3. KEY FINDINGS

3.1 Labour and skill shortages are affecting all areas of manufacturing and construction.

3.2 Both the manufacturing and construction sector are facing increased costs and administrative red tape. This is preventing businesses from growing, innovating, and remaining competitive internationally.

3.3 The manufacturing and construction sectors are losing out on investment due to the absence of a UK industrial strategy. This is compounded by a lack of regulatory clarity.

3.1 LABOUR AND SKILL SHORTAGES

The manufacturing and construction industries are facing extensive labour shortages. These are driven by a diminishing labour pool and exacerbated by skills gaps.

Witnesses largely agreed that the UK Government is not doing enough to address labour shortages and are not providing adequate support for skills creation.

The loss of access to the EU labour market, an ageing workforce with an inability to attract and maintain young talent, and a lack of investment in digital skills were some of the key drivers for the labour and skills shortage in these sectors.

“What we have seen which is uniquely different in recent years is an increase in labour shortages and in the absence of the skills, the sector does invest in skills and training people, the challenge at the moment is finding the people to actually invest in and train. Just to give you a few very quick figures in that context, the ONS data shows that vacancies per 100 employed jobs are running in the manufacturing sector at 3.5 at the moment up from a historic average of about 1.2. This is a significant challenge in the sector. Make UK research last year estimated that the cost in terms of prosperity loss for the UK is around about 8 billion in 2022 from those vacancies in the sector, so this is a real significant challenge.”

- FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK

“If you look at construction from an employment point of view then there’s always been an age demographic issue on the contracting side, particularly the skilled trade side with the big spike in the age demographic between 50 and 65. But what you notice is that that has accelerated through the pandemic and so we’ve ended up between 2019 Q1 and 2022 Q1, so just in the space of three years, we’ve lost 244,000 workers in UK construction, despite the fact that demand is strong. And a part of that is early retirement, and part of that may be Long Covid, but a part of that is the EU loss of employment as well.”

- NOBLE FRANCIS, ECONOMICS DIRECTOR, CONSTRUCTION PRODUCTS ASSOCIATION

“What we’ve seen recently in the SMEs is a lot of lower skilled labour has indeed gone home. The Ukrainian conflict obviously has been a big recent pull on that because it’s pulled off a lot of the Poles and the Lithuanians and others have gone back to the region, either to support family members or because of other considerations, but the problem is that lower skilled labour which the current immigration framework discourages is actually what is most needed, and I think that returning to a world in which those job classifications have some dignity attached to them.”

- D’MARIS COFFMAN, DIRECTOR, BARTLETT SCHOOL OF SUSTAINABLE CONSTRUCTION, UCL

The prospect of modernising both industries, through digitisation and transition to net-zero, are key opportunities to attract new workers. However, to capitalise on these opportunities our experts asserted a need for increased workforce mobility between the UK and EU, support for skills creation, and investment in research and development.

“Digitalisation is a really important part of the manufacturing community going forward and the UK is not doing as well in that domain as some of our European competitors.”

- SIMON COLLINGWOOD, HEAD OF EXTERNAL RELATIONS AND COMMUNICATIONS, AMRC

“It’s not just about the labour shortages and some of the skills issues, it’s also the composition of skills [...] the point that we hear a lot from our larger members is about the shift away from some of the traditional manufacturing skills, mechanical engineering etc, through to needing people with software skills and data science skills.” - **SIMON COLLINGWOOD, HEAD OF EXTERNAL RELATIONS AND COMMUNICATIONS, AMRC**

“I think that there could be a lot more Government support and recognition of the cost of training graduates in these fields is actually higher than that which is afforded by the student loan programme, for people on undergraduate programmes.” - **D’MARIS COFFMAN, DIRECTOR, BARTLETT SCHOOL OF SUSTAINABLE CONSTRUCTION, UCL**

3.2 INCREASED COSTS AND RED TAPE

Witnesses highlighted that increased operational costs in the manufacturing and construction sector were a serious threat to the sector’s ability to remain competitive internationally.

Increasing energy costs are impacting the UK disproportionately compared to the rest of Europe and our witnesses agreed that the UK Government has not provided effective support.

“The challenges that engineering and manufacturing are facing at the moment are first of all energy costs, which are building on already with a structural difficulty in the UK in that we have higher energy costs than industry in Europe, never mind the rest of the world, and the increase in energy costs that we’ve seen as a result of the problems last year have added to that and we have a situation where our members are looking at what support is available to our European partners and are wishing we had more support from the Government.” - **JACK SEMPLE, SECRETARY, ENGINEERING AND MACHINERY ALLIANCE (EAMA)**

“There is a huge majority of manufacturing firms, over 70%, who think that energy costs are going to increase and while there are revisions of the energy scheme which the Government have recently announced, for many that won’t go far enough and it really is quite a concern for the next 12 months. Looking particularly to next winter and the concerns around that.” - **FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK**

“For UK manufacturers energy costs are around one quarter to one third of total costs, so that’s for energy in terms of manufacturers, such as steel manufacturers, aggregate manufacturers, brick manufacturers etc. So energy cost is absolutely critical for them and it makes a very big difference that there is a level playing field there for product manufacturing if we’re going to have investment coming in. What we saw even before the energy issues recently is that Government policy is not favourable towards energy intensive business, it’s not favourable towards incentivising energy intensive businesses moving towards a more net zero transition type of production, and it also has been less favourable in terms of energy bills helps since the energy price spikes over the past almost year.” - **NOBLE FRANCIS, ECONOMICS DIRECTOR, CONSTRUCTION PRODUCTS ASSOCIATION**

Post-Brexit, manufacturers and construction companies have seen an increase in red tape and administrative burdens when exporting. While the import of construction materials has bounced back to 2016 levels, exports have not.

“I think supply chains and material costs have to be up on the top of everybody’s list, not just the fact that there is rampant inflation but it’s very difficult to predict. This has hit the SME side particularly hard but it hasn’t been great for the larger Tier One contractors and the major infrastructure clients either.” - **D’MARIS COFFMAN, DIRECTOR, BARTLETT SCHOOL OF SUSTAINABLE CONSTRUCTION, UCL**

“The key issue is for the smaller firms that would be exporters and they have struggled with the additional resource cost, admin, bureaucracy wise, and so that’s why you still end up with a point in time where exports of construction products to the EU are still more than one third lower than before the lockdowns, before the Brexit distortions caused persistent pushing back of the deadlines and then Brexit itself.”
- NOBLE FRANCIS, ECONOMICS DIRECTOR, CONSTRUCTION PRODUCTS ASSOCIATION

“87% of [businesses] surveyed were expecting to see increases in transportations costs and logistics costs over the next 12 months.” - **FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK**

Significantly, the energy costs in the UK are only adding to the extra administrative burdens and materials cost inflation that manufacturing and construction firms are facing post-Brexit. Our witnesses made it clear that the Covid-19 Pandemic, Brexit, and war in the Ukraine should be seen as compounded aggravators.

“I would agree that Covid is the least of the three, probably a fifth all told, and that Brexit and the energy crisis are probably about two fifths each, 40% each. I think that the question around the energy policy issues is whether that’s simply the war in the Ukraine or whether there has also just been a failure of energy policy in the UK over a long period of time that’s made this particularly acute, because it’s hit the UK harder than it has other OECD countries and I think that that needs to be underlined.”
- D’MARIS COFFMAN, DIRECTOR, BARTLETT SCHOOL OF SUSTAINABLE CONSTRUCTION, UCL

3.3 LACK OF LONG-TERM INDUSTRIAL STRATEGY AND REGULATORY STABILITY

The lack of a long-term UK industrial strategy is a major challenge facing the manufacturing and construction industries. Although both industries are experiencing significant uncertainty due to volatile global markets, witnesses made clear that, for UK businesses this has been exacerbated by post-Brexit regulatory instability.

The absence of an industrial strategy is also having lasting effects on confidence in these industries, leading to a reduction in investment.

A stable, long-term industrial strategy combined with a clear regulatory framework would drive investment, growth, and innovation.

“We have seen increased volatility and what we’re starting to see is that manufacturers are starting to treat that as the norm rather than as the occasional. And actually managing that volatility is becoming day to day and what we’re starting to see is a move away from a ‘just in time’ model to a ‘just in case’ model and manufacturers are putting in a variety of different technologies, but also purchasing practices to address that.” - **FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK**

“Part of that challenge is to do with the overall technical requirements in trade, but part of that is also a confidence issue and some of the political instability has created an environment where it is difficult to make the case for trading between the two in new contracts. That uncertainty is clearly having a bearing on trade.” - **FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK**

“I can give you a relatively confident prediction of what customs’ requirements are likely to look like in five years, it’s more difficult for me to tell you what your regulatory environment both in the UK and the EU is going to look like. That would have historically been the same. That divergent issue is yet to be fully addressed and is creating uncertainty.” - **FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK**

“What we don’t have is certainty around regulatory direction, either in terms of our domestic regulations or indeed how we’re going to address divergence, be that either passive divergence or active divergence from a European regulatory system, which still makes up our most significant export market.”
- FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK

“Made Smarter is inconsistent, it’s available only in several regions of England, most of the country doesn’t have a programme. So there seems to be a lack of appreciation within Government as to what it has available and we need something which is national, coherent and long-term.” - JACK SEMPLE, SECRETARY, ENGINEERING AND MACHINERY ALLIANCE (EAMA)

“I think one of the main issues for us and I’ve already highlighted it, is a long-term economic vision, I think an industrial strategy which presents not just the ambition but a roadmap to how we’re going to achieve some of those things.” - FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK

“What we would like to see in terms of regulation is a clear process for engagement, assessment of benefits and costs and a clear process which is consistently applied, as to how we can develop our regulation.” - JACK SEMPLE, SECRETARY, ENGINEERING AND MACHINERY ALLIANCE (EAMA)

“It requires is a long-term strategy with a plan and a trajectory that is realistic to get towards it with policies that incentivise it and unfortunately over the past ten years we’ve had Government policies that are announced to fanfare and then get pulled or reduced, or cut back on, or changed that such as the Green Deal if you remember that, just over ten years ago. [...] all that does is breeds cynicism and less certainty from an industry point of view and if we are going to move towards net zero it is going to require proper Government planning that allows for gradual build-up of supply, that incentivises major investment up front in skills and capacity.” - NOBLE FRANCIS, ECONOMICS DIRECTOR, CONSTRUCTION PRODUCTS ASSOCIATION

“What are you making investments for, unless you know what the market environment is going to be, what the regulations and standards are going to be. It’s hard to justify making major upfront investments, whether it’s in skills, capacity or in digitalisation, in any of these areas.” - NOBLE FRANCIS, ECONOMICS DIRECTOR, CONSTRUCTION PRODUCTS ASSOCIATION

Witnesses highlighted that the Retained EU Law Bill would cause additional challenges for both sectors and is currently increasing uncertainty. This contributed to a wider trend in our witnesses’ evidence that saw regulatory alignment with the EU as a priority, as it would allow the maintenance of a healthy trading relationship and prevent non-tariff barriers to trade.

“So we’ve talked about the issues facing the industry, what the industry absolutely doesn’t need at the moment is a focus on changing retained EU law. I am not hearing from any of our members a strong demand for changing retained EU law. And similarly I think some of the language around the EU damages sentiment within customers and even suppliers in the EU. So I think a change of tone there would be most helpful.” - JACK SEMPLE, SECRETARY, ENGINEERING AND MACHINERY ALLIANCE (EAMA)

“So certainly we have a great deal of reservations around the Retained EU Law Bill both in terms of the shortness of the sunset date, but more broadly in terms of the overall policy and how it will be implemented. We’d prefer a more strategic approach to that and we’ve made that very clear.” - FERGUS MCREYNOLDS, DIRECTOR OF EU & INTERNATIONAL AFFAIRS, MAKE UK

“I think that the question of regulatory alignment particularly going forward on things like environmental regulations is going to make it even more difficult, a lack of regulatory alignment is going to make it even more difficult for UK firms to be competitive.” - D’MARIS COFFMAN, DIRECTOR, BARTLETT SCHOOL OF SUSTAINABLE CONSTRUCTION, UCL



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