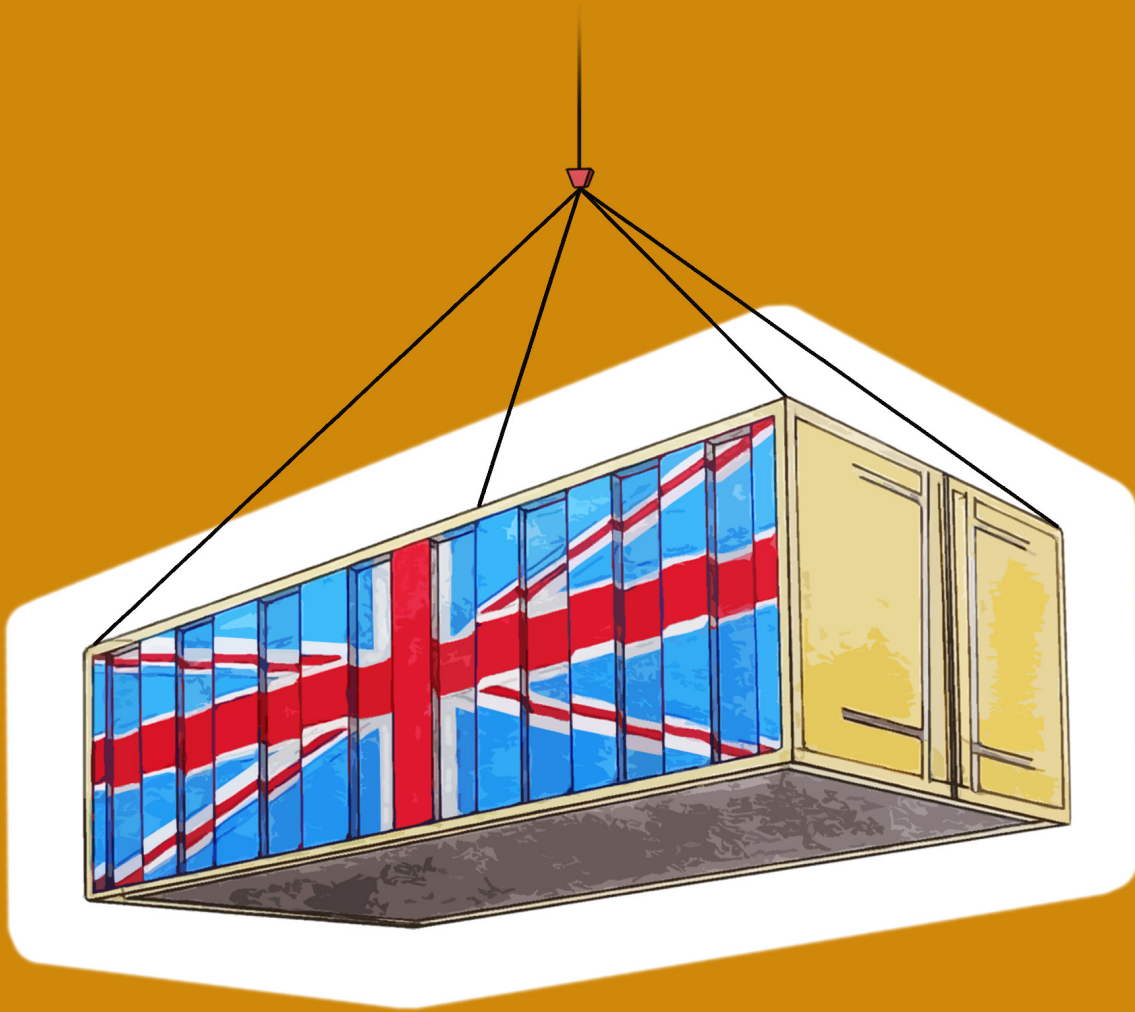


SOVEREIGN CAPABILITY in industrial production

Why it matters to Britain's regions and nations
and how it can be delivered



Industrial Communities **Alliance**

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October 2026



Industrial Communities **Alliance**

The Industrial Communities Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales

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Summary

This report explains how an emphasis on Sovereign Capability – a reliance less on imports and more on what can be produced here in the UK – would be good for Britain's less prosperous places, especially beyond London and South East England.

Sovereign Capability and reindustrialisation are now government priorities. The aim is to deliver greater national security and a stronger national economy. But the substantial benefits to Britain's regions and nations have so far tended to be overlooked.

The report shows how present-day manufacturing is unevenly spread across the country. Despite years of job loss, it's the older industrial areas of the Midlands, North, Scotland and Wales that still dominate the picture. The main regional cities have substantial numbers of manufacturing jobs, but in the big cities industry now sits alongside many other employers. In smaller cities, towns and communities, however, manufacturing still plays a large if not dominant role in local economies.

In London, manufacturing accounts for just 2 per cent of all employment. In contrast, beyond the big cities in the Midlands, North, Scotland and Wales manufacturing accounts for over 10 per cent of employment and in some cases as much as 25 per cent. These manufacturing jobs also underpin large numbers of local service sector jobs.

An emphasis on Sovereign Capability in industrial production means that it's these generally less prosperous places in the Midlands, North, Scotland and Wales, where manufacturing is already concentrated, that have the most to gain.

The report also looks at four sectors that might expect to be among the beneficiaries:

- *Steel, where intervention has set a precedent that could be applied to other industries*
- *Chemicals, currently facing urgent and acute pressure*
- *Motor vehicles, under threat from imports from China*
- *Aerospace, in a favourable position just at present but facing longer-term challenges*

The heartlands of these four industries all lie outside London and the South East, and often away from the big cities too.

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The final part of the report sets out the policies needed to deliver Sovereign Capability. Some of these are things the UK government would say it is already doing, some are ideas that have yet to become fully embedded, and others are actions that go beyond current policy:

- ***The right economic context.*** *This involves an exchange rate that supports competitiveness, trade deals, interest rates that foster investment, appropriate regulation and taxation, and effective management of the overall level of demand.*
- ***Business support.*** *This includes an early solution to the crisis arising from high electricity prices, more apprenticeship training, suitable sites and premises, support for R&D and aid for investment.*
- ***A wider focus within manufacturing.*** *The Industrial Strategy's focus on just 'advanced manufacturing', and within this on just six 'frontier industries', is far too narrow. There's also neglect of the contribution of North Sea oil and gas.*
- ***Public procurement.*** *It's now an explicit part of the Steel Strategy and the Defence Investment Plan, but the UK public sector needs to go a lot further and make fuller use of the leeway within WTO rules.*
- ***Tariffs and quotas on imported goods.*** *This is the most direct way to deliver Sovereign Capability and it's already being applied to the steel industry. Tariffs and quotas need to be targeted selectively, especially at countries such as China that fail to match their vast exports with equivalent imports.*
- ***Public ownership.*** *If Sovereign Capability can't be delivered by other means, and if an industry or employer is deemed to be of strategic importance, taking it under the wing of the state is the sensible way forward. Even Rolls Royce – arguably Britain's flagship engineering company – once passed through public ownership.*

1. Why Sovereign Capability matters

“Britain is broken: its economy hollowed out, unbalanced, and unable to provide good livelihoods for millions. We import too much, make too little, and keep wages low.”

C Lapavitsas, L Elliott and D Nicholls, Reindustrialise Britain: A Strategy for Wealth Creation.

A new priority

‘Sovereign Capability’ – a reliance less on imports and more on what can be produced here in the UK – didn’t used to figure much in public debate. But it’s now discussed widely in the media and Westminster. Even the new Prime Minister, Andy Burnham, has emphasised its importance.

There has been a mood-change. Reindustrialisation is on the agenda. The challenge has become how to deliver.

This report explains how greater Sovereign Capability in industrial production would be good news for many of Britain’s less prosperous places. If the UK can succeed in protecting its vulnerable industries and in strengthening its performance across manufacturing, the benefits will be felt much more in some places than others. **Sovereign Capability would help deliver jobs and growth in the regions and nations beyond London and South East England.**

National security

Of course, the arguments in favour of greater Sovereign Capability are not just about jobs in the regions and nations.

The old, benign international order that underpinned world trade and the UK’s ever-rising dependence on imports is fraying. Wars in Ukraine and in the Middle East have led to disruption in energy supplies and to higher prices. The rise of China has created new uncertainties and resulted in huge and ultimately unsustainable imbalances in global trade from which the UK is not immune. Even in peaceful times, the supply chains that underpin so much global production and consumption have proved exposed to disruption, as businesses found to their cost in the wake of the Covid pandemic.

At its simplest, in an uncertain and fragmenting world the UK needs Sovereign Capability in industrial production in order to supply its armed forces.

A rebalanced economy

The arguments for greater Sovereign Capability in industrial production are also about the economy. There is a broad spectrum of benefits:

- Greater UK production and a reduced reliance on imports would ease the **trade deficit**. For more than four decades the UK has run a large deficit on its trade in goods. For nearly all this period too, the deficit in goods has failed to be offset by the surplus from trade in services.
- There would be less reliance on volatile **international capital**. The deficit in the balance of trade has forced the UK to rely on international investors to prop up sterling. In effect, to finance the trade deficit more and more UK assets – companies, land and buildings, public and private debt – have been passing into foreign ownership.
- Sovereign Capability would increase the stock of **jobs**. The scale of imports and the imbalance in foreign trade means there is less UK production and fewer UK jobs. This has reduced tax revenue and increased spending on welfare.
- One of the benefits of greater Sovereign Capability would therefore be a reduction in the government's **budget deficit**. This would lay the foundations not only for financial stability and lower borrowing costs but also in time create the headroom for greater spending on public services, infrastructure and business support.
- Greater Sovereign Capability in industrial production would raise **productivity**. Low and sluggishly rising productivity has been a persistent problem. Manufacturing activities mostly involve higher output per worker than the lower-grade service activities that have characterised job growth since the financial crisis. In the long-run too, via investment in products and processes, manufacturing provides greater scope for productivity increases.
- Higher productivity in manufacturing in turn provides the basis for higher wages and rising **living standards**.

Fervent advocates of free trade would argue that to favour domestic UK production over imports would reduce the access to cheap goods to which consumers and businesses have become accustomed. There is some truth in this. However, the short-term loss from reduced choice and/or higher prices is more than offset by the long-term benefits.

Households, the Exchequer and UK-based businesses have much to gain financially from greater priority being given to Sovereign Capability. And that's on top of the obvious benefits of greater national security.

The local and regional benefits

It's the benefits to the regions and nations of the UK, and especially to less prosperous places, that are the focus of this report. Too often these benefits are overlooked but in practice they are one of the major attractions of an emphasis on Sovereign Capability.

The UK isn't a single, homogeneous entity. Its regions and nations vary in their economy, history and present-day circumstances, and within the regions and nations there can be big local variations too. National policies inevitably have different impacts on these varied places. As the report shows, in the case of Sovereign Capability it's the places outside London and South East England, and often the towns and smaller places away from the biggest cities, that have most to gain. This is a reflection of their continuing role as the main centres of UK manufacturing.

These are also the places that have long suffered from deindustrialisation and as a result they nearly all have lower average incomes, higher levels of worklessness and greater dependency on welfare benefits. Recorded levels of unemployment aren't always so much higher than elsewhere but in many of these places there been a big diversion of men and women out of the labour market into 'economic inactivity', often on sickness and disability benefits¹.

These are also the places where NEETs – young people not in education, employment or training – are concentrated. As the Milburn report² concluded, *"The geography of where young people are most likely to be NEET maps onto the geography of labour market weakness with an almost perfect symmetry"*.

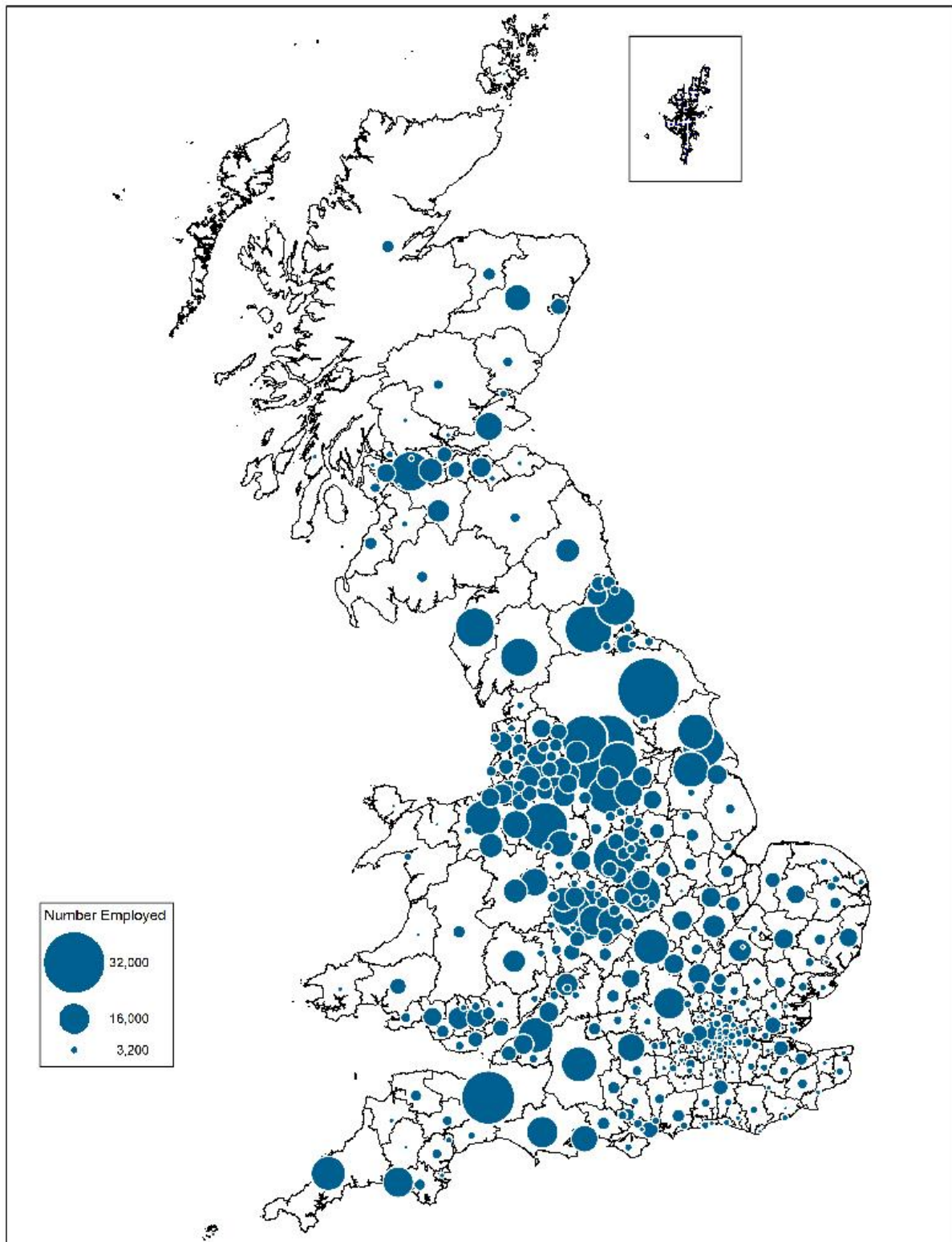
The less prosperous parts of the country need more jobs and better jobs, closer to home – and that is what Sovereign Capability can help provide. Grow the economy in these places, and the long-standing regional and local disparities that disfigure the UK economy will begin to ease, and perhaps in time disappear forever.

To demonstrate this point, the report looks first at the location of manufacturing jobs. It then looks more closely at the location of four sectors – steel, chemicals, motor vehicles and aerospace – that might expect to be among the beneficiaries of an emphasis on Sovereign Capability. The final part of the report sets out the policies needed to deliver this new national priority.

¹ See for example C Beatty, S Fothergill, T Gore and D Leather (2022) *The Real Level of Unemployment 2022: the myth of full employment across Britain*, CRESR, Sheffield Hallam University.

² Department for Work and Pensions (2026) *Young People and Work*, the interim report of an inquiry led by Alan Milburn.

Figure 1: Employment in manufacturing, by district, 2024



Source: BRES

2. The location of manufacturing

It's in industrial production that the UK economy is presently weakest. The UK runs a huge trade deficit in manufactured goods that fails to be offset by the substantial surplus in services. The consequences of this imbalance include slower productivity growth, lower incomes and pressure on public finances. The imbalance also creates a reliance on foreign investors to finance the trade deficit by buying an ever-greater slice of UK assets such as government debt, private sector companies and real estate.

Britain's older industrial heartlands in the Midlands, North, Scotland and Wales are often described as 'post-industrial'. The assumption is that whereas they might have been industrial in the past, that is no longer the case today. In reality, however, this is a long way from the truth. Rather than being post-industrial, many of these places actually remain the 'most industrial' parts of the country.

It's Britain's older industrial heartlands that therefore stand to gain the most from Sovereign Capability and from the rebuilding of Britain's manufacturing base. Protecting existing production and jobs – drawing a line-in-the-sand and saying 'this far and no further' – would be a starting point, as the UK government has recently done with the steel industry.

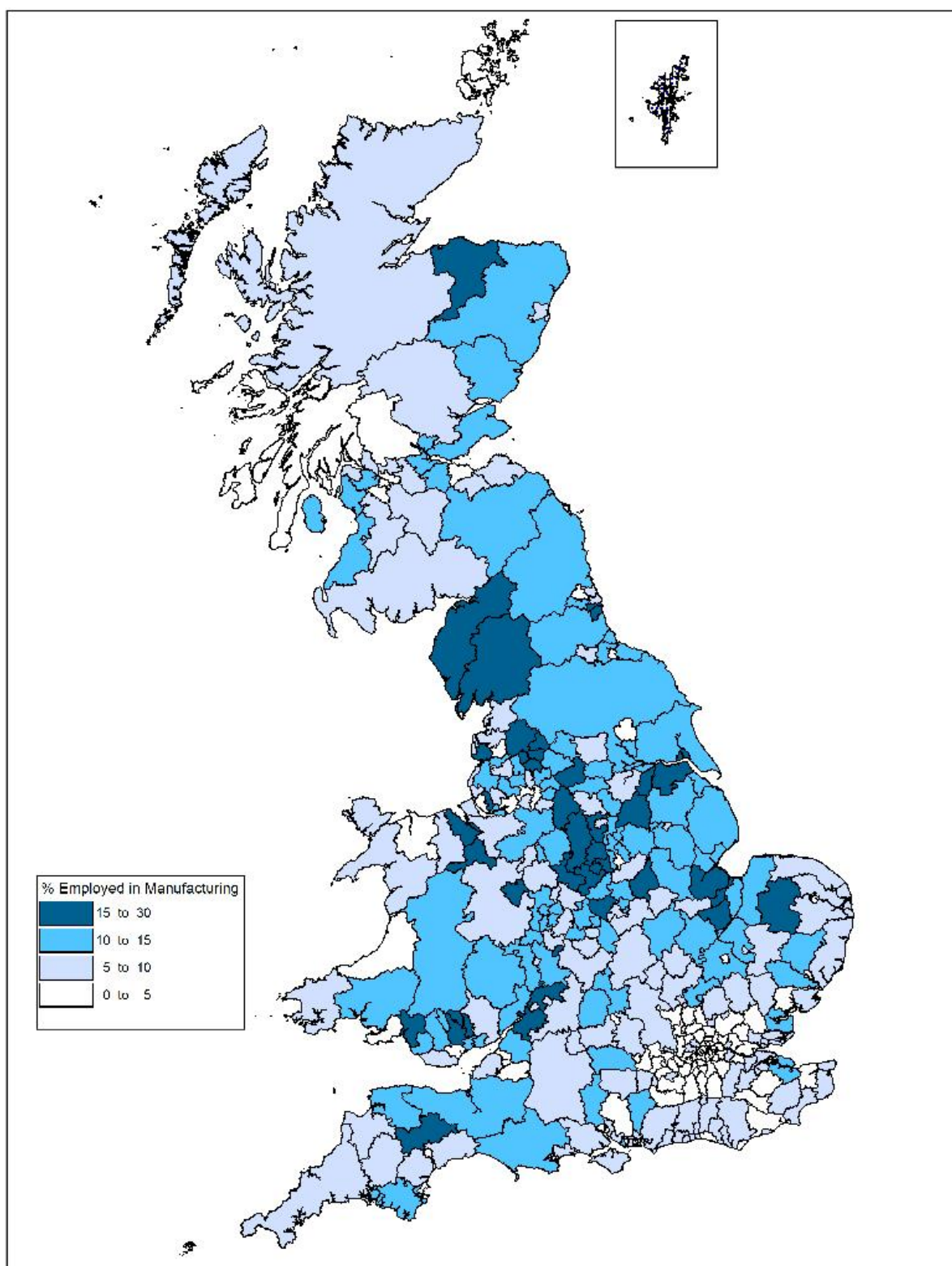
If growth in industrial production can be delivered, it will often be by the expansion of existing factories in these same places. And if new factories are built, it is Britain's older industrial heartlands that can often offer a pool of existing skills and a supply of suitable sites and premises.

To illustrate the on-going concentration of manufacturing in Britain's older industrial heartlands, Figure 1 shows the number of manufacturing jobs in each district or unitary local authority across England, Scotland and Wales in 2024, the most recent year for which official statistics are presently available³.

The absolute numbers of manufacturing employees range from 32,000 in the sprawling new unitary authority of North Yorkshire and 28,000 in Birmingham City at the heart of the West Midlands conurbation through to just 300 in Epsom and Ewell district in Surrey. What is striking, however, is the extent to which manufacturing jobs are clustered in specific parts of the country. Nearly all of these places would traditionally be regarded as 'Britain's older industrial heartlands'. They include:

³ The figures from the UK Government's Business Register and Employment Survey (BRES) are for employees and exclude the self-employed. Northern Ireland is not covered by BRES and is therefore not included here.

Figure 2: Share of jobs in manufacturing, by district, 2024



Source: BRES

- **A substantial swathe of northern England** stretching from Yorkshire across to Manchester, Lancashire, Merseyside and Cheshire and extending into parts of North Wales and the north Midlands
- **The West Midlands conurbation**, including Birmingham, Coventry, Wolverhampton and surrounding towns
- **The Derby / Nottingham / Leicester area** in the East Midlands
- **North East England**, including Tyneside, Durham, Sunderland and Tees Valley
- **Humberside**, including Hull and north Lincolnshire.
- **Central Scotland**, from Glasgow and the Clyde across to Fife
- **South Wales**, including the Valleys

By way of contrast, the number of manufacturing jobs in most of the South and East of England, including London, is modest.

Figure 2 takes a different view of the same data. This shows manufacturing industry's share of all the jobs in each authority. This varies from more than 25 per cent in a number of small authorities (such as Pendle in Lancashire and Flintshire in North Wales) through to as little as 1 per cent in several London boroughs.

Large parts of the Midlands, the North, Scotland and Wales have a higher dependence on manufacturing jobs than most of southern England. Over the years, these mainly older industrial areas have lost large numbers of jobs but their economies remain to a significant extent reliant on manufacturing.

A number of predominantly rural areas also have a high share of jobs in manufacturing. Because these rural areas are geographically large they figure prominently on the map, though in most cases the number of manufacturing jobs is small and the high share of total employment reflects the absence of many of the service sector jobs that cluster in bigger towns and cities. In some rural areas the high share of jobs in manufacturing reflects the presence a single large employer – in Cumbria for example, where the figures for the two authorities mirror the local importance of the Sellafield nuclear reprocessing plant (in Cumberland) and BAE Systems shipyard in Barrow (in Westmorland & Furness).

In contrast to their surrounding areas, the main regional cities nearly all have a relatively small share of jobs in manufacturing. This is true even of Birmingham – at just 5 per cent – even though in absolute terms it has more manufacturing jobs than any other urban authority in Britain.

Main regional cities*, share of jobs in manufacturing, 2024

	%
Manchester	2.6
Edinburgh	2.7
Cardiff	3.1
Bristol	3.2
Newcastle upon Tyne	3.5
Liverpool	3.5
Glasgow	4.5
Nottingham	4.7
Birmingham	5.0
Leeds	5.4
Sheffield	7.1

*defined by their local authority boundary

Source: BRES

The main regional cities are certainly not lacking in manufacturing jobs – in total the eleven listed here muster 160,000 – but in practice these jobs are outnumbered by the jobs in the other sectors such as finance & professional services, public administration, universities, and leisure and tourism. Historically the main regional cities may have been major centres of manufacturing but that is now only one string to their bow, and a diminished one at that.

The same is far less true of the second-tier cities in the regions. They mostly still have a high proportion of jobs in manufacturing.

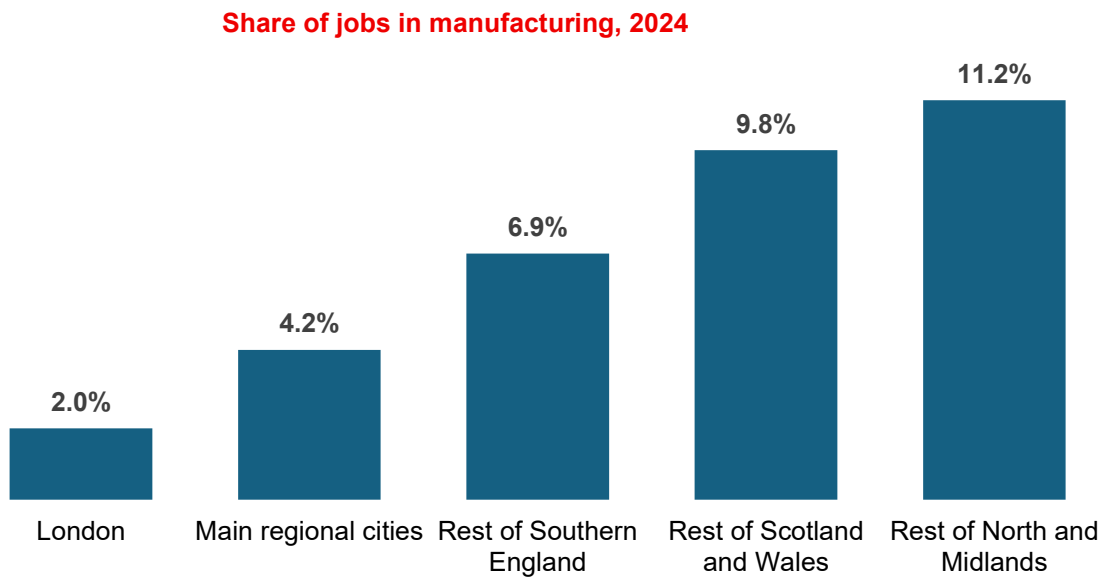
Second-tier cities* in the North and Midlands, share of jobs in manufacturing, 2024

	%
Sunderland	17.1
Hull	16.7
Derby	15.9
Bradford	11.6
Leicester	11.0
Stoke on Trent	10.5
Coventry	8.8

*defined by their local authority boundary

Source: BRES

In these second-tier cities, the share of jobs in manufacturing is sometimes three or four times higher than in the main regional city a few miles down the road. Whereas big cities in general have moved away from their former dependence on manufacturing, this is emphatically not the case in the places a little further down the urban hierarchy. Britain still has several 'industrial cities', as well as industrial towns and smaller industrial communities.



Source: BRES

Overall, there is a distinctive pattern in the share of manufacturing in local employment:

- **London** has the lowest share of manufacturing jobs, at just 2 per cent of all the jobs in its economy
- In the **main regional cities** of England, Scotland and Wales the proportion averages just over 4 per cent
- In **southern England beyond London** it is just under 7 per cent
- In the **rest of Scotland and Wales** the proportion of jobs in manufacturing is just short of 10 per cent
- In the **rest of the North and Midlands** it is over 11 per cent

The significance of these figures is that the parts of Britain with the highest proportion of jobs in manufacturing – especially the smaller cities, towns and communities of the Midlands, North, Scotland and Wales – are also often the least prosperous parts of the country. These are the places where too many good, well-paid manufacturing jobs have disappeared in the past and where the promise of alternative well-paid jobs has too often proved illusory.

Furthermore, in these hard-pressed places the share of jobs in manufacturing – nearly always below 20 per cent – substantially understates the importance of this sector. Manufacturing firms mostly sell their products outside the local area (indeed, often outside the UK) and in doing so bring income that then recirculates as wages and salaries. This in turn supports further jobs in local consumer services. Manufacturing firms also support local services directly, for example in logistics. All these manufacturing and service jobs underpin a resident population which itself then draws in public funding to support further jobs in health, education and other services.

In this way the manufacturing sector acts as a key part – often the most important part – of the ‘economic base’ of whole communities. In an area where manufacturing accounts for say 15 per cent of all jobs, it would be surprising if it accounted for much less than half the base of the local economy.

This way of understanding the world is well established in regional economics: in terms of driving a local economy not all jobs are equal, and it is manufacturing that often plays a major role. Manufacturing is not unique in this regard – tourism, high-level financial services, universities, headquarters and several other sectors can drive local economies too – but to down-play manufacturing’s key role would be a mistake.

The point here is that the protection and growth of industrial production through the delivery of Sovereign Capability would be of substantial benefit to the regions and nations beyond London and the South of England, and in particular to many of Britain’s less prosperous local economies.

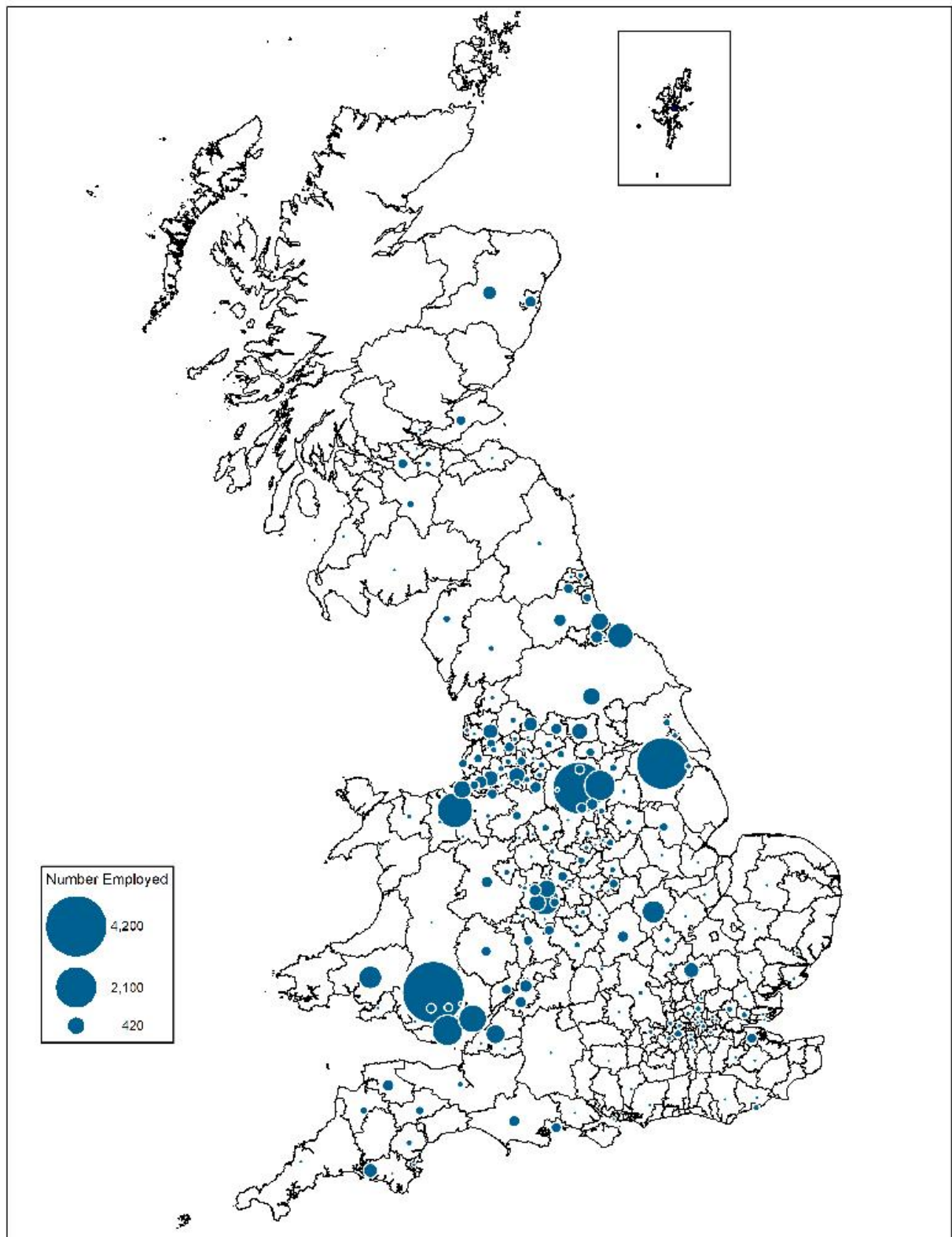
3. Four sectors

To illustrate the point that Sovereign Capability in industrial production matters to less prosperous parts of the country, it's worth looking more closely at specific sectors.

Here we look at four sectors, not because they are the only ones deserving of support or protection from international competition but because they reflect diversity in present-day circumstances and location:

- **The *steel industry***
After years of falling employment and production, the UK Government has accepted the case for Sovereign Capability in steel production and has taken substantial parts of the industry into public ownership. The government's approach to steel potentially sets a precedent for other industries.
- **The *chemical industry***
Over the last four or five years this has been going through a period of major contraction, triggered as much by the UK's high electricity prices as international competition. The chemical industry remains on a deeply worrying trajectory that appears to threaten its very existence.
- **The *motor industry***
Although the motor industry is one of the six 'frontier industries' within manufacturing identified for support in the UK Government's *Industrial Strategy*, it is acutely vulnerable, especially to imports from China. Following redundancies at Jaguar Land Rover, fears have arisen that in the long-run the mass manufacture of motor vehicles in the UK may not survive.
- **The *aerospace industry***
This is also one of the government's 'frontier industries' and against the backdrop of a backlog of orders for Airbus and its UK plants it may seem odd to raise issues of Sovereign Capability. But in the longer-term the UK aerospace industry remains exposed to decisions involving defence procurement and to the emergence of China as a new producer of civil aircraft.

Figure 3: Employment in the iron and steel industry, by district, 2024



Source: BRES

Steel industry

Until recently, the UK steel industry provided an object lesson in how not to look after one of the key industries underpinning a modern economy.

In 1970 the UK produced 28.3 million tonnes of steel. By 2023 this had fallen to 5.6 million tonnes. Following the closure in 2024 of the blast furnaces at Port Talbot in South Wales, the figure is now nearer 3 million tonnes a year. China, by comparison, currently produces around 1,000 million tonnes of steel a year.

Scunthorpe, in North Lincolnshire, remains the only UK plant producing primary steel. The UK's share of global steel production has shrunk to around 0.2 per cent, and 70 per cent of UK demand for steel is now met by imports. Employment in the UK steel industry has plummeted⁴:

1971	323,000
1981	186,000
1991	71,000
2001	48,000
2011	31,500
2021	39,500
2024	34,000
2026 (est.)	30,000

Sources: BRES, Censuses of Employment

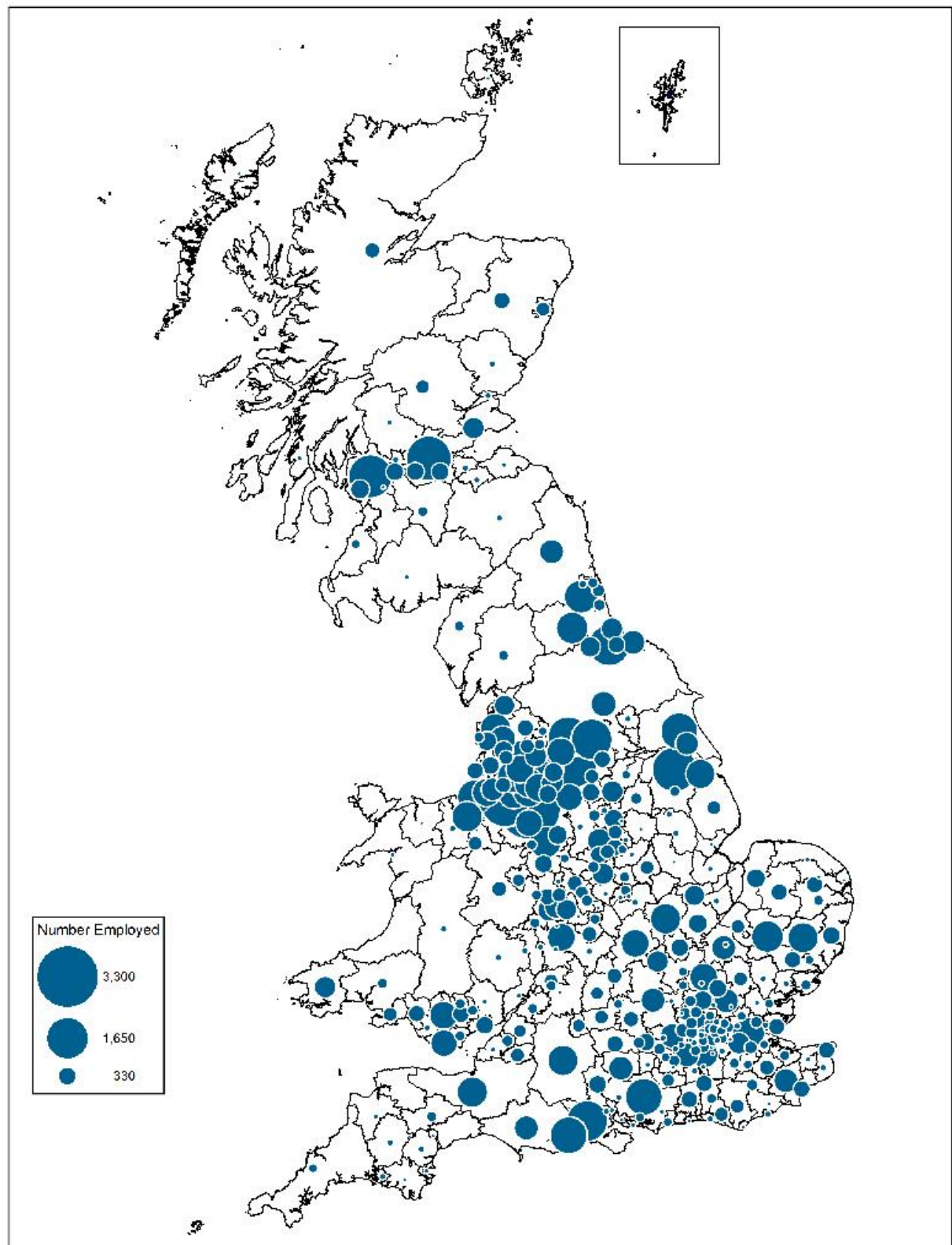
In 2025 the UK Government finally said 'enough is enough'. When the Chinese owners of the Scunthorpe works announced their intention to close the blast furnaces and thereby end the production of primary steel, the government took control and kept the furnaces open. In July 2026 the Scunthorpe plant and the company's works on Teesside were taken into public ownership.

In its *Steel Strategy*, published in March 2026, the government declared that it recognises "the important foundational role of steel in our industrial base and our national resilience, whether in supporting our defence capabilities, the construction sector, advanced manufacturing or maintaining the essential infrastructure of our day to day life". This commitment has been backed up by tariffs and quotas to protect domestic steel production. In the long-run, however, investment in Direct Reduced Iron – a modern low-carbon replacement for blast furnaces – will be required if the UK is to maintain Sovereign Capability in the production of primary steel.

Though much diminished over the years, the steel industry still provides good, well-paid jobs in **South Yorkshire, South Wales, North Lincolnshire, Teesside, the West Midlands** and a handful of other places.

⁴ The figures here cover the manufacture of basic iron and steel (including ferro-alloys), steel tubes, pipes, hollow profiles and related fittings, and other products of first processing of steel.

Figure 4: Employment in the chemical industry, by district, 2024



Source: BRES

Chemical industry

In March 2026 the Chemical Industries Association wrote to the Prime Minister to say that “our industry is in the fight of its life here in the UK”. The Association pointed out that between 2021 and 2025 there had been a 60 per cent fall in the industry’s output in the UK and it listed closures over this period:

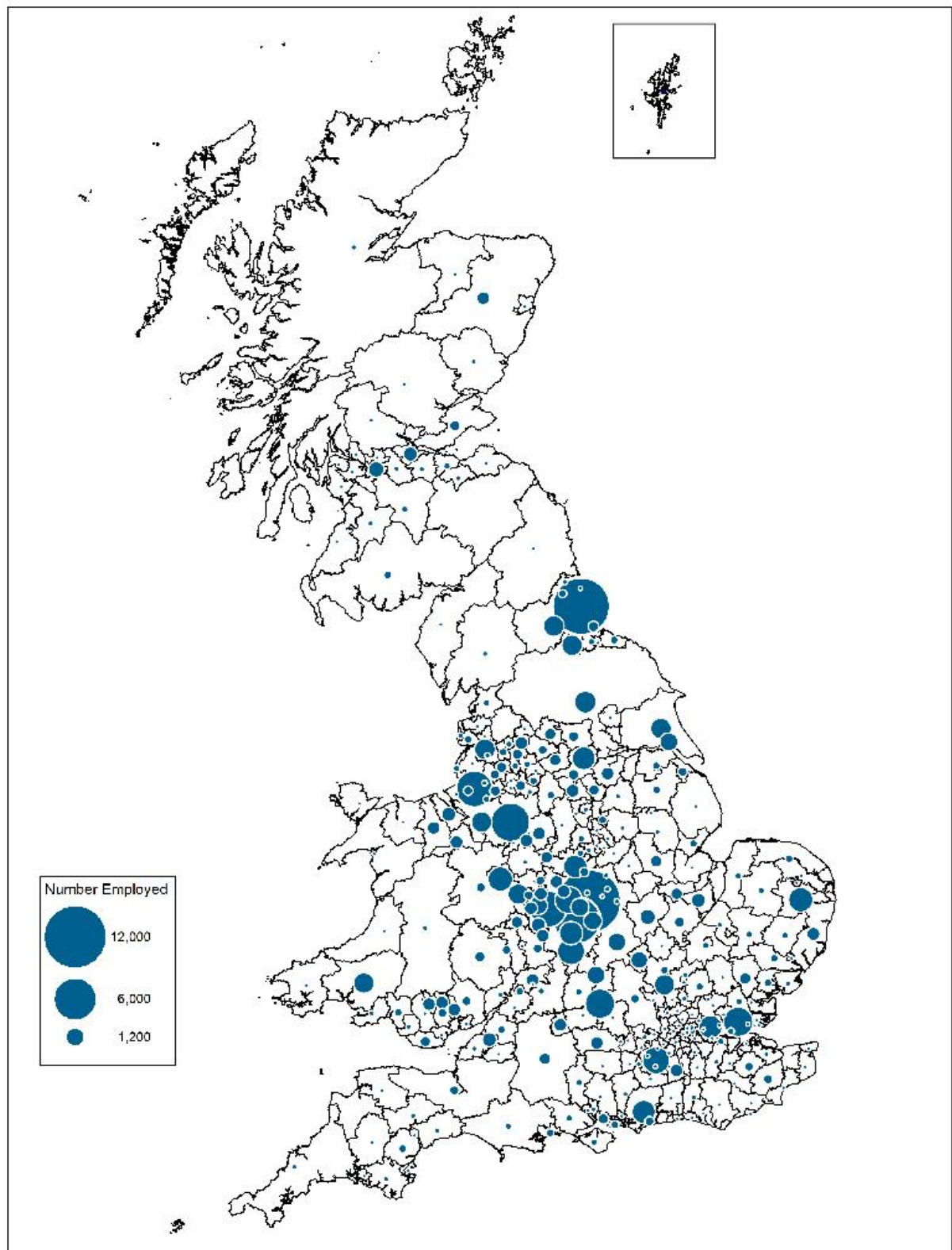
BASF	<i>North East</i>
Calachem	<i>Scotland</i>
Baker Hughes	<i>Scotland</i>
Vertellus Specialities	<i>North East</i>
Inovyn	<i>North West</i>
CF Fertiliser	<i>North West</i>
Warwick Chemicals	<i>Wales</i>
CF Fertiliser	<i>North East</i>
Mitsubishi Chemicals	<i>Wales</i>
Versalis	<i>Scotland</i>
Bakelite Synthetics	<i>Wales</i>
EPC Chemicals	<i>East</i>
3M Manufacturing	<i>Midlands</i>
Macfarlan Smith	<i>Scotland</i>
Ineos C&P (proposed)	<i>Scotland</i>
Solvay Interlox	<i>North West</i>
FUJIFILM Imaging Colorants	<i>Scotland</i>
Dow	<i>Wales</i>
GSK	<i>North West</i>
Lanxess	<i>North West</i>
Vivergo	<i>North East</i>
Yara (mothballed)	<i>North East</i>
SABIC UK Petrochemicals	<i>North East</i>
ExxonMobil Ethylene	<i>Scotland</i>
PB Leiner	<i>Wales</i>

It shouldn’t escape notice that all but two of these closures are in the North, Scotland or Wales. More recently, Ineos has suspended production at plants on Humberside.

Employment in what remains of the ‘manufacture of chemicals and chemical products’ – a total of 93,000 jobs across Britain in 2024 according to official figures – is heavily concentrated in the **North West**, in **West Yorkshire**, on **Humberside** and in the **North East**, with smaller clusters that include **Central Scotland** and **South Wales**.

Protecting Sovereign Capability in a range of chemical industries would protect jobs in less prosperous parts of the country.

Figure 5: Employment in motor vehicles production, by district, 2024



Source: BRES

Motor industry

The motor industry remains one of the jewels in the crown of UK manufacturing and it is one of the sectors prioritised in the UK government's *Industrial Strategy*, but that doesn't mean it is not acutely vulnerable.

The motor industry has endured a rollercoaster – crisis and decline in 1970s and 80s, followed by a revival led by inward investment by Nissan, Toyota and Honda. UK car production peaked again in 2016 but it's been downhill since then:

2016	1,722,000
2017	1,671,000
2018	1,519,000
2019	1,303,000
2020	921,000
2021	860,000
2022	775,000
2023	905,000
2024	780,000
2025	717,000

Source: Society of Motor Manufacturers and Traders

UK car production in 2025 was the lowest since 1954.

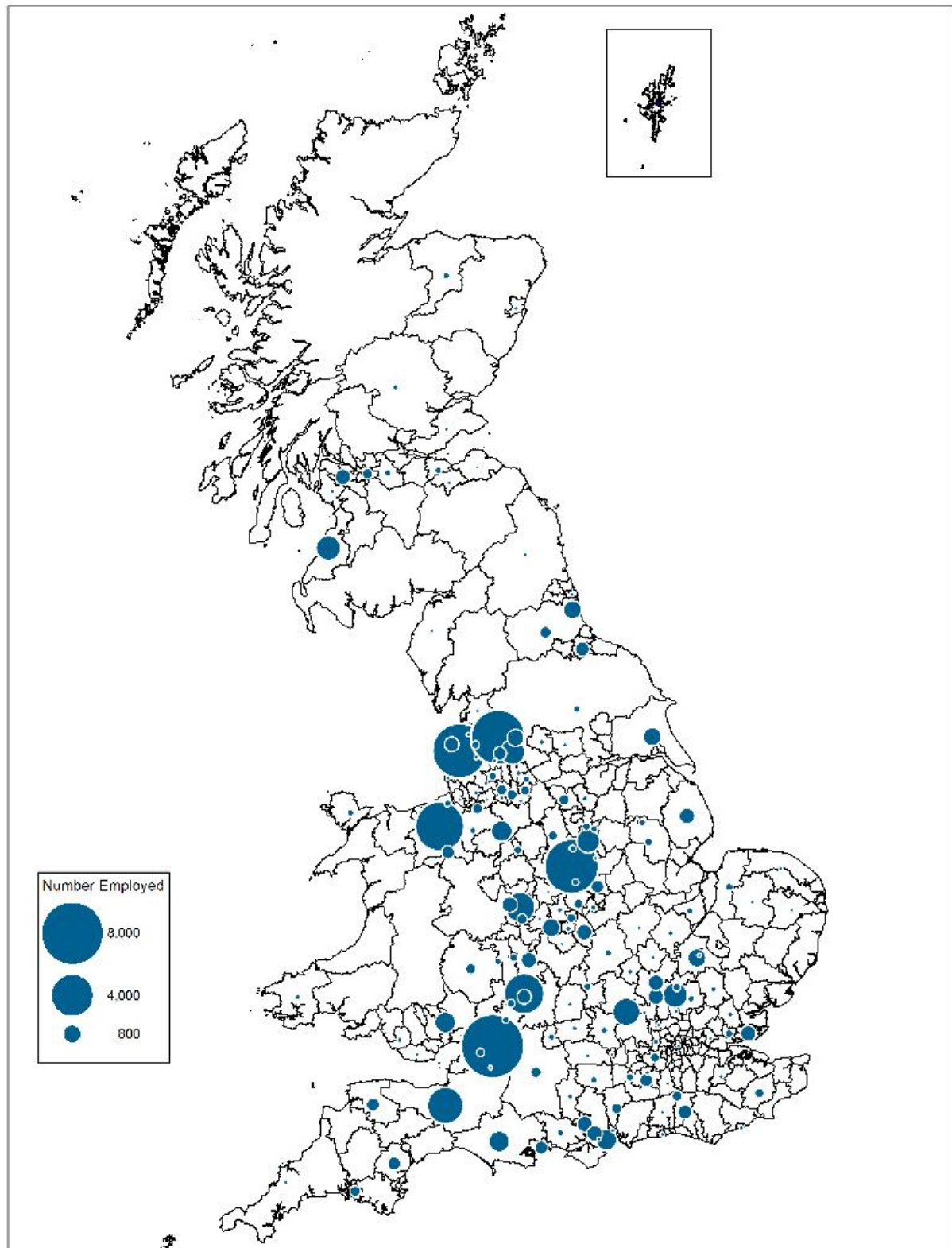
Employment in the motor industry has held up rather better – a GB total down from 161,000 in 2016 to 140,000 in 2024⁵ - partly because of Britain's strengths in high-end vehicles and in specialist engineering and design. All the same, the trend is worrying. The Honda car plant in Swindon closed in 2021 and the former Vauxhall (now Stellantis) van plant in Luton in 2025. In September 2026, Jaguar Land Rover announced 4,000 redundancies.

China poses an existential threat to the UK motor industry. In little more than two or three years, Chinese manufacturers have overtaken several established producers in the UK car market and in important export markets. The Chinese head start in electric vehicles is especially worrying. The EU has responded by introducing tariffs of up to 35 per cent on Chinese battery-operated electric vehicles and is looking to extend the tariff to hybrids as well. The UK hasn't so far followed suit.

Motor vehicle manufacturing in the UK remains clustered in the **West Midlands** and the **North West**, and in the North East around Nissan's **Sunderland** plant. All these jobs, and all these places, must be considered at risk.

⁵ Manufacture of motor vehicles, bodies, trailers and semi-trailers, parts and accessories.

Figure 6: Employment in the aerospace industry, by district, 2024



Source: BRES

Aerospace industry

The UK's aerospace industry is strategically important. In an uncertain world, it is an important supplier to nation's armed forces. Taking the long view, it is hard not to see a strong aerospace sector as one of the hallmarks of a successful advanced economy.

The UK Government's *Industrial Strategy* certainly sees aerospace in these terms. And just at the moment, with a big backlog of orders for civil airliners that is feeding through to UK plants and suppliers, it's hard to argue that the industry is in crisis.

Six locations, all outside South East England, dominate employment:

Derby, home of Rolls Royce aeroengine production
Warton near Blackpool in **Lancashire**, operated by BAE Systems
Salmesbury near Blackburn in **Lancashire**, also operated by BAE Systems
Broughton in **North Wales**, where Airbus makes wings
Filton on the outskirts of **Bristol**, where Airbus and Rolls Royce both have plants
Yeovil in **Somerset**, where Leonardo makes helicopters

In addition there are smaller clusters in Gloucestershire, Hertfordshire, the West Midlands, South West Scotland and around the Solent.

In total, the 'manufacture of air and spacecraft and related machinery' employed 75,000 people across Britain in 2024, down 10,000 on the figure ten years earlier⁶.

The strategic vulnerability of the UK aerospace industry is however highlighted by the fact that, apart from a few light aircraft, the UK on its own no longer produces whole planes and hasn't done so for many years. In 2025 even the final assembly line for Typhoon fighters at Warton (a joint venture involving European partners) had to be closed until a new order from Turkey was secured.

In this context, public procurement becomes crucial. The *Defence Investment Plan* finally committed the UK to building the Typhoon's successor – the Tempest – jointly with Italy and Japan, though for a long while the decision had seemed touch-and-go. This is good news for jobs in North West England. Nevertheless, the UK will still buy more F-35 stealth jets off-the-peg from the United States.

The UK's relationship with Airbus remains crucial too. The Boeing / Airbus duopoly that that has dominated the market for airliners is coming to an end now that China has begun to build commercial aircraft. How long will it be before low-cost Chinese airliners begin to supply budget airlines around the globe, in the same way that the Chinese car industry has made in-roads into markets that were once the preserve of European, US and Japanese manufacturers?

⁶ Source: BRES

4. How to deliver

Delivering Sovereign Capability requires action across a broad front. The proposals below combine things the UK Government would say it is already doing with ideas that have yet to become fully embedded and actions that go beyond current policy. Only the full range of these interventions is likely to deliver the Sovereign Capability in industrial production that Britain really needs.

Let's begin with the things the government would claim it's already doing and work up to the bolder steps.

The right economic context

British industry needs the right economic context in which to flourish. Too often, it has been damaged by instability, U-turns and short-sighted responses to immediate crises. It's easier to promote investment, growth and jobs when the management of the economy reflects companies' needs. At a minimum that means:

- An **exchange rate** that enables British businesses to compete effectively
- **Trade deals** that provide access for UK exports
- **Interest rates** that make borrowing affordable and foster investment
- **Fiscal policies** that recognise the need to sustain the overall level of demand
- **Regulation** that doesn't hinder investment and growth
- **Taxation** that makes investing in Britain worthwhile

UK governments, past and present, have always said they work to deliver these things and that this will support industry. Whether they have always succeeded is more questionable, but it is worth underlining that delivering greater Sovereign Capability in industrial production – and thereby growth and jobs in Britain's regions and nations – requires governments to get the macroeconomic context right. None of this is easy.

Business support

All UK governments would also say they provide support for businesses. But there are important questions here about the scale and nature of the support. To help deliver Sovereign Capability in industrial production, the UK Government, the devolved administrations and local partners need to be more ambitious:

- The immediate crisis around **electricity prices** needs to be addressed. British industry faces just about the highest prices in the world. This undermines competitiveness and is driving too many firms out of business. Support for energy-intensive industries is helpful but only part of what's needed.
- There should be investment in the **skills** that industry needs. Too much emphasis has been placed on university degrees and too little on apprenticeships.
- Following Brexit, the UK has the flexibility to design and deliver its own system of **investment aid** – grants, loans and other financial interventions. This hasn't been exploited to the full. Indeed, the extra incentives to invest in less prosperous parts of the country have been scrapped.
- Businesses need **space to grow**. The availability of suitable sites and premises can't be taken for granted and there can be additional obstacles around timely connections to the electricity grid.
- Support for **R&D** is an old favourite of government, but it shouldn't be just about leading-edge technology in a narrow range of sectors.

A wider focus

It's 'advanced manufacturing', not the whole of the manufacturing sector, that the UK Government's *Industrial Strategy* presently targets, and within advanced manufacturing it's just six 'frontier industries' that are given priority – aerospace, advanced materials, agri-tech, automotive, batteries and space.

The government's six 'frontier industries' employ just 240,000, or only 10% of all manufacturing employees. More than half these jobs are in automotive.

This is a very narrow base on which to try to build an industrial revival and falls a long way short of a commitment to Sovereign Capability. **Food & drink, chemicals, ceramics, glass, textiles, furniture and much more are all largely missing from the UK Government's *Industrial Strategy*.** This means that if a locality doesn't have a significant presence in one or more of the frontier industries – and that applies to large parts of Britain, especially away from the big cities – the strategy doesn't offer very much.

Most of what's left of British manufacturing really ought to be regarded as 'advanced', even if the products themselves are not always high-tech. Simply to stay in business, just about all manufacturing firms have had to invest in up-to-date technology, design, skills and working practices. There are many manufacturers across a wide swathe of industry, old and new, that are in truth deserving of support but as things stand only a minority will be prioritised for help.

It's also striking that the *Industrial Strategy* ignores the contribution to **energy security** of North Sea oil and gas, on which thousands of good jobs depend not only in Scotland but also along the east coast on Tyneside, Teesside and Humberside. There's clearly muddled thinking here: it makes sense to reduce CO2 emissions but so long as Britain consumes oil and gas (or even coal for steelmaking) it makes little sense to rely on imports shipped from far and wide across the globe rather than on domestic production. Too much electricity is imported as well, when Britain has ample opportunity to develop its own supplies of renewable energy.

Public procurement

For many years the UK Government was wary of calls to 'Buy British'. As a signatory to the WTO's Government Procurement Agreement, there were limits to what could be done to steer contracts to UK-based suppliers. The rhetoric has now changed. In a fragmenting world moving away from globalisation, the UK Government seems not so afraid.

Public procurement has the potential to play an important role in delivering Sovereign Capability. It's an explicit part of the government's *Steel Strategy* and figures in the *Defence Investment Plan*. That's a good start. In principle, plenty of UK firms have the capacity to supply UK needs and sometimes potential suppliers are right on the doorstep.

The UK public sector spends more than **£300bn a year** on procurement, which represents more than a third of all public expenditure. Without explicitly flouting WTO rules, it's possible to steer more business to British industry by:

- Using the rules covering national security to ensure that UK **defence procurement** favours UK businesses
- Pushing the boundaries on **local content** in public sector procurement contracts – a grey area in the rules that the United States and the EU have both exploited
- Making fuller use of **pre-procurement engagement** with potential UK suppliers, which is perfectly legal and helps refine requirements as well as place UK firms in a good position to make competitive bids
- Encouraging the inclusion of **social value** clauses in procurement contracts to help deliver training, environmental benefits and boost the involvement of small firms

Tariffs and quotas

Tariffs and quotas on imported goods are the most direct way to deliver Sovereign Capability. They are a sharp tool that can be applied to protect existing production and to nurture investments in new products and processes.

In the context of the steel industry, the government has already decided to go down this route to ensure that UK production survives the onslaught from cheap and often subsidised steel from abroad.

The tariff-free world of international trade has been breaking down, most visibly in the tariffs introduced by the United States. That this disintegration is happening is hardly surprising given the persistent imbalances in world trade, in particular the huge trade surpluses accruing to China and the jobs destroyed by imported goods.

It had always been supposed that free trade would benefit everyone, and that the labour and capital displaced by imports would find its way into other activities in which there is a local competitive advantage. But it hasn't worked out that way. Increasingly, it's the case that the 'winner takes all'. Well-paid manufacturing jobs disappear, and if they are replaced at all it's by low-paid, low-productivity work in services. This has been the experience of the US rust belt and it is the experience of too many of Britain's older industrial areas.

The prime culprit is of course **China**. In 2025:

- UK exports of goods and services to China amounted to £31.4bn
- UK imports of goods and services from China amounted to £73.4bn

This represented an annual trade deficit of £42bn. In goods alone, the annual trade deficit with China was £51bn⁷. This vast imbalance is neither desirable nor sustainable.

If the UK were to deploy tariffs and quotas – and there's surely now an overwhelming case for doing so to protect what's left of British industry – the way forward would be to deploy them selectively. It wouldn't make sense to upset carefully negotiated trade agreements with for example the EU and US. China should probably be the prime target, so long as it fails to match its vast exports with equivalent imports, but there will be other countries as well.

More generally, British manufacturers should not be exposed to competition from countries that fail to respect workers' rights, health and safety standards or environmental obligations. At worst, firms can face competition from surplus production dumped on the world market at subsidised prices by state-owned corporations. Tariffs and quotas offer the protection that's needed.

⁷ Source: Department for Business and Trade, *Trade and Investment Factsheets*

Public ownership

Finally, there's the fallback of public ownership. If Sovereign Capability cannot be delivered by other means, and if an industry or employer is deemed to be of strategic importance to national security or the economy, taking it under the wing of the state is the sensible way forward.

It's to the credit of the UK Government that it has taken this step to ensure the survival of the UK steel industry. To have done otherwise would have been to leave the UK as the only G7 country unable to produce primary steel. In fact, there have been three separate moves to bring large parts of UK steelmaking into public hands:

- The decision to take over Sheffield Forgemasters, to secure the production of nuclear submarine components
- The nationalisation of Chinese-owned British Steel, to maintain the UK's primary steel production
- The acquisition of Speciality Steels UK, following years of mismanagement and liquidation

There is now the basis here for developing a viable future for the industry, though not necessarily in public ownership for all time. There is also an important precedent here that could be applied to other industries.

In the past, across a range of industries, public ownership has provided the basis for **investment, modernisation and reorganisation** on a scale the private sector has been unable or unwilling to undertake, and the results have underpinned long-term national economic growth.

Nationalisation can if necessary be the right tool to deploy. It is worth remembering that following bankruptcy in the 1970s, even Rolls Royce – arguably now the UK's flagship engineering company – passed through public ownership.



Industrial Communities **Alliance**

The Industrial Communities Alliance is the all-party association representing local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

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