

Enterprise and Learning Committee

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Purpose

Private Sector View of the Emerging Opportunities Presented by the Green Economy

This paper has been compiled By BITC on behalf of its membership to provide the Committee with its views on the current opportunities and barriers to developing a Green Economy in Wales. The Committee is requested to note its contents.

Background

Business in the Community is a charity and business membership organisation that provides advice and support to companies to improve their responsible business practice. We have 800 members including 80% of the FTSE 100. In Wales we work with over 100 companies ranging from indigenous SMEs to large corporates with a regional presence. We offer a range of services that support the management and measurement of responsible business practice across four impact areas - community, environment, marketplace and workplace.

Under our environmental activities, BITC run the May Day Network, the UK's largest network of businesses committed to tackling climate change, working with over 180 companies in Wales on reducing their collective footprint. The network has also, however, increasingly been looking to share information about the opportunities that the green economy affords to companies, large and small in Wales, drawing on UK and global expertise in the field. The network is provided over by our Climate Change Leadership team drawing on senior figures from some of Wales most notable companies.

This paper will firstly reference the global situation before drilling down to the situation specific to Welsh companies and also discuss some of the barriers that may face companies in maximising any potential opportunities.

The Green Economy and the opportunities it affords has recently become a major factor in the regeneration of global economies. The global perspective currently rests on two fronts. Firstly, multinational companies are facing significant issues in securing sustainable future supply chains. With peak oil having already been achieved and commodity prices and water availability becoming significant business issues, Rahm Emanuel, Barack Obama's Chief of Staff, hit the zeitgeist when he commented that:

"You never want a serious crisis to go to waste"

This opens up the second global perspective, in that the first green billionaire was created in China in 2007 and firms are increasingly looking to more carbon friendly goods and services to lead the global economy out of recession.

In the UK, giants such as BT, IBM, KPMG and others have been working hard to establish excellence in greener working practices through changes in technology, behaviours and skills, and then trying to apply their learning on a commercial basis to other companies. The first wave of mass commercial opportunity has, therefore, already begun its path to commercial profitability, albeit building from a small base.

Others are in the process of re-engineering their entire operation to introduce the types of green and sustainable policies that will ensure their longevity. Marks and Spencer's pioneering Plan A set targets to reduce the company's carbon footprint that led to the types and speed of innovation that the private sector can achieve when correctly motivated. More efficient logistics, heating, cooling and an environmental champion in every store were only the start internally. Externally the business began to grapple with how to lead its customers towards better behaviours without losing their patronage.

M&S devised raft of measures that instead of punishing people, were designed to help them achieve a more sustainable lifestyle, a desire the company had tapped into amongst sectors of the British public. Whilst the programme was devised as cash negative, scheduled to make a loss, Plan A is destined to become cash flow positive within its third year of operation and to actually deliver a profit thereafter.

The critical factor here was that M&S understood that people want to be greener and that their advantage lay in making it easier for them, a clear business opportunity. Others have since followed suit. Firms such as SKY and Brother Industries (in Wales) now reward their staff for green behaviour and Brains have introduced a range of new practices to minimise their green footprint.

These opportunities haven't just been available to large and medium companies of course. A growing number of SMEs in Wales are looking at future demand and already turning opportunity into profit. UES of Tredomen and Holder Mathias Architects in Cardiff are cases in point. UES have identified a niche advising companies on how to minimise energy usage and how to adapt to the UK Government's new Carbon Reduction Commitment. Holder Mathias have developed significant expertise in the design and construction of BREAM Excellent buildings.

This is an important point to make as too many people regard the opportunities coming from a green economy to be just on the production of green energy or managing waste. Clever companies and responsible companies are already changing their business models to accommodate and take advantage of growing green sentiment amongst consumers.

This is not to say that there are not opportunities for the production of green energies in Wales or recycling waste. Whilst the expertise

in deploying large scale green energy in Wales remains limited, the higher education sector will have to play a major role in working with business to identify and more importantly commercialise the green energy technologies of the future.

Firms such as UPM Kymmene in north Wales have also demonstrated their green ambition and ability to adapt, working with the Welsh Assembly Government to secure funding to build a materials recovery facility in Shotton.

Whilst these companies are clearly investing in green behaviours and technologies, policy makers must understand the investment decisions behind such outcomes. Major players in Wales such as UPM, Sharp who manufacture solar panels in Wrexham and Kingspan Insulated Panels have to make cases for investment. The competition they face is not from local competitors but from their sister plants across the world. Unless these companies can demonstrate their competitiveness, Wales will lose out. Competitiveness will depend on a number of factors, access to finance, suitable locations but perhaps most importantly it will depend on the availability of a suitable skills base.

Research in 2008 indicated that 53% of firms expect demand for green skills to increase in next 12m. Out of the firms who recognised this need, 37% however were concerned about the ability to meet this new demand.

Pockets of excellence in the development of Green skills do exist in Wales. Llandrillo College in north Wales, for example, have excellent micro-generation training facilities. Most Welsh Universities are developing excellence in sustainable practices, whether it be in technological research or in the deployment of sustainable management techniques as in the University of Glamorgan's Business School.

It is becoming very clear that the need for Green Skills at a technical level is closely aligned to the Science, Technology, Engineering and Maths skills agenda, and this is an area of concern for Wales' future competitiveness in maximising the green agenda.

Whilst a plethora of programmes exist to promote STEM in schools, there continues to be insufficient young people looking to pursue careers within these subjects, and without such skills an innovative technical base for innovation in Wales will struggle. A new approach is needed. Our young people will be the beneficiaries of a greener planet, it is imperative that in Wales they are also the beneficiaries of a green economy.

Whilst there is still scope to act on the lower level skills needed to deploy many green technologies, which will be essential as Wales pulls out of recession, there are more fundamental and structural issues that need to be addressed longer term.

This is why BITC is looking to work with employers and educators across Wales to raise awareness of and aspirations in STEM subjects amongst young people and in Green Skills in particular in some of Wales' regeneration areas.

In specific reference to the topics raised:

The likely impact of the current recession and the reduction in public expenditure on financial incentives, business support and grant aid and on investment in larger projects, such as renewable energy, new development projects, waste management initiatives;

The current economic conditions' affect on businesses in Wales can generically be narrowed to two types of business. Businesses whose primary or secondary functions concern the green industries, such as green energy, waste management or the provision of green consultancy services have so far not been significantly affected by the recession. Indeed, the majority of these firms have made steady gains over the last 12 months, although it is important to note that the availability of grant aid has been critical to this expansion in times of fiscal tightening.

One firm in the Heads of the Valleys, at the centre of the Low Carbon Zone, who have doubled in size over the past 12 months found themselves unable to exploit the opportunities they were being presented with as debt finance could not be sourced. Without government support, they would not have been able to expand accordingly. Similarly UPM Kymmene's expansion in north Wales could not have been achieved without government support.

The other types of business are those whose primary or secondary activities are not 'green'. Many of these companies, who had devised significant green investments before the recession, have had to postpone these investments until trading conditions improve. The inflexibility of some grant aid has also made it difficult for some to invest as they had wished. In addition many firms in the construction industry have voiced concern over their upskilling for the achievement of BREAM Excellent buildings only to find that many public procurements are insufficiently funded to allow the investment required to actually build BREAM Excellent structures.

Business attitudes to investing in low carbon initiatives;

As mentioned above, BITC is finding more and more businesses that are making low cost investments in low carbon initiatives. From hotels to brewers, builders to public relations companies, a number of very innovative programmes are underway. What is critical for many though is the business case for such investments. It remains the case that with the support of agencies such as the Carbon trust, savings can be made from such activities that outweigh the cost of investment. In the current climate this element is key.

Impact of consumer attitudes on popularity of green products/ technologies;

Companies who operate in a business to consumer model have generally already been making strides to tap into the increasingly positive sentiment of consumers towards sustainable products. Most retailers, for example, already have significant internal and external carbon reduction programmes. These moves are now driving green behaviours down the supply chain to business to business operators, who are having to comply with procurement rules that increasingly request information on the sustainability of their products or services.

It remains the case, however, that green products are typically at the 'early adopter' stage of the product life cycle at present. This means that mass market opportunities for companies are yet to exist, sounding a note of caution for any investment. The 'winners' in selling green products and services to consumer, either directly or through retailers continue to be niche players.

Extent and success of procurement initiatives;

Even companies the size of M&S's procurement chains are relatively small in global terms but the increase in individual companies procuring responsibly is increasing rapidly. Companies in Wales such as the Principality and Bluestone have demonstrated significant best practice in the way that they drive their corporate values into their supply chains.

Effectiveness of green jobs strategy in Scotland

N/A;

EU agenda and the future of the Lisbon strategy for jobs and growth.

The majority of the private sector finds it very difficult to access ERDF or ESF funding in its current guise in Wales and so the Lisbon agenda's biggest impact will be through the various and numerous legislative moves coming from the EU. The legislative agenda though is already opening up opportunities for Welsh firms, many of which are SMEs, who can advise other companies, often much much larger, on how best to apply the changes.

What should be mentioned however is that many in the private sector were dismayed with the outcomes of Copenhagen. Positively, this dismay has redoubled the ambitions of many to take the reins and pursue their own carbon cutting initiatives.

Summary / Recommendations

The green agenda is now becoming a board room issue for most large companies. These companies have devised both internal and external strategies to maximise and secure their sustainability and also to take advantage of the opportunities developing. In Wales companies, small and large, are beginning to profit from this new agenda and Wales, with the WAG focus on sustainability and green jobs has been well placed to take advantage.

The recession has hit firms wishing to expand to take advantage of green opportunity and it has been Government that has most often made the difference in turning promise into profitability. Firms without specialism in green technologies or behaviours have sought to improve their sustainability but the investment, particularly during the recession, has stuck to a strict cost-benefit analysis that has made longer term investment difficult if not impossible.

Whilst ERDF and ESF finance continue to be practically out of reach for most companies, the importance of targeted grant support remains imperative whilst credit remains in short supply.

Aside from finance, the biggest concern remains whether Welsh companies can draw on expertise to innovate class leading solutions to sustainability issues and also attract the skilled labour required to deliver these solutions in Wales

The Green agenda remains closely aligned to the STEM agenda and BITC would recommend that the Committee seek a solution to creating an education and careers system that is better attuned to the needs of industry. This would build on but accelerate the work of the Welsh Employment and Skills Board and DCELL's Transformation agenda to promote and build Wales' Green capacity. Wales has a head start but is in danger of squandering it unless action is not forthcoming in the near future.

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