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Economi Gwyrdd
GE04
Ymateb gan: Make UK

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Welsh Parliament
Economy, Trade, and Rural Affairs Committee
Green Economy
GE04
Evidence from: Make UK



MAKE UK RESPONSE TO GREEN ECONOMY CONSULTATION

Make UK is grateful for the opportunity to respond to the Welsh Economy, Trade and Rural Affairs Committee [call for written evidence](#) on the Green Economy. The enquiry covers the key priorities to maximise the potential economic opportunities from green economy sectors, develop Wales-based green supply chains, tackle skills challenges and deliver a just transition by effectively prioritising investment.

About Make UK

Make UK, The Manufacturers' Organisation, is the representative voice of UK manufacturing, with offices across the nation.

Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and internationally – is designed to help British manufacturers compete, innovate and grow.

From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

Summary

The key priorities for the Welsh Government to maximise the potential economic opportunities from the (decarbonised) manufacturing sector are:

- **matching energy demand**
- **improving net zero skills**
- **ensuring material efficiency (circular economy and waste disposal), and**
- **creating innovative financing options**

These priorities reflect the main challenges that manufacturers face, including limited financial support to decarbonise (especially given the characteristically high capital costs), the rising costs of energy, and the ongoing skills crisis. To address these issues, we would recommend the adoption of our recommendations in the following areas as a priority:

1. Energy demand
 - Support the upgrade of the National Grid for better access, increasing capacity and flexibility, by pursuing the ongoing work into Future Energy Grids for Wales
 - Roll out the Business Energy Advisory Services (BEAS) pilot scheme nationally
 - Provide greater support for firms looking to maximise material efficiency (through principles of waste management and the circular economy) and continue to champion the development of repair and re-use centres
2. Skills
 - Continue to invest in the Personal Learning Account scheme, particularly at Level 3
 - Invest further in modular upskilling, placing importance on digital and green skills (for which we welcome the additional £2mn investment), and ensure no further apprenticeship budget cuts
 - Explore and introduce more tangible benefits for businesses, such as tax reliefs for occupational health, which will support employers in improving retention rates, and encourage older staff to remain in the workforce to pass on industry experience

3. Finance

- Introduce a green skills tax credit, providing a clear incentive through the tax system for employers and providers to develop the skills needed for net zero
- Specifically for apprenticeships, the Welsh Government should explore where targeted financial incentives for green apprenticeships that will support providers to deliver the right apprenticeship training for employers seeking to enhance the green skills in their workforce
- Alongside financial incentives from the Welsh Government, we would also ask for their support on our proposals to central government, including:
 - Reviewing the energy and carbon pricing system to support the transition from fossil fuels and ensure a reliable and economically sustainable supply of clean energy in the future. The top priority is to align the UK-CBAM with the EU-CBAM timescales to provide a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.
 - Increasing financial incentives for businesses, e.g. including second-hand plant and machinery as qualifying plant and machinery for full expensing to increase upcycling. This would enable smaller manufacturers to access energy efficient refurbished tools and reduce capital waste.
 - Extending the 12 month 100% business rate relief on green plant machinery and equipment, as well as the 100% business relief on building improvements, introduced in April 2023, for at least 3 years, to allow for better payback times.
 - Increase duties on direct-to-consumer sellers, such as Temu and SHEIN, and require such companies to fulfil the producer obligations on behalf of their overseas sellers, as they present a competitive threat to UK manufacturing, and a safety threat to consumers (by selling non-compliant products)

4. Green supply chains

- Continue to support SMEs through the Green Growth Pledge scheme, which offers additional business support in exchange for meeting decarbonisation commitments
- Expand energy and carbon advisory services to guide small to medium-sized manufacturing firms in the right direction, fostering their growth and enabling them to scale up their businesses, positively impacting the economy
- Support Net Zero industrial clusters and the inclusion of SMEs in financial incentive schemes as a priority
- Make governmental support conditional on beneficiaries adhering to the Prompt Payment Code to prevent the significant delays and extensions to payment terms

Full Response

Within its devolved powers, what should be the Welsh Government's key priorities to maximise the potential economic opportunities from green economy sectors? To what extent does its current approach reflect these?

- 1) Maintaining a strong manufacturing base in the UK is paramount to the transition to the future low-carbon economy. The UK manufacturing sector has a key part to play in the transition to an energy-resilient and a net-zero carbon economy: cutting its own greenhouse gas emissions and creating innovative low-carbon products, processes and services that will become an integral part of the green industrial revolution.

- 2) Manufacturers are already pressing ahead on their decarbonisation journey. When surveyed, almost half (46%) of manufacturers had already implemented their plans to decarbonise, a further quarter were planning to in the next 12 months (given the timing of our survey, this would be now) and 17% were planning to do so in the next 24 months. While larger companies are more likely to see decarbonising as a high priority decision in their business, altogether over a third of companies deemed it so, and half stated that it is a medium priority.
- 3) Manufacturers who have already taken steps to invest in decarbonisation have so far seen benefits, such as improved raw material and/or waste efficiency, better quality of products and greater visibility of the supply chain (Digitalise to Decarbonise Report).
- 4) However, to ensure that the Welsh Government can maximise the economic opportunities from the manufacturing sector, it must focus on the following priorities: matching energy demand, improving net zero skills, ensuring material efficiency (circular economy and waste disposal), and creating innovative financing options.
- 5) At Make UK, we welcome the ongoing work into Future Energy Grids for Wales – the consideration of industry, as well as the importance given local and regional stakeholders, featured in the recommendations, is particularly encouraging. Furthermore, the existence of provision to deliver some net zero skills (see below) demonstrates a step in the right direction. Finally, the Green Growth Pledge scheme, offering additional business support in exchange for meeting decarbonisation commitments for SMEs, is also a useful way of raising awareness and helping businesses meet net zero targets.
- 6) It is therefore clear that the current approach of the Welsh Government reflects a genuine commitment to green growth – and we have named only a few initiatives. Nonetheless, it must be noted that the Welsh Government could also go further to truly maximise opportunities in the green economy by implementing the strategies detailed below.

What are the key barriers to Wales making the most of opportunities in the green economy, and what steps should be taken to overcome these?

- 7) The key barriers for manufacturers are access to finance, closely followed by limited skills and knowledge to make the transition to the green economy. As skills is a topic covered below, the response to this question will focus largely on financial barriers.
- 8) Improving energy efficiency is recognised as the main pathway for manufacturers to decarbonise (at the moment). With the price of energy at new record highs, cost in this area provides a key barrier for manufacturers. Indeed, one in three (31%) said their concerns are about remaining cost competitive, and the same number again (31%) cited the rising costs of energy for fuel switching.
- 9) The solutions to improve energy efficiency only highlight the barrier that cost presents. Manufacturers may need to invest in surveys of their factories, new capital equipment and/or switching fuel supply. This is a process of continuous improvement, so, while the benefits continue, the investment must also. In our decarbonisation survey, 43% of companies cited the capital costs of upgrading or replacing equipment as a challenge and a quarter of companies cited (limited) available funding both internally and externally.
- 10) The installation of on-site renewable electricity as a solution is highly ranked (cited by 39% of manufacturers) – reducing dependence on grid-supplied energy and removing uncertainty regarding energy supply. Where possible, manufacturers will opt to produce their own energy, which, if overproduced, could be sold back into the Grid. However, for this to work, the National Grid must increase its capacity and flexibility as a matter of urgency. As Wales generates 17.3% of

its national output from manufacturing, which is well above the UK average of 9.8%, we would therefore urge the Welsh Government to support central government to make this happen as soon as possible.

- 11) Alongside generating individual energy supplies, further Make UK research has revealed that digitalisation is an important enabler for increased green manufacturing. Most importantly, the key benefit of adopting new digital technologies is the reduction in the cost of running the business, for 56% of companies. In addition, manufacturers believe it has a significant impact on energy-efficiency improvements (34%), reducing carbon emissions (33%) and raw material and reduced waste (33%).
- 12) Over 67% of manufacturers have invested in automation, and within this area, our survey found greater rates of implementation for technologies such as CNC, PLC and robotics automation than other forms. Our research shows that six in ten (59%) manufacturers cite automation as a trend that is changing jobs and skills needs for their business, and half (50%) cite wider digitalisation.
- 13) However, to make the most of digitalisation, manufacturers must be able to recruit staff with the relevant digital skills. At the moment, only 14% of manufacturers are completely sure that they will fill their skills gap. Importantly, this labour shortage is more likely to impact smaller firms. 64% of SMEs said they experience skills shortages when trying to invest in and adopt new digitalise to decarbonise technologies, compared to just 36% of large manufacturers.
- 14) While there are some digital skills courses in Wales, there are not significant numbers to make up for demand, or to guarantee the standard of high-level skills necessary in the future. This is borne out in employer projections for the skills they will need as they decarbonise, where we can see a gradual increase in the demand for higher level skills into the long term.
- 15) Finally, while 1 in 4 manufacturers are seeing savings after they have invested in solutions, 60% are wary of the upfront cost of net zero technology, citing concerns about an inability to accurately predict timings on the return on the investment. Therefore, it is not only critical that sensible financial incentives are put in place, but furthermore, that the Welsh Government makes manufacturers aware of these.
- 16) Alongside financial incentives from the Welsh Government, we would also ask for their support on our proposals to central government, including:
 - a) Reviewing the energy and carbon pricing system to support the transition from fossil fuels and ensure a reliable and economically sustainable supply of clean energy in the future. The top priority should be aligning the UK-CBAM with the EU-CBAM timescales to provide a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.
 - b) Conducting a gap analysis of which tax incentives and funds are related to improving energy efficiency and decarbonisation to ensure a complete solution across all the different business populations.
 - c) Rolling out the Business Energy Advisory Services (BEAS) scheme nationally.
 - d) Extending, increasing and reshaping the Industrial Energy Transformation Fund (IETF) into a more accessible fund for SMEs and mid-market businesses.
 - e) Extending the 12 months 100% business rate relief on green plant machinery and equipment, as well as the 100% business relief on building improvements introduced in April 2023.
 - f) Developing carbon accounting framework for comparability of emissions data and to avoid administrative burden on industry engaging with different schemes.
 - g) Enabling an increase in the upcycling of second-hand plant and machinery by including it as qualifying plant and machinery for full expensing. This would enable smaller manufacturers to access energy efficient refurbished tools and reduce capital waste.

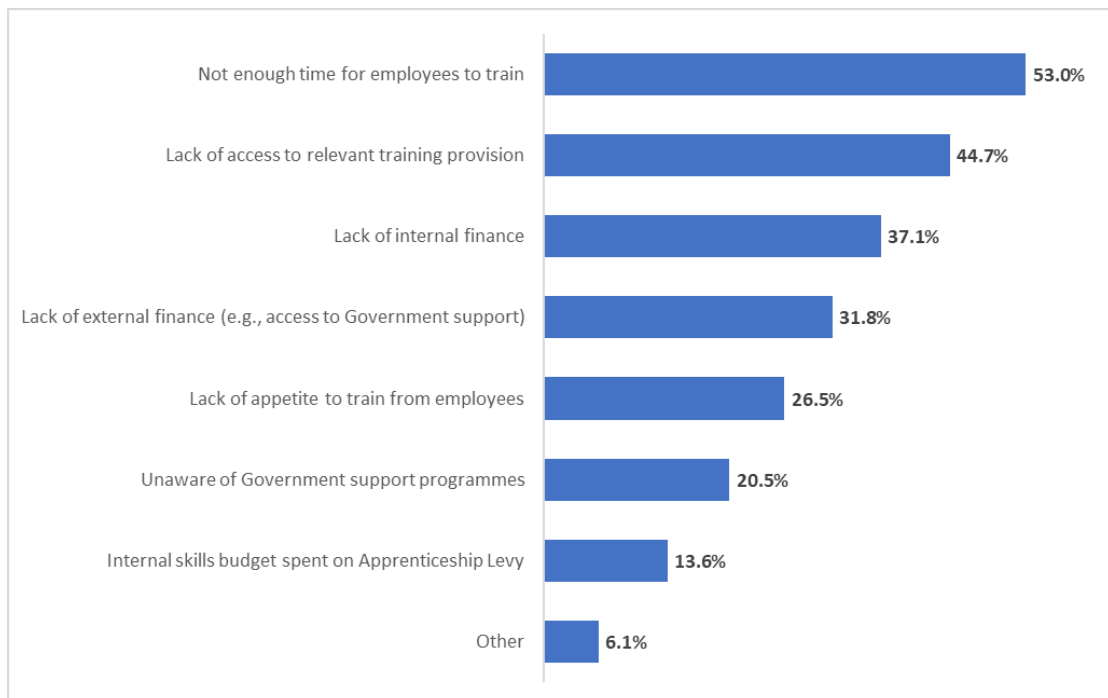
What actions should the Welsh Government take to support development of Wales-based supply chains in green economy sectors?

- 17) Understanding how to incorporate manufacturing supply chains will be important for the transition to a green economy, especially given their role in supplying components and services for clean energy.
- 18) The Welsh manufacturing sector is largely made up of SMEs, and thus, particular attention should be paid to supporting smaller supply chain businesses providing crucial components to larger businesses in sectors such as food and drink, furniture and textiles. These businesses need help to achieve net zero and take advantage of its benefits, including reducing energy usage and costs, cutting emissions and boosting productivity.
- 19) Our findings indicate that SMEs also require a more comprehensive advisory service, offering impartial guidance on decarbonisation, lean manufacturing, skills development, and challenges related to supply chains. The provision of an expanded advisory service has the potential to guide small to medium-sized manufacturing firms in the right direction, fostering their growth and enabling them to scale up their businesses, positively impacting the economy.
- 20) To build more resilient supply chains in Wales, support for Net Zero industrial clusters and the inclusion of SMEs in financial incentive schemes should also be considered a priority. This, alongside continuing to champion Welsh repair and re-use hubs, will be extremely helpful in building more resilient supply chains.
- 21) Moreover, to support Welsh supply chains, more must be done to maximise material efficiency, which will help to improve lead times and make Welsh manufacturers more competitive. For example, in the area of Waste Electronic and Electrical Equipment (WEEE), it has become increasingly important to provide a level playing field for UK-based EEE producers (who are also mostly online sellers).
- 22) With manufacturers facing serious competition from direct-to-consumer sales from the APAC region (e.g. Temu, Ali Express, TikTok Shop, SHEIN), we have recommended the urgent imposition (in 2025) of take-back and market share WEEE duties on online sellers, marketplaces and fulfilment houses, and tightening duties on these sales. Moreover, these companies should be required to fulfil the producer obligations on behalf of their overseas sellers, given the alarmingly high level of WEEE non-compliance of a wide range of products (e.g. power tools, tablet PCs, haircare, LED lamps and vapes).
- 23) Finally, as manufacturers are seeing significant delays and extensions to payment terms, the Welsh Government should make governmental support conditional on beneficiaries adhering to the Prompt Payment Code. This policy has received overwhelming support from members, who feel that at a time when many businesses are struggling regarding cash flow, supply chain companies must be paid promptly.

What skills challenges exist in relation to transitioning to a green economy? What actions should be taken, and by whom, to ensure the skills are there to meet the growing demands of a green economy?

- 24) Recently, we have written an extensive response for the Welsh Government's Net Zero Skills consultation. You can find this in full in our original email, but we have summarised the main issues below.
- 25) The implementation of the proposals set out in 'A Manufacturing Future for Wales' will impact the net zero skills needs in Wales. Analysis by the Green Jobs Taskforce in 2021 estimated that over 1.2 million jobs could be created within the manufacturing and construction sectors in a green economy by 2050, with 59,000 of these based in Wales.

- 26) There are three major subsectors that account for just under half of Wales' manufacturing output: transport equipment, chemicals, and the food and drink subsector. Particularly regarding the latter two, it is clear that waste management will be important when considering cross-cutting circular economy skills. Evidence from our 'Unlocking the skills needed for a digital and green future' report demonstrates that the circular economy will create the most green jobs in Wales by 2030.
- 27) Over 61% of manufacturers are still looking to change their skills strategy to access and develop green skills; however, the same percentage of manufacturers reported that their current workforce is equipped with the skills to manufacture goods and products in a more sustainable way already.
- 28) The key challenges identified for manufacturers in accessing skills were training are detailed in the table below (from our Skills 2030 report).



- 29) As employers invest in new technologies, efforts in adopting energy efficiency and renewable resources are likely to generate skills demand not only in the knowledge of operation but also in the physical production of parts for new machinery. Our research shows that six in ten (59%) manufacturers cite automation as a trend that is changing jobs and skills needs for their business, and half (50%) cite wider digitalisation.
- 30) Across Wales, there is some provision to deliver the necessary net zero skills. The Personal Learning Account (PLA) provides opportunities for development of skills, particularly at Level 3, and we welcome the additional £2mn investment into digital and green skills. Further positives include the current development of the Level 3 Environmental Management qualification, couched within a Level 3 Energy and Carbon Management apprenticeship. However, more must be done to bridge the significant skills gap identified by the Green Jobs Task Force's analysis of proposals set out in 'A Manufacturing Future for Wales'.
- 31) It is important to note that provision for upskilling and retraining, while important, does not alone solve the immediate shortages of net zero and other skills in the workforce or fill current vacancies. Last year, losses arising from a failure to fill vacancies was calculated at £7.7bn-£8.3bn. In 2022, 50% of manufacturers (across the UK) said that they could not access the talent their business

needs locally. These short-term issues present an immediate challenge to the sector that skills training only partly addresses for manufacturers.

- 32) The decision taken by the Welsh Government in the recent draft budget to cut funding for apprenticeships risks undermining efforts to develop the technical skills needed to deliver net zero. For manufacturers, who generally perceive apprenticeships as the best way to recruit and train new workers, a loss of funding presents a significant challenge to bringing Net Zero skills to Wales.
- 33) Alongside this, Wales – in common with other UK nations – still has relatively limited provision for modular upskilling and retraining, and enhancing this should be a policy focus for the Welsh Government moving forward. Cuts to apprenticeship funding will make this more difficult for employers and exacerbates an existing gap in provision.
- 34) Nonetheless, it is important to note that part of improving the skills offer in Wales relies on central government (particularly regarding funding), and also the skills programmes available across the UK. These too require important to change to allow every nation in the UK to reach its net zero skills goals. Currently, 66% of manufacturers do not think there is adequate government support for training.
- 35) Finally, a key challenge in the provision of skills training comes from a shortage of further education teaching staff with up-to-date industry experience. This could be partly addressed by encouraging older employees, who would otherwise be considering retirement or have recently become inactive, to enter the teaching workforce. This will require sufficient flexibility in terms of training requirements and employment status to enable these employees to enter the workforce on a part-time basis to use their industry skills and experience to deliver training.
- 36) With more than half of manufacturers expect between 6% and 20% of their workforce to retire in the next 10 years, government support (from both the Welsh and central government) is crucial to encouraging this transition. Whilst tools like the Midlife MOT are useful, more tangible benefits such as tax relief for occupational health, which will support employers in introducing systems that retain staff for longer, are necessary.
- 37) In short, it is critical that the Welsh Government creates the right framework for manufacturers to secure the talent they need to become more sustainable, and this is only possible by working with industry to improve the skills offer across the sector.

What will workers and employers need for a just transition to a Net Zero economy to be achieved, and what actions should the Welsh Government take to deliver the elements of this that lie within its devolved powers?

How will the Welsh Government need to work in partnership with others to realise the potential of the green economy and deliver a just transition? To what extent is the partnership working that is needed being undertaken?

- 38) In order to ensure a just transition to a Net Zero economy, the Welsh Government should continue to work in partnership with industry as far as is possible. We have already noted several mechanisms to future-proof green manufacturing, such as modular upskilling and improved Grid connections. As a critical sector to Wales' economy, which is facing enormous change over the next decade, it will be important to keep communication open and to invite regular opportunities for reflection on policy implementation.
- 39) For this reason, it is also important to have a long-term strategy for the sector in place. This will generate confidence in manufacturers, and limit uncertainty surrounding potential political 'flip flopping'. To this end, we welcome the 2021 paper: 'A Manufacturing Future for Wales', and its aim to improve business support in particular.

- 40) Finally, for any partnership, or policy delivery, to work, it is important to agree on clear monitoring standards and goals from the outset. Anecdotal evidence from manufacturers suggests that this should be supported by a simple and inexpensive guide for business to move towards Net Zero, created by the Welsh Government, which would go a long way towards helping SMEs in the sector who are overwhelmed with information. Thus, by creating sustainable and attainable targets, Government and industry can work together to move towards a net zero future.

The Welsh Government says it will face considerable budgetary constraints in the short term. How should it prioritise investment to support development of the green economy over the shorter and longer-term? What innovative approaches to financing could be considered to maximise potential investment and benefits?

- 41) In the short term, Welsh manufacturers would most like to see the development of simple and inexpensive guide for business to move towards Net Zero mentioned above. At Make UK, we have already developed a My Net Zero Guide, and would be willing to work in partnership with the Welsh Government to create a more concise and digestible version.
- 42) Furthermore, in the short term, it will be important to reduce labour shortages in manufacturing, which, according to the latest figures, has 68,000 vacancies across the UK. By filling positions which are, for example, featured on the shortage occupation list, the Welsh Government can ensure that future, long-term skills initiatives are successful.
- 43) Make UK has recommended elsewhere the introduction of a green skills tax credit, providing a clear incentive through the tax system for employers and providers to develop the skills needed for net zero. Specifically for apprenticeships, the Welsh Government should explore where targeted financial incentives for green apprenticeships that will support providers to deliver the right apprenticeship training for employers seeking to enhance the green skills in their workforce.
- 44) Finally, in the short-term, the Welsh Government should consider a review of current tax incentives and funding, to see what is available on energy efficiency and decarbonisation to the different business populations. From there, it should consider implementing and raising awareness of effective tax incentives for green manufacturing and encourage the creation of green industrial clusters as part of an innovative approach to financing.
- 45) In the long term, encouraging a modular framework for upskilling, as well as improving digital and green training provision more generally, should be a priority. Creating greater supply chain resilience (using our recommendations above) will also be a long-term project, particularly for the green economy.

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