

FORD OF BRITAIN

BOSCH INDUSTRY FORUM

>INNOVATION - THE KEY PREREQUISITE FOR GROWTH=

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Thank you, (...) and good afternoon, ladies and gentlemen.

It's a special honour to be the guest speaker at this first meeting of the Bosch Industry Forum.

Events like this, which bring together colleagues, associates and customers to discuss the issues and challenges we face, are extremely valuable ... and may I wish the Forum every success in the future.

With its world class reputation for technology and precision engineering, Bosch, of course, has been a key player in the automotive industry right from the very beginning ...

And it's rather appropriate that I'm representing Ford of Britain here today because Henry Ford and Robert Bosch are two of the most fascinating and important figures in the industry's history. In fact, they were almost exact contemporaries.

Born just two years apart - Bosch in 1861, Ford in 1863 - both men lived into their 80s ... and in their different ways, the success of the companies they founded was built on today's theme - innovation.

To innovate is to change the way we do things and you don't stay in business for over a hundred years - particularly the automotive business - without that ability.

Robert Bosch we associate mainly with pioneering achievements in vehicle electrics; with the Model T, Henry Ford revolutionised the way cars were actually produced ... but innovation isn't just about engineering and manufacturing.

Nowadays we also use it in a wider sense. We talk about 'the innovation of a brand', for example, to describe a different way of looking at companies and organisations.

That's what happened a few years ago with the fashion house, Burberry.

The iconic checked lining had always been the company's most distinctive feature. When the clothes were literally turned inside out, so was the business and Burberry's fortunes were transformed in the process.

Again, the consumer electronics company, Apple, is one of the undisputed masters of innovation.

Its had its 'ups and downs' but the company's get-out-of-jail card has always been its brand image, based on new technology and terrific design - like the ubiquitous iPod which has transformed the digital music industry.

And we're currently witnessing a major brand innovation as the big oil companies reposition themselves as energy providers ... but more of that later.

Changing consumer tastes, the economic climate, government legislation and ferocious competition - they all drive the search for new and better solutions to encourage growth

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And because innovation combines existing approaches with novel ideas, it will always be a major force in the automotive industry where wholesale change is massively expensive.

The industry's core technology - the internal combustion engine - is a good example. Invented in 1876, it still works on the same principle today ... but thankfully, 130 years of incremental improvement have transformed the motoring experience.

Events like the London to Brighton Veteran Car Run remind us what it used to be like and it's a great spectacle ... but believe me, if you've sat in an old bone shaker for hours on end in the freezing cold, you become profoundly grateful for engineering innovation.

That brings me to the substance of what I want to discuss today - two of the biggest challenges that car makers and component suppliers currently face.

Firstly, we need to innovate to ensure not just growth but also a sustainable manufacturing base.

Secondly, with the whole global warming issue set to become more and more important, innovation will be absolutely critical in the race to replace the use of fossil fuels.

Innovation is a key prerequisite for growth ... but to be able to innovate you to have a successful, profitable business generating the funds to invest.

It's a simple enough equation but try telling that to the so-called proponents of joined-up thinking.

In my role at Ford of Britain, I've spent so much time in Westminster and Whitehall, trying to convince the powers-that-be that we'd see more innovation if we weren't so hamstrung by red tape and onerous legislation ...

That a healthy automotive industry - indeed, manufacturing in general - is absolutely vital to the UK's prosperity.

Why? Because first and foremost, it's a key wealth creator and a massive employer.

Annually, the automotive manufacturing sector contributes around ,8.4 billion added value to the UK economy. It accounts for about 10% of our goods exports ... and almost a quarter of a million people are employed in the design and manufacture of vehicles and components.

But alongside the big numbers, there's another way to look at the value of the industry and it's tied up with today's theme. The simple fact that cars move means we have to deal with a whole range of disciplines - from aerodynamics and crash safety to power and refinement.

We work with numerous different materials from rubber, glass and plastics through to the new-generation structural materials ... and today's cars have complex electronic systems and more computing power than spacecraft did even a couple of decades ago.

All these factors make the automotive business a cauldron of innovation and a magnet for other technically advanced, high-value industries - precisely the kind of industries we need to attract to and retain in the UK.

Ford has a very long history in this country - so long, in fact, that many people think it's actually a British company. The first production plant was established in Manchester in 1911 and Model Ts were being imported from 1903 ... but an enterprising man from Germany was here before us.

In 1907, the Bosch Magneto Company Limited was founded just off Oxford Street and the company has been in the UK since 1898.

I don't want to dwell on the history of the industry in this country ... but if we hadn't attracted the big names from abroad, we'd have very little to talk about today.

As it is, Ford was later joined by the likes of General Motors, BMW, Peugeot, Honda, Nissan and Toyota ... and alongside Bosch, there are over a thousand component suppliers now manufacturing in the UK, including most of the leading global players. The jobs they provide, the skills they nurture, the knock-on benefits for other industries and companies - these are priceless assets and as no-one will need reminding, there is intense competition for them.

We're currently living through - and I quote – “the most dramatic restructuring of global economic activity since the industrial revolution”.

The words belong to the Chancellor of the Exchequer, Gordon Brown, addressing the TUC conference in September. He went on to say that competing with countries like China was a matter of “radically upgrading Britain's own skills, science and technology”.

Until quite recently, it was assumed in the West that Asia would be the workshop of the world while we'd naturally become the high value producers. But businesses and national economies don't move anywhere naturally. They require firm purpose and direction.

That's why China and India are producing around 4 million engineers, computer

scientists and university graduates every year - more than the whole of Europe and North America combined.

In the face of this kind of competition, our only option is to innovate - to develop the technology, the design and the high-value premium products they don't have ... and notwithstanding the Chancellor's fine words, we have to do it with real urgency.

The lifeblood of a sustainable, high value economy is a highly educated, highly skilled pool of talent ... and R&D spending at least on a par with our competitors.

The Ford Motor Company supports government initiatives like Modern Apprenticeships and the increased focus on vocational training ... and there is evidence in recent years of real progress in basic literacy and maths.

It's reflected in the most recent International Maths and Science Study or TIMSS ... but the report also notes that many of our Far East competitors - including Japan, Hong Kong, Singapore and Taiwan - are outperforming us.

If we want British manufacturing to be about innovation, advanced technology and value-added product, we've got to accelerate the educational performance of our young people ... and alongside government, business has a vital role to play here.

Along with the members of our Premier Automotive Group based in the UK - Jaguar, Land Rover and Aston Martin - the Ford Motor Company runs a whole range of Education and Business Partnership programmes ...

From schools initiatives and continuous learning for employees ... through to specialist skills training up to degree level for people within the company and our supplier base.

We have to convince young people in particular that we can offer exciting and rewarding careers ... because we have an endemic problem in this country and it's tied up with the whole image of manufacturing and engineering.

You remember what we used to be told – 'If you don't work hard, you'll end up in a factory'. Actually making things was not the done thing ... which may explain why the UK only produced 3,000 Physics graduates last year and 15,000 psychologists!

Compare this with our neighbours like Germany and France where scientists and engineers are well-respected and manufacturing productivity is 30% higher than it is in this country.

The UK needs some 35,000 engineers each year just to stand still but we currently produce less than a third of that number so we're effectively running an alarming skills deficit.

Attracting talented people to the industry is vital for innovation ... and so is investment in their potential.

Ford is responsible for the vast majority of automotive R&D in the UK, investing ,1 billion every year in our future and adding real value to the economy ...

But despite recent improvements, highlighted in the annual Research and Development Scoreboard, our commitment as a nation lags some way behind our competitors.

We spend 1.9% of GDP on Research and Development ... compared with the 2.2% spent by France, 2.5% by Germany, 2.6% by the United States and 3.2% by Japan.

And our future commitments aren't looking much better. At its Lisbon summit in 2002, the EU set a target to increase R&D spending to 3% of GDP by 2010. Britain could only

agree to a limited 2.5% by 2014.

Among the reasons given for this performance, I've seen Britain's higher interest rates in previous years mentioned ... and pressure by City Fund Managers for ever-higher dividend payments.

But from an automotive perspective, I would add another factor.

The downside of making complex products, being a magnet for high-tech innovation and exporting to numerous world markets is that we have to comply with a huge amount of regulation.

We have no argument with the need for regulation and particularly in areas like environmental and safety performance, we fully support the ideals behind it ...

But we need better and more consistent regulation, backed-up with proper cost-benefit analysis so it's proportional and doesn't disadvantage EU-based industry against global competition.

Within the Ford Motor Company, for instance, we are currently having to work with around 100 different directives which is adding an enormous burden to the business.

Ford internal analysis puts the cost of current and pending legislation as high as 5,000 euros per vehicle. The average cost of a Ford Focus is about 10,000 euros.

No wonder the European car industry is struggling to be profitable in its home market ... which is why we welcome the UK government's role in establishing CARS 21 - the EU working group tasked with paring down the cost and complexity of regulation.

The plain fact is - the greater the cost burden, the less the industry has to invest in the new technology that will deliver the better, cleaner and safer cars that consumers need

... which brings me to our biggest challenge.

As I said in my introduction, the race is on to replace our dependence on fossil fuels.

The main driver, of course, is the whole debate on climate change ... but even sceptics would acknowledge that we're dealing with a finite resource, that its cost is rising and its supply is dangerously dependent on the political situation, especially in the Middle East.

Whatever the arguments, one thing is clear - the future is going to demand wholesale innovation ... but there's no 'magic bullet'.

As well as the viability of alternative technologies, what we end up with is bound to be influenced by the prevailing resources and legislation in each market.

Because the Ford Motor Company has many different brands in many different marketplaces, it's actually well-placed in this respect. In fact, it's the only automotive company looking at all the major alternatives - hybrids, clean diesels, biofuels, hydrogen combustion and fuel cells.

For all the reasons I've mentioned, we have to explore these new technologies ... but there's also a lot of *kudos* - and marketing potential - attached to innovation.

Right now, for example, Toyota are doing an incredible job in convincing consumers that the company is virtually synonymous with hybrid technology - a perception of the brand currently being supported by a \$30 million advertising campaign in the United States.

But legislation there - and in Japan - means there is no market for the new generation of diesels which have proved so popular with European consumers .. so the focus has to be on alternatives.

Again, a heavily-forested country like Sweden has a ready supply of the raw material for bio-ethanol fuels. 40% of Ford sales in that market are Flexi-Fuel Vehicles or FFVs ... and the Ford Focus accounts for 80% of all the alternative fuel cars sold there.

New EU legislation demands that a greater proportion of road fuel comes from sustainable resources so inevitably, we'll see more manufacturers adopting FFV technology ... but understandably, some will be wary.

Right now hybrids and biofuels are 'flavour of the month' but just a few years ago and accompanied by all sorts of incentives, it was LPG - now dropped like a brick when governments realised it's not going to be the way forward.

This is a major issue when we look further into the future. If we are to have what's called a 'hydrogen economy', for example, it's going to require massive and sustainable supplies of the gas.

Many countries are agnostic at best regarding nuclear generation, so where is it all going to come from ... and how is it going to be distributed and stored? It's not just about automotive technology – it's about massive capital projects and changes to infrastructure.

At the very least, we can say that real joined-up thinking between governments and industry will have to become the priority ... and because the impact of climate change is obviously a global issue, governments must take the lead and their policies must remain consistent over time.

Innovation requires a stable and predictable environment in which to thrive ... but governments and automotive manufacturers work to a completely different timeframe.

If “a week is a long time in politics” as Harold Wilson famously said, imagine what a 10-year development programme looks like – that’s more than 2 General Elections away!

Finally ... this was a point made - more diplomatically - a few months ago in the open letter to Tony Blair from the Corporate Leaders Group which includes BP and Shell. They urged immediate action, pointing out and I quote:

“Governments tend to feel limited in their ability to introduce new policies for reducing emissions because they fear business resistance, while companies are unable to take their investment in low carbon solutions to scale because of the lack of long-term policies.” Unquote.

As the oil companies reposition themselves as energy providers, they’re investing more and more of their shareholders’ money in the new technologies - just as we are ... and what none of us want is a sudden u-turn in government thinking in a couple of years’ time.

They have to set the strong lead and follow through consistently over time ... then innovation can flourish with both direction and purpose and encourage real growth.

Thank you.