

## Initial consultation response November 2009

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# Manufacturing in Wales

## National Assembly's Enterprise & Learning Committee consultation

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The Welsh Assembly Government must help create and sustain the conditions in which manufacturing in Wales can develop, compete and prosper. We believe that manufacturing continues to play a fundamental role in the Welsh economy. Wales must secure an economic environment that is conducive to manufacturing, and to ensure that Welsh based manufacturers are well placed to compete. A manufacturing strategy is now needed which lays out how the Welsh Assembly Government will support and promote the sector.

### Summary

In Wales we have a long history in manufacturing. In the past the focus on high-tech production facilities and high volume employment has worked well in supporting communities, especially in South Wales.

Manufacturing in Wales directly accounts for 18% of Welsh GDP, a fall of 10% on 1997 figures. The annual value of Welsh manufactured goods exports in 2008 were £2.7bn- a reduction of almost 50% on 2002. However, manufacturing employs tens of thousands of people in Wales and indirectly support thousands more.<sup>1</sup>

It is clear that Welsh manufacturing has suffered, and continues to suffer, from the recession. However some-with the support of ProAct and ReAct funding and support from staff- have taken the opportunity to retrain, restructure and reposition themselves for the upturn.

This paper has been compiled with input from initial discussions with our Council members in Wales. A more comprehensive response will follow as the inquiry develops.

### Existing manufacturers

The Welsh Assembly Government cannot afford to take the current manufacturing base in Wales for granted. We must create a supportive business environment which allows our manufacturers to be competitive, and this is even more important for Wales than for other part of the UK which have stronger home-owned corporate bases.

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<sup>1</sup> HM Customs & Excise UK Regional Trade in Goods Statistics 10<sup>th</sup> October 2009

The Welsh Assembly Government needs to continue to develop an active partnership with those companies and work on investment strategies which will assist them where needed. Such an approach could usefully identify barriers to growth in Wales along with a broad commitment to help grow key 'anchor companies.'

Existing manufacturers also need a sustainable local business environment that maximise the opportunities available. Key parts of that environment include: transport, skills, energy, planning, investment and low-carbon assistance.

### **Energy**

Energy policy has a key role to play. Developing a supportive energy policy which considers all source of sustainable energy, including nuclear will help keep manufacturers competitive. Integrated energy solutions from local industrial sources, like coal fields, will be a valuable benefit if combined with support for carbon-capture and storage technology. These approaches will be important as they will complement the continued efforts by industry to reduce energy consumption, increase efficiencies and move to low-carbon sources.

### **Planning**

Planning policy is critical to both current and prospective manufacturers. The government must ensure a supportive planning system that handles private sector engagement effectively and efficiently. The example of the planning application for Amazon being approved by Neath Port Talbot Council within twenty three days is an uncommon occurrence for the vast majority of companies in Wales.

There is a very strong link between the planning system and the efforts of companies to reduce their energy costs. Dozens of projects will be needed to achieve industrial energy security and secure affordable energy costs. Such projects are too small to be covered by the Infrastructure Planning Commission and as a result their success or failure largely rests in the hands of the Welsh Assembly Government creating a supportive planning system in Wales.

### **Transport**

An integrated transport system remains fundamental to enable smooth and efficient exports. Facilitating the movement of goods which removes excessive costs is vitally important. For these companies efficient and reliable east-west road links, especially the M4, is by far the most important transport priority.

### **Skills**

There continues to be a general skills shortage in technical and engineering areas in what remains globally a highly competitive market. This shortage remains the case in key manufactures in Wales despite their location in regions of relatively high unemployment. Employability skills too continue to be a concern. The Welsh Assembly Government must continue to fully fund

apprenticeships and support employers, schools and colleges to improve the employability of our nation's skills base.

### **High-tech future**

Going forward, there is a need to concentrate more on high-spec/high-tech niche manufacturing, while remaining supportive of existing manufacturers to remain and grow in Wales. 'High-spec' manufacturing will require a more rounded engineering and manufacturing skills base to operate successfully. Retraining of existing staff to address these new needs is imperative in order to assist existing manufacturers to pursue this aim, building upon existing commitments. Young trainees with the right skills (to be either employed or trained-up) are not easy for some manufacturers to find.

### **Image**

Improving the image of manufacturing is important if we are to attract badly-needed new skills. Support to encourage local schools initiatives is an important tool in refreshing the image of the sector within the minds of young people. Manufacturing involves high-skilled jobs in modern environments; such a message needs to be communicated more strongly to Wales' young people and those giving careers advice.

### **Low-carbon**

At a UK level, as we move to a low-carbon economy, it will be important to encourage markets to ensure an increase in demand for products produced in sustainable conditions. Manufacturers in the UK are often at the forefront of this agenda- developing new techniques and processes, creating new skills, products and technologies, opening new markets and areas of growth.

The Welsh Assembly Government could assist in this process by developing greater synergies between the Green Jobs Strategy, Climate Change Programme of Action and any future Manufacturing Strategy. A business case for a low-carbon economy is needed at the heart of the Welsh Assembly Government's work in this area. They need to work with the market and build upon Wales' existing strengths within the low-carbon goods and services market

### **Economic summits**

Going forward, future Economic Summits should ensure representation from Wales' major employers are given priority. The companies that are employing most of the people of Wales are also the most exposed to global recessionary pressures. Failing to recognise this fact will not be in Wales' best interest. Such recognition must now move beyond the context of quarterly meetings and become integrated into the Welsh Assembly Government's ways of working.

As we emerge from the recession these global companies will be considering re-investment decisions, such investment will go wherever in the world will achieve the best result for the company and its shareholders. The management of those companies bases in Wales must be properly supported

if we are to maximise the opportunities for the Welsh economy and its people.

### **Manufacturing in Wales**

Despite a reduction in GDP share, manufacturing productivity in the UK has increased by 58% in the last 20 years, compared to 35% in the economy as a whole. Current manufacturers in Wales have a great story to tell. They are described as Wales' 'anchor companies' and have a central role to play in Wales' future growth.

Due to the recession, recent economic statistics for our manufacturing sector reflect the difficult trading conditions Welsh manufacturers find themselves in. The last CBI Quarterly Welsh Industrial Trends Survey of October 2009 showed headcount within the Welsh manufacturing sector has now fallen for five consecutive quarters, but it is expected to stabilise over the next three months. However, while output fell slightly over the past three months, this rate of decline has significantly eased compared to previous quarters; and although growth expectations were not realised this quarter, manufacturers remain optimistic of output growth for the next three months.

Inward investment can bring major benefits to the Welsh economy, not least in manufacturing. Investment projects add to Wales' capacity, provide an influx of capital and create jobs. In addition, inward investment can have a positive effect on the competitiveness of Welsh industry.

Multinational manufactures are often leaders in best practice, for example, lean manufacturing, new technology and management techniques (Rockwool in Bridgend and Toyota in Deeside are but two examples). Inward investment can often result in knowledge spillovers- the transfer of best practice to suppliers and other UK industries.

### **Supporting our manufacturing sector**

It may be accurate to state that the future new projects will be much harder to come by but we cannot abandon our installed set of companies. Wales' existing manufacturing sector will continue to need the support of the Welsh Assembly Government, going forward, to assist in a number of challenges.

The great majority of large employers in Wales are not headquartered here. Every investment by such a company is subject to internal international competition within the group. It is therefore so important that Wales maintains its attractiveness to current and future 'foreign investors'. Those companies investing in Wales may not be able to resist relocating abroad if there are greater savings to be made or process improvements available. Future investment going to another country would have profoundly damaging effects on the capabilities and the competitiveness of Welsh industry.

Value chains in manufacturing are becoming more fragmented, and multinationals are increasingly flexible regarding the location of their business function. Production R&D and design capabilities will be located where they are most commercially viable. These decisions are based on a

number of issues including cost, quality, delivery, skilled labour, regulatory environment and government incentives.

Support must also be forthcoming for those companies making products in Wales for Welsh contracts. Competition from global players can be strong. Procuring authorities must ensure they award contracts that represent 'best value' not lowest cost.

### **Skills**

Manufacturers in Wales stress that there are some cost advantages to being in Wales compared to other UK locations. The cost of living in Wales leads to competitive wage rates to those in the south of England. Labour supply in Wales is better than previously – at low to medium skill levels. However, manufacturers find it harder to recruit at the higher end of the market, frequently having to recruit from the rest of the UK or overseas where specific skills are needed.

Concerns are often expressed at the ability to recruit management skills. Clearly there is a large responsibility on companies to develop their junior talent, but this would be assisted by a better infrastructure for management training in Wales.

By far the most common concern expressed by business is the lack of employability of a significant proportion of school leavers. As well as the group which have literacy and numeracy problems, there is a larger group who have wider communication and attitude problems, a lack of confidence and understanding of team working, problem solving and a basic economic literacy. It is important therefore for the Welsh Assembly Government to continue to support Apprenticeships to enable companies to ensure their new employees are suitably trained.

Looking forward, there will be an increasing demand for low-carbon related skills. The Welsh Assembly Government needs to work with industry to identify the existing skills and expertise which could be scaled up to support the development of low-carbon technologies and processes

### **Value added manufacturing**

Manufacturing production in Wales can and does attract development and research activities. The model which describes the UK of tomorrow as a knowledge-rich product development centre, which outsources the manufacturing to cheap, remote locations is often dependent on keeping the relevant manufacturing base in Wales from which the knowledge activities then grow.

It is important that support goes to smaller manufacturers in Wales to grow and enable them, at the right time, to innovate and access the appropriate high-level skills to allow them to expand in Wales.

There is currently a growing trend in user-centred design, customisation and small-batch manufacturing. This will be a growth sector for SME manufacturers in Wales. Exploiting these approaches however requires

access to techniques and technologies that are not easily accessible or adoptable by SMEs. Any strategy would need to recognise this and put in place tangible mechanisms enabling SMEs to engage with these technologies. This might be achieved by the creation of specialist facilities.

### **Higher education**

It is vitally important that higher education institutions in Wales are suitably supported to deliver strategic innovation support to industry as well as tangible products like 'innovation vouchers'. Higher education institutions in Wales are already battling with a funding gap with England. If the Department for the Economy wish them to engage on the innovation agenda (which we believe is so important) additional resources need to flow from DE&T to HEIs to enable them to deliver this increasingly important 'third mission.'

The Knowledge Transfer Partnerships (KTP) will become increasingly important and as such, they need continued support from government to enable partners to respond to increasing needs of manufacturers in a timescale that meets commercial realities. Shorter KTPs are a good example of a positive development here.

### **Conclusion**

Manufacturing has a strong role to play in the Welsh economy. Supporting existing manufacturers to grow and innovate in Wales will be essential to their continued contribution to the economy and to employment. Future growth opportunities, such as environmental goods and services which support a low-carbon economy, are there to be grasped if the Welsh Assembly Government has the will to properly support the development of products and processes in Wales. A new manufacturing strategy now needs to be developed for the sector which addresses the key points raised in this paper. We look forward to submitting more comprehensive written evidence to the Committee as the inquiry continues.



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