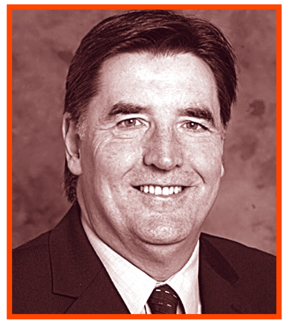
Scottish Engineering

The Back Page



Archie Bethel, CBE, FREng
Chief Executive,
Babcock Marine

Exciting times at Babcock Marine

The latter part of 2008 brought a consistent stream of downbeat economic data from every part of the developed world. What started as a problem in the financial services sector has quickly spread its tentacles into the retail and industrial sectors with a large number of companies cutting back on production and jobs.

Against this wave of negative sentiment Babcock Group is in good health and looking to grow thanks to our long term contracts with the UK Government and other key customers.

Babcock Marine, the largest division in Babcock Group is a prime example of this. Babcock Marine is the largest provider of engineering specialist support services to the Royal Navy with around 8000 people operating from our main sites in Rosyth, Faslane, Plymouth and Bristol. We currently provide the engineering and in service fleet support for the entire UK nuclear submarine fleet and around 75% of the specialist support to the surface warship fleet.

Babcock Marine has a major presence in Scotland through our ownership of the naval dockyard on the Forth at Rosyth in Fife and our long term contract to manage HM Naval Base Clyde at Faslane and Coulport.

Babcock has been present at Faslane and Coulport since we secured an initial 5-year £400 million contract in 2002 to carry out maintenance on the base-ported ships and submarines; manage the complex facilities on each site and deliver a range of other specialist support services. This contract was subsequently extended for a further 5½ years after we not only met but significantly exceeded our performance targets.

In the coming year we will be seeking to agree a number of additional service elements including support for the first of the new Astute class submarines which should arrive at Faslane during 2009. These new nuclear-powered, but conventionally-armed, submarines are much larger than the vessels they replace. We are confident that we can offer first class support as planned and that HM Naval Base Clyde will prove to be an excellent home for the Astute class.

Across the country at Rosyth we are preparing for what will be one of the biggest engineering projects ever undertaken in Scotland. Through our involvement in the Aircraft Carrier Alliance with BAE SYSTEMS, BVT Surface Fleet, Thales Naval and the MoD we have a key stake in the design, build and assembly of the new Queen Elizabeth class aircraft carriers, HMS Queen Elizabeth and HMS Prince of Wales.

At 65,000 tonnes these two ships will be the largest ever operated by the Royal Navy when they come into service in the latter part of the next decade. Such is the scale of the project that no one company has the people and facilities to deliver them on their own. The Aircraft Carrier Alliance brings together the key players in the UK naval sector and incentivises us to work together in the best interests of the project.

Each vessel will be constructed up to the hangar deck in four large sections using Alliance partner facilities in Portsmouth, Glasgow and north Devon. The flight deck will be built as a series of 16 or so 800 tonne units by Tier 2 production yards around the UK. These sections and units will be brought to Rosyth for final assembly, integration and commissioning. Production of the bow unit is already underway at Babcock Marine's Appledore facility in north Devon and manufacturing has commenced at Rosyth on the production of the two giant aircraft lifts that will carry aircraft from the hanger deck up to the flight deck. Work on the other sections of the ships will commence at Portsmouth and on the Clyde during 2009 and in the meantime the Alliance partners are finalising the detailed design of the vessels.

Although these two vessels will not be delivered for a number of years, Rosyth is already a hive of activity. Work began in early 2008 on a £35 million upgrade to the main dry-dock at Rosyth and the entrance into our non-tidal basin on the Forth estuary. The dock entrance is being widened to hold back the waters of the Forth while the modifications are underway. A similar arrangement will be used at the direct entrance to the main basin at Rosyth to allow the ship sections to be delivered to Rosyth and for the completed ships to leave. A skidding system is being installed in the dock to allow each ship section to be docked down and moved into place against the other sections of the ship.

The other key element of the main upgrade package is the installation of piles and foundations for the rails of a new giant crane that will straddle the dock. This new 'goliath' crane will be the largest crane in the UK when it is delivered in 2010, sitting over the dock and the adjacent buildings it will be capable of lifting 1,000 tonnes and will be a key element in the assembly of the new carriers.

Overall, these are exciting times for Babcock in Scotland. I feel really privileged to be involved with the new aircraft carriers, a project that will showcase the skills and ingenuity of engineers in Scotland and be a project that none of us ever forget.

Scottish Engineering

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Scottish Engineering

Quarterly Review

March 2009

MANUFACTURING FIGURES HIT AN EIGHT YEAR LOW

- UK order intake at the lowest level for 10 years
- Optimism hit hard
- Recruitment drops significantly
- Capital investment plans decline
- UK margins under severe pressure

The latest data from Scottish Engineering member companies confirms that the global credit crunch has well and truly landed in Scotland. Overall every key measurable has gone negative and optimism is very hard to find. The figures confirm no one is immune to the global downturn.

While our politicians are running around propping up the financial sector opportunities are being missed to support our manufacturers. Companies are still finding great difficulty in getting timely, affordable finance from banks but we are hopeful that this will ease in the coming months.

Meantime the Scottish Government is sending out negative messages with regard to two key areas, namely energy and defence. In conjunction with Unite union we hosted a very successful energy conference in Edinburgh last month. Despite the importance of the topic the Scottish Government failed to provide an elected representative to present their views.

The consensus from the conference from a wide range of participants was that it is extremely important for the UK to have a structured, balanced, sustainable, affordable secure energy supply for the short, medium and long term. It was also concluded that to achieve this we must make best use of all available technologies including renewables, clean coal and nuclear.

There was a general acceptance that the Scottish Government's refusal to countenance any new nuclear build in Scotland would significantly disadvantage Scotland's industry in the long term.

The Westminster Energy Minister, Mike O'Brien made a very strong case that if we are to achieve the desired reductions in greenhouse gas emissions then nuclear must play a vital role in providing a stable power base load. Furthermore he commented on the opportunities for the creation of high quality jobs both in the construction phase and at the operational level that would be denied to Scotland.

Against that background it is important that our government follows the lead given by others such as Sweden who have belatedly recognised the need for nuclear energy.

On the defence front, the Scottish Government cannot have its cake and eat it. We are all delighted that the MoD is going ahead with the building of two high spec aircraft carriers in addition to the Type 45 destroyers currently being produced on the Clyde. The defence industry accounts for thousands of jobs in Scotland and our government's negative comments on the use of Faslane is failing to send out the message that Scotland is open for business.

When we lose defence jobs to other parts of the UK we will know who to blame.

Dr PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering

ANNUAL TRENDS

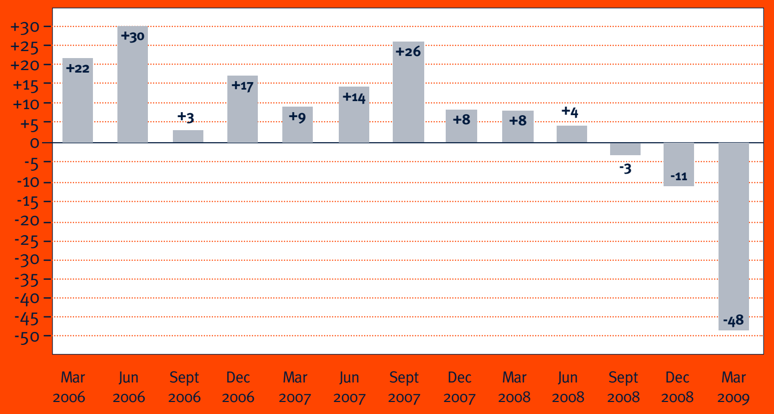
Order intake levels have dropped significantly and the only lower figures we have are from Quarter4 in 2001. UK order levels are the worst we have recorded for 10 years.

Output volume is as low as it has ever been with the second lowest being reported in Quarter 2 of 2002.

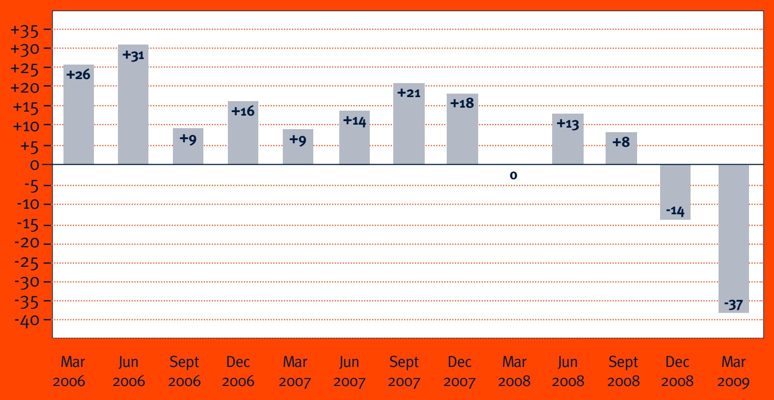
Likewise with capacity utilisation, which has been lower also in Quarter 4 of 2001. Both training and capital investment plans are at a low ebb, again only surpassed in Quarter 4 of 2001.

Recruitment levels are the worst since Quarter 2 in 2001.

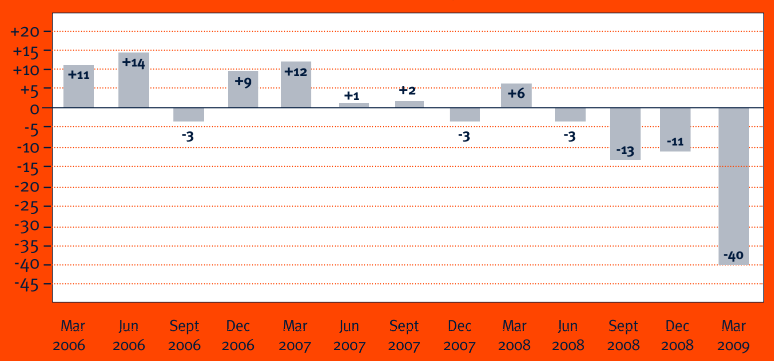
ORDER INTAKE



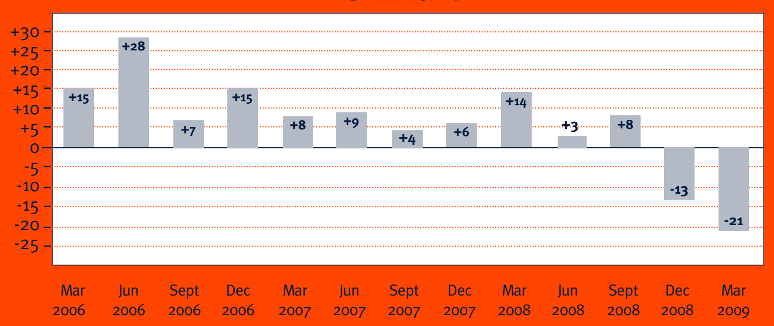
OUTPUT VOLUME



EXPORTS

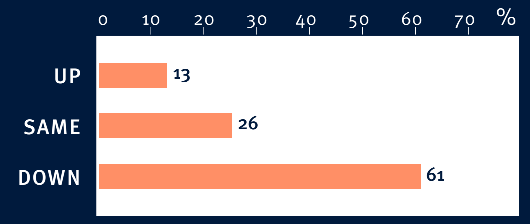


STAFFING



Balance between reports of increases and reports of decreases

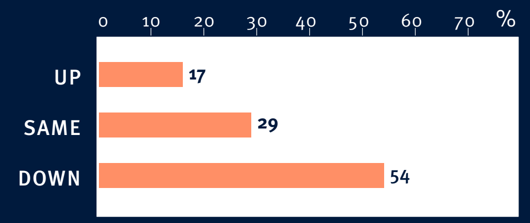
ORDER INTAKE



ORDER INTAKE

All sizes of company show negative results but medium companies are worst hit.

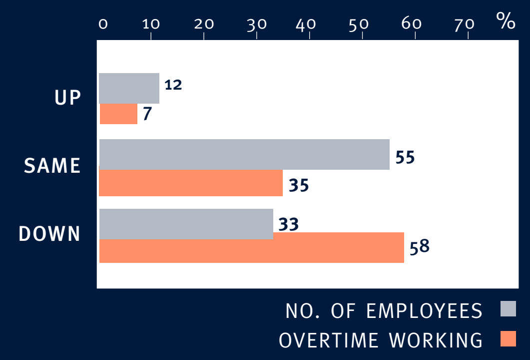
OUTPUT VOLUME



OUTPUT VOLUME

There have been drops in output volume for all sizes of company with medium companies suffering most.

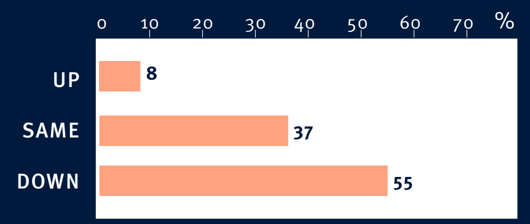
STAFFING



STAFFING

Large companies maintain their recruitment but all other sizes of company report a reduction.

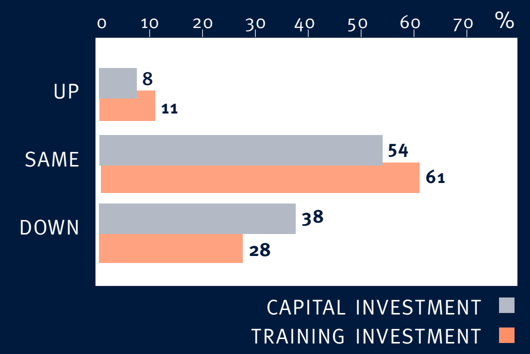
OPTIMISM



OPTIMISM

There is very little optimism in the manufacturing engineering sector overall.

INVESTMENT



INVESTMENT

While large companies retain their training commitment, all other size and sector are cutting back on both capital and training investment.

The manufacturing engineering sector has reported a dramatic slowing down in orders and output in the first three months of 2009, but, as always, is predicting some improvements for the next three months. Levels of optimism, as can be expected in the circumstances, are almost as low as they have been in the last ten years.

Orders

The general total order intake (13%up,26%same, 61%down) has dropped alarmingly on the previous quarter's negative figure, with the worst figure for eight years. Small companies (17%up,28%same,55%down) have not fallen as far as large (0%up,56%same, 44%down) or medium companies (8%up, 15%same,77%down).

UK orders in general (12%up,23%same, 65%down) have hit an all time low and small (14%up,23%same,63%down), medium (11%up,18%same,71%down) and large companies (0%up,44%same,56%down) are all seriously negative.

Within the sectors there are no signs of recovery as all are negative including electronics (6%up, 32%same,62%down), mechanical equipment (14%up,16%same,70%down), fabricators (14%up, 22%same,64%down) and even oil and gas (0%up,67%same,33%down).

Forecasts for the next three months are marginally better in all three sizes of company, small (8%up,43%same,49%down), medium (13%up,29%same,58%down) and large companies (0%up,56%same,44%down). Similarly in the sectors electronics (13%up,47%same, 40%down), non-metal products (0%up,22%same, 78%down) and metal manufacturing (10%up, 50%same,40%down) are predicting improved order levels.

Export order levels in general for the last three months (13%up,34%same,53%down) show a downturn on the previous quarter as is reflected in small (17%up,43%same,40%down), medium (6%up,20%same,74%down) and large companies (14%up,43%same,43%down).

In the sectors, export orders are down across the board, including electronics (8%up, 54%same,38%down), metal manufacturing (0%up,29%same,71%down) and oil and gas (17%up,33%same,50%down).

Predictions for exports for the next three months in general (12%up,45%same,43%down) remain negative as do small (15%up,54%same, 31%down), medium (9%up,29%same,62%down) and large companies (0%up,57%same, 43%down).

Prices and margins

UK prices in general (11%up,67%same,22%down) have slipped into negative mode after a period of positive results as have small (11%up, 67%same,22%down), medium (13%up,66%same, 21%down) and large companies (0%up, 80%same,20%down). Throughout the sectors the message being given is that more companies are having to drop prices than are able to raise them. The only sector reporting positive figures is mechanical equipment (21%up,63%same, 16%down) though transport (11%up,78%same, 11%down) has an equal number of companies reporting price rises as are reporting price drops.

In the next three months UK price forecasts in general (9%up,69%same,22%down) are negative as they are in small (12%up,67%same, 21%down), medium (6%up,65%same,29%down) and large companies (0%up,90%same, 10%down).

Export prices for the last three months in general (10%up,67%same,23%down) have moved further into the negative which is the same as small (9%up,76%same,15%down), medium (12%up,52%same,36%down) and large companies (0%up,71%same,29%down).

Mechanical equipment (19%up,69%same, 12%down) is once again the only sector posting positive results though transport (0%up, 100%same,0%down), machine shops (0%up, 100%same,0%down) and non-metal products (40%up,20%same,40%down) all have equal numbers of companies reporting increases and decreases.

The forecast for the next three months is negative (7%up,73%same,20%down) which is mirrored in small (6%up,86%same,8%down) and medium companies (9%up,50%same,41%down) with large companies (0%up,100%same,0%down) reporting that they will remain the same as this present quarter.

UK sales margins overall (5%up,57%same, 38%down) are negative and so are small (5%up,52%same,43%down), medium (8%up, 59%same,33%down) and large companies (0%up,90%same,10%down.

Similarly export sales margins generally (15%up,58%same,27%down) remain negative along with small (14%up,65%same,21%down), medium (18%up,46%same,36%down) and large companies (0%up,71%same,29%down).

Predictions for the next three months remain negative in general (9%up,70%same,21%down) and in small (11%up,70%same,19%down), medium (9%up,65%same,26%down) and large companies (0%up,86%same,14%down).

Optimism

The level of optimism in general (8%up,37%same,55%down) has plummeted which is similar to small (7%up,41%same, 52%down), medium (8%up,29%same,63%down) and large companies (10%up,50%same, 40%down). All sectors have similarly low levels of optimism.

Investment

Plans for both capital (8%up,54%same, 38%down) and training investment (11%up ,61%same,28%down) are significantly negative. Small companies report similar figures for both capital (11%up,53%same,36%down) and training investment plans (8%up,63%same, 29%down). Only large companies' (30%up,40%same, 30%down) plans for training investment are not negative.

Staffing

While staffing levels in general (12%up,55%same, 33%down) remain in the negative this is only reflected in small (13%up,60%same, 27%down) and medium companies (8%up,39%same, 53%down) as large companies (20%up, 70%same,10%down) have more companies taking on staff than are shedding them.

Forecasts for the next quarter in general (13%up,49%same,38%down) remain negative as are small (10%up,55%same,35%down) and medium companies (13%up,43%same,44%down) while large companies (40%up,20%same, 40%down) have slipped into the neutral zone.

Output volumes

In general terms (17%up,29%same,54%down) output volumes have fallen further into the negative as have small (21%up,30%same,49%down), medium (11%up,21%same,68%down) and large companies (0%up,60%same,40%down).

The forecast for the next three months remains negative in general (11%up,41%same,48%down) as well as in small (10%up,44%same,46%down), medium (11%up,34%same,55%down) and large companies (20%up,40%same,40%down).

The facts in this Review were acquired by a survey of Scottish Engineering's members and certain other electronic companies and foundries. The membership covers all sectors of the industry. The response rate was **33.5%** of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).