Samsung swansong

16 Jan 2004

Samsung's Teeside plant is due to close in April 2004

©FreeFoto.com

South Korean electronics giant Samsung announced on Thursday that it is to close its microwave and flat-panel monitor plant in Billingham, near Teesside, with the loss of 450 jobs.

The plant was opened in 1995, and was awarded £10.5 million in a Regional Selective Assistance grant (RSA).

Why is the Samsung plant closing?

The factory is doing a good job, so good in fact that it won Samsung's gold medal for productivity. However it is apparently heading for a £12.5 million loss, leading one company boss to say closure was the "only practical way forward". These losses are due to the falling price of electronic goods, driven by competition, against costs of production which has stayed static. The only real way for manufacturers to cut production costs is to reduce the cost of labour. One of the attractions of locating in the north east of England was wage costs of £4.50 to £5.50 an hour - low by UK standards - but high when compared to 50p and £1 in China and Slovakia respectively, where production is moving to. With the latter about to join the EU, Samsung will have access to European markets, for a fraction of the production costs.

What will be the impact?

Samsung is one of the biggest sources of inward investment in the north-east of England. When it proposed the Billingham plant it was promised £58 million in of RSA (Regional Selective Assistance) grants for the creating 3000 jobs. Local authorities added an extra £20 million in training investment. Samsung never employed more than 1,500 at the plant, so only obtained £10.5 million in grants, and spent just £1 million on a training centre. When the plant closes in April, this investment of public and government money will be lost, as well as the plant jobs and 1,000 jobs in local suppliers. A Job Centre Plus will be set up on the site to help employees find new work, but with employees, now nine years older, than when they entered Samsung, future prospects for some may be limited.

Is 'inward investment' a good thing?

In the 1980s inward investment was seen as a solution to the challenges of UK de-industrialisation. However with a number of closures of 'foreign' plants in recent years, (including Motorola in Scotland and Panasonic in Wales), are we now paying the price for trying to plug our industrial gap with increasingly footloose foreign-owned manufacturing industries? On the other hand, maybe the aims of inward investment in the 1980s/90s were wrong. With closures such as Samsung, the government is now indicating that productivity should be the key for allocation of its funds rather than job creation. This would aim to secure those jobs that are created, although there may be fewer of them. The trade union Amicus feels that if public money is being spent, the workforce should have stronger protection.

Can the risks of inward investment be limited when ultimately it is the companies deciding what is best for their profits? Samsung may not get off scot-free. With the investment having occurred less than 10 years ago, unions and MPs are demanding that the money given to Samsung be returned. The Department for Trade and Industry claims that clawbacks are possible but Samsung argues that it has met necessary targets to avoid the repayments. Supporters of small businesses are angry about grants being given to 'foreign' companies, arguing that money invested to attract foreign investment could have been given to support local companies. Would the money invested this way have produced such large levels of employment? It is worth noting that Samsung's grant was accompanied by investment from the company itself and it already had a foothold in the global marketplace.

What happens next?

Manufacturing in the north-east of England fell by 17% between 1992 and 2002. Other sectors are doing better. Swan Hunter, the Tyne shipbuilders have also recently secured a contract to build oilrigs for Egypt, but this type of work depends on orders, mostly foreign, which have often gone abroad in recent years. Yorkshire and Humberside has the fastest growing IT sector in the UK, (23% growth in the past 5 years), finance has grown 51% in the past decade and Leeds is the second financial centre after London. The region also has a substantial food industry, and with its coastal access, fish processing is the largest contributor to manufacturing. The latter is location specific and so long as demand exists should remain. However, jobs in finance and IT could migrate 'off-shore' as is happening with the call centre work that has propped up employment in many post-industrial areas of the UK. Is it all doom and gloom? The Samsung move illustrates nowhere is insulated from globalisation and local bodies are often unable to control their region's future.