

EEF SUBMISSION TO THE AIPORTS COMMISSION ON AVIATION CONNECTIVITY AND THE ECONOMY

About EEF

EEF is the representative voice of manufacturing, engineering and technology-based businesses with a membership of 2,500 companies representing 6,000 industrial sites. Our member companies employ some 900,000 people from every sector of the engineering, manufacturing and technology based industries.

UK Steel, a division of EEF, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.

Summary

- *UK manufacturing is an outward-looking and cosmopolitan sector. It is export-intensive, embedded in increasingly globalised supply chains and has a significant proportion of foreign-owned businesses. This makes the international connectivity provided aviation vital to its future prosperity.*
- *Aviation underpins growth in the manufacturing sector. Air links are especially important for growing export-based businesses and continuing to attract inward investment into the sector. Export-intensive firms report that UK aviation infrastructure is a barrier to running and growing their businesses.*
- *The structural shift in the global economy and markets for manufactured goods means that air links with emerging markets are vital. But traditional markets, such as North America and Europe, remain important.*
- *Communication technology is unlikely to supplant the need for the face-to-face interaction that business relies on and air links make possible.*

1. Manufacturing is an outward-looking sector

Export-intensive

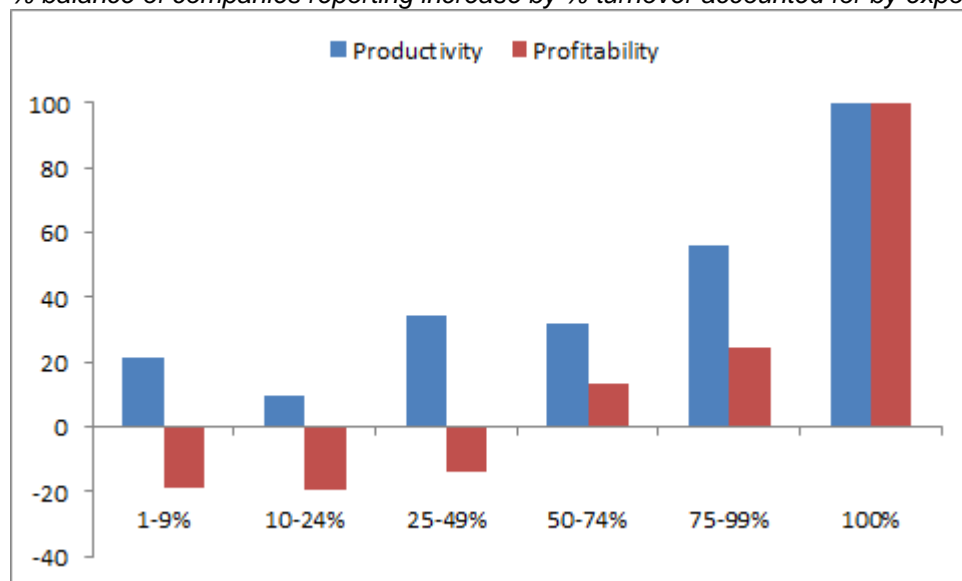
Manufacturing is an export-intensive sector. Exports account for more than half of turnover in 40% of businesses¹ and the sector as a whole is responsible for half of UK exports. Going forward, overseas markets, particularly those in emerging economies, are likely to be increasingly important for UK manufacturers. In a recent EEF survey, 45% of firms identified increasing demand for their products in emerging markets as a key driver of growth in 2013².

The importance of exports to the sector is highlighted by the link between exporting and key indicators of business performance. A 2006 EEF survey showed that export-intensive companies were more likely to report superior productivity growth³. This link partly reflects the fact that competitiveness and efficiency are central to success in global markets.

The global recession has complicated the productivity picture as falls in output have been considerably greater than reductions to headcount throughout the downturn. However, the link with exporting still held true in our 2009 export survey which showed that more export-intensive companies tended to report an increase in both productivity and profitability⁴.

Chart 1: Strong links between exporting and business performance

% balance of companies reporting increase by % turnover accounted for by exports



Source: EEF Export Survey, 2009

¹ EEF/GfK NOP, Shape of British Industry survey, (2010)

² EEF, Executive Survey 2013, (2013)

³ EEF, Export Survey, (2006)

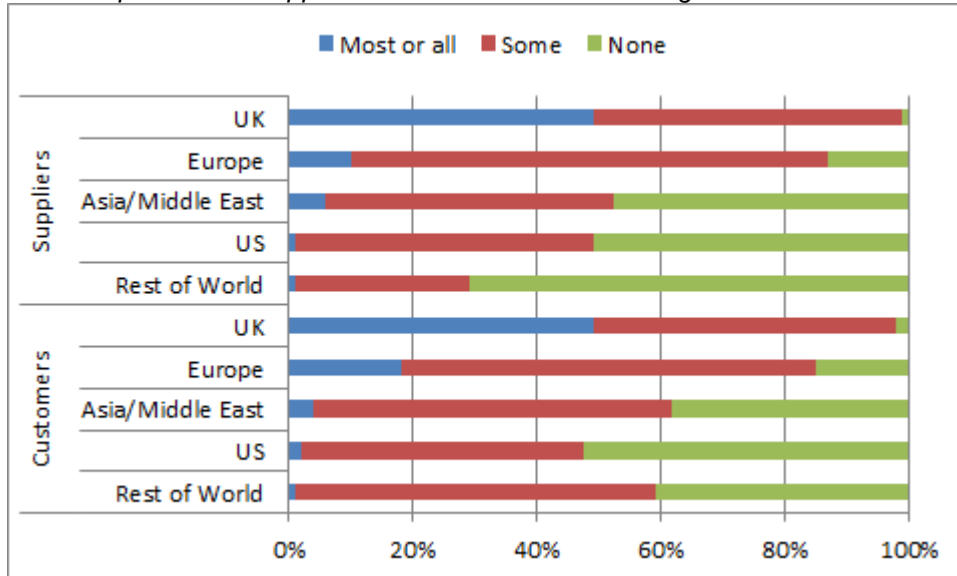
⁴ EEF, Export Survey, (2009)

Globalised

Manufacturing increasingly operates on a global basis, companies source and supply in an increasingly diverse range of locations. UK manufacturers are no exception. Over four-fifths of firms have suppliers and customers in Europe. But links to international markets go further afield. More than half of companies source components or sell products, or both, in Asia and the Middle East. The USA is another important location for UK manufacturing – over 40% of companies are either suppliers to or source products from the world's largest economy.

Chart 2: UK manufacturers source and sell across the globe

% of companies with suppliers and customers in world regions



Source: EEF/GfK NOP Shape of British Industry survey, 2010

Cosmopolitan

A significant proportion of British manufacturing is foreign-owned. Based on EEF surveys, approximately a third of UK manufacturers are part of foreign owned companies. Amongst larger firms, those with more than 100 employees, the proportion is closer to half. So continuing to attract investment from overseas-based businesses is vital for the growth prospects of the sector.

Another dimension of the cosmopolitan nature of manufacturing is how firms access skills. In a recent survey, a quarter of respondents reported that they bring new skills into their company through internal transfers and more than one in ten by hiring non-EU nationals. Given the high degree of foreign ownership in the sector, a significant proportion of intra-company are likely to be non-EEA nationals⁵.

⁵ EEF, Skills Survey, (2012)

2. International connectivity provided by aviation underpins industrial growth

The international connectivity provided by air links helps connect the UK to the global marketplace. From business trips to imports and exports, aviation is a major facilitator of the UK's overseas trade. This makes it especially important for an outward-looking sector like manufacturing.

Approximately 40% of the UK's exports of goods and commodities by value are air freighted. Air freight is particularly important for high-value but low weight products, such as optical and medical equipment, and timely delivery of components in industries operating 'just-in-time production' models such as automotive.

Aviation infrastructure also underpins the ability of manufacturers to grow their exports. Air links are essential to identifying and exploiting opportunities in overseas markets. In a recent EEF survey, three-quarters of manufacturers cite aviation infrastructure as important to building and maintaining relationships with customers and half see it as important to identifying new business opportunities.

Chart 3: Aviation vital to a range of growth-related activities

% companies citing aviation infrastructure as critical or important



Source: EEF Transport Survey 2012

Growing an export-based business

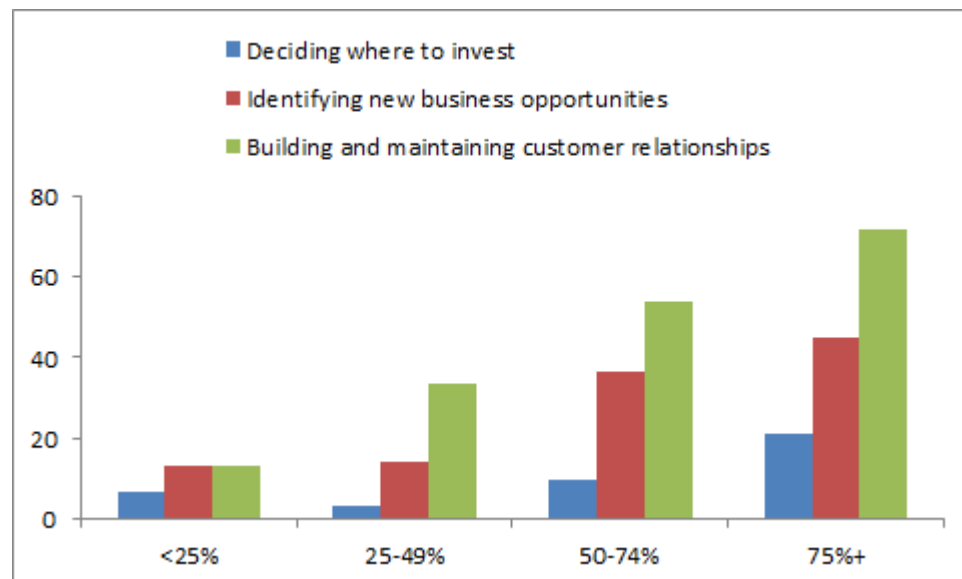
The more a business exports, the more important aviation infrastructure is to its growth. Export-intensive manufacturers see aviation infrastructure, and the international connectivity it enables, as critical to a number of growth-related activities.

Manufacturers for whom exports account for more than 75% of sales, are more than three times as likely to see aviation as critical to identifying new business opportunities and deciding where to invest as those exporting less than 25% of sales. The most export-

intensive businesses are also more than five times as likely to identify aviation as critical to building and sustaining relationships with customers.

Chart 4: Aviation critical to growing an export-focused business in the UK

% companies citing aviation infrastructure as critical, by exports as % of turnover

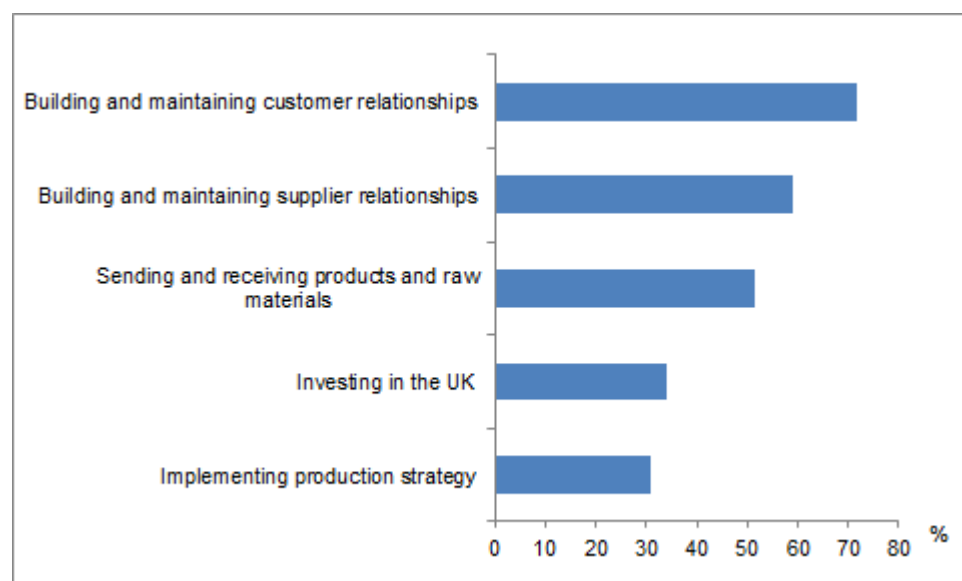


Source: EEF Transport Survey 2012

Export-intensive manufacturers report that the state of the UK's aviation infrastructure is acting as a barrier to their operations and growth plans. Three-quarters view it as an impediment to building and sustaining relationships with customers, whilst more than half believe it gets in the way of managing their supply chains and moving goods. More than a third see it as a barrier to investing in the UK and implementing their production strategy.

Chart 5: UK's aviation infrastructure a barrier to running an export-intensive business

% companies with more 75% of turnover from exports citing aviation infrastructure as a barrier



Source: EEF Transport Survey 2012

Inward investment

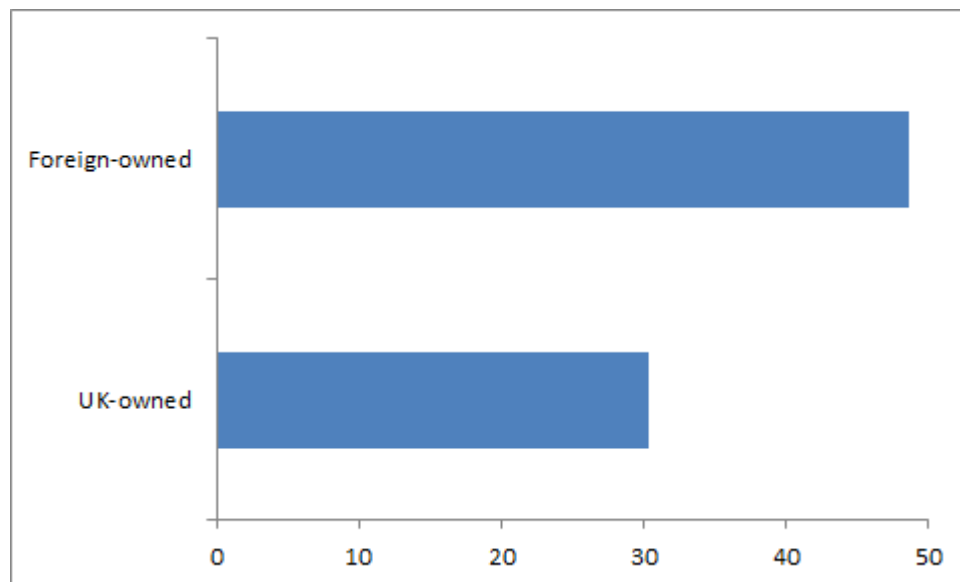
With inward investment, the international perception of country and its infrastructure matters. The London 2012 Olympics, where major infrastructure was delivered on time and within budget, boosted the nation in the eyes of would-be investors around the world. It was a magnificent showcase for the prowess of British management, design and products.

Unfortunately, there is a more negative image often associated with British infrastructure. From decades of prevarication over airport capacity to the slow pace of investment in high-speed rail compared to competitors, there is a perception that the UK lacks the political vision and will to commit to and see through major infrastructure projects. That we tend to muddle through, rather than invest strategically for the long-term. We must address this perception to ensure the UK continues to benefit from the inward investment that is so important to the economy.

A significant proportion of British manufacturing is foreign-owned, so continuing to attract investment from overseas-based businesses is vital for the sector's growth prospects. These businesses place a greater emphasis on aviation infrastructure when deciding where to invest than their UK counterparts. Two-thirds more regard aviation infrastructure as a key factor.

Chart 6: Overseas investors place significant emphasis on aviation infrastructure

% of companies citing aviation infrastructure as critical or important to investment decisions



Source: EEF Transport Survey 2012

3. Broad range of air links needed

Air links to emerging markets vital

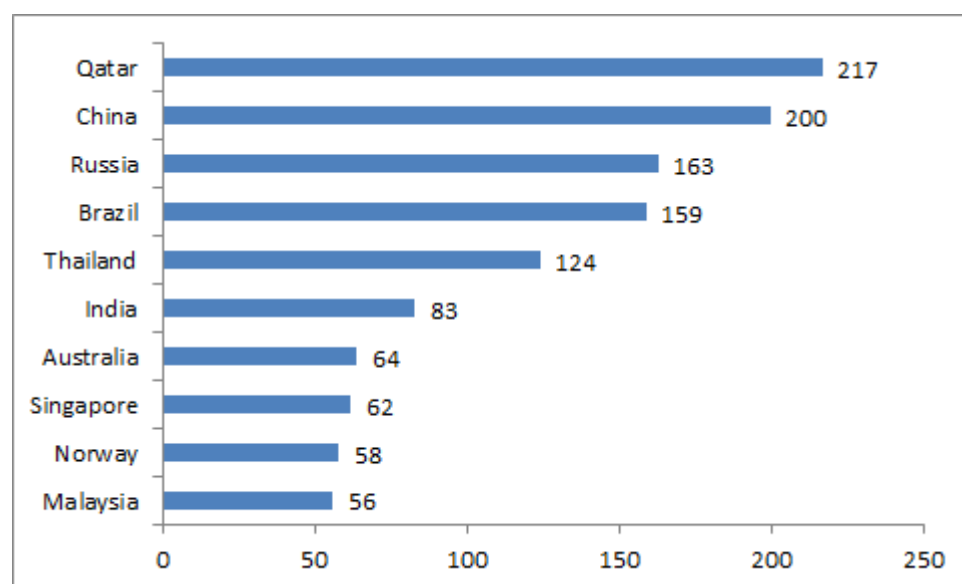
Much of the economic case for expanding airport capacity in the South East focuses on links to emerging markets. This is understandable.

The past decade has seen what looks like the beginning of a profound shift in the centre of gravity of the global economy. In 2000, developed countries accounted for two-thirds of global GDP. Ten years on, that share has fallen to just over half and some predict it could drop to 40% by 2020⁶.

From a manufacturing perspective, strong air links with emerging markets are important. Most of the UK's fastest growing export markets are in the Middle East, South East Asia and the BRIC economies (Brazil, Russia, India and China). Between 2005 and 2011, the top ten fastest growing markets experienced growth between 55% and 217%

Chart 7: Air links to emerging markets vital

% growth in UK top ten export by markets during 2005-2011



Source: HMRC

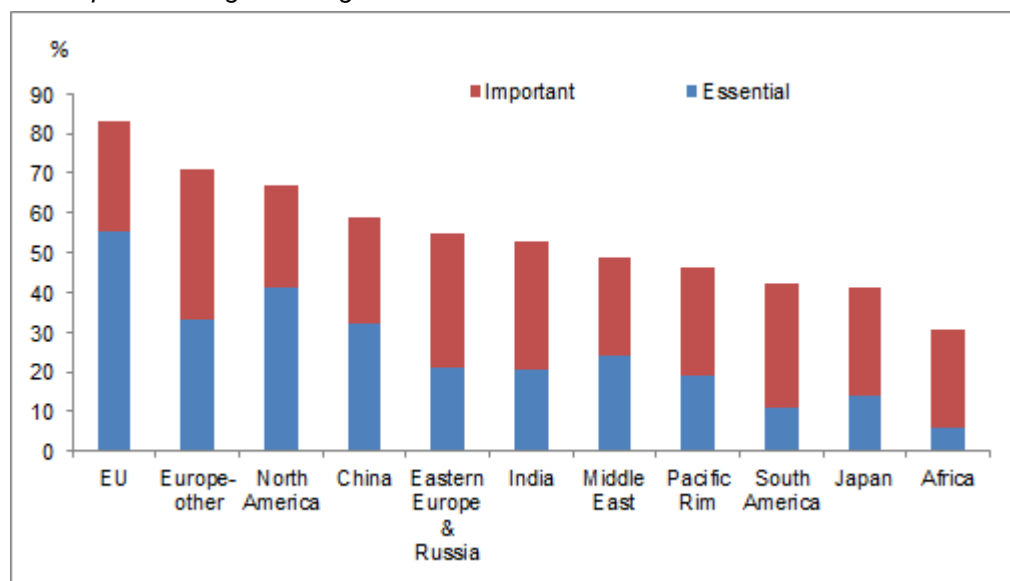
But traditional markets remain important

However, connectivity to traditional markets should not be sacrificed for better links to emerging markets. The value of links with more traditional destinations, both short- and long-haul, should not be underestimated. Links with Europe and North America remain vital for manufacturers. Direct flights to destinations in the EU and North America are seen as business-critical by the greatest number of manufacturers.

⁶ The Economist (9 October 2010) A Special Report on the World Economy - How to grow

Chart 8: But links to traditional markets remain important

% companies citing direct flights to destination as essential to their business



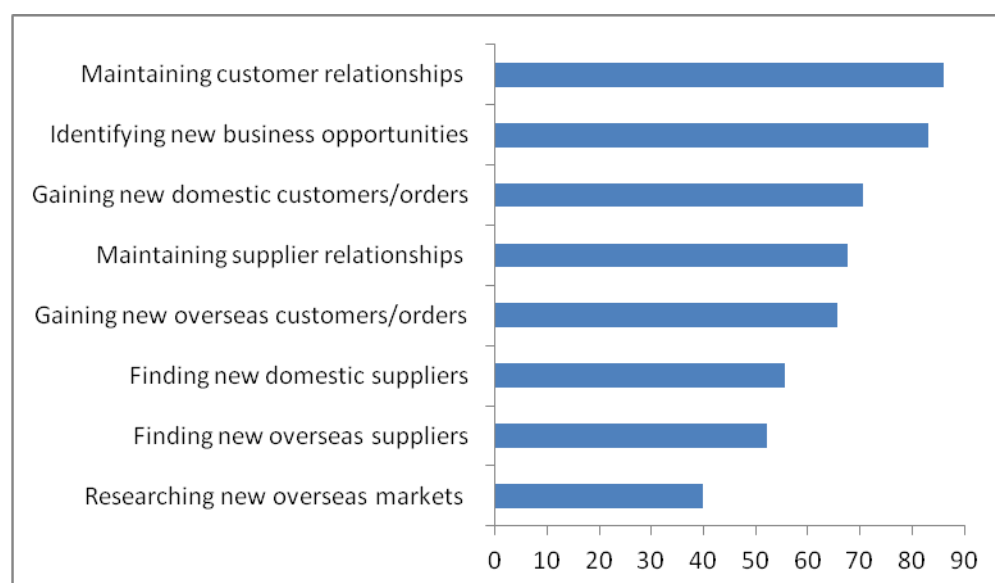
Source: EEF Transport Survey 2012

4. Communications technologies not a substitute for face-to-face interaction

Communication technologies are developing rapidly, becoming increasingly sophisticated. Technologies such as video-conferencing have become important business tools for a growing number of companies across the economy. But they are unlikely to supplant the need for the face-to-face interaction between businesses that air links make possible. For the majority of manufacturers being there in person is crucial to key activities such as managing relations with customers and identifying new business opportunities

Chart 9: Face-to-face interaction aviation enables is vital

% companies citing importance of face-to-face interaction by business activity



Source: EEF Transport Survey 2012

Instead, communication technologies will continue evolving into an increasingly valuable business tool that compliments, rather than replaces, face-to-face interaction. For example, useful information and intelligence on overseas markets can be gathered without leaving the country but few manufacturers are likely to enter into a major contract with a new supplier or customer without ever having met them in person.

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