



Recovery from the Coronavirus pandemic: Indigenous business and low carbon production

Introduction

This paper was written in September 2020. It is one of a series of six briefings commissioned by the Counsel General and Minister for European Transition to inform and challenge the Welsh Government's strategy for reconstruction and recovery from the Coronavirus pandemic.

The briefings focused on topics that were selected by Ministers. They built on [our work to support earlier roundtable discussions convened by the Minister](#) and helped to frame and inform the work of an [Expert Group](#)¹ which met with the Minister between July and September 2020. We wrote up the Group's conclusions which informed Cabinet discussions about the Welsh Government's priorities for tackling the economic and social impact of the pandemic.

This paper focuses on indigenous business and low carbon production.



Key messages

- Both indigenous business growth and inward investment are important strategies that should be pursued in parallel, accompanied by a more strategic use of public procurement to support Welsh suppliers and Welsh job creation.
- By providing incentives to localise supply chains and making them more flexible as part of a long-term strategy, the Welsh Government can support the growth of businesses in Wales and generate a more resilient economy. Business support measures will be integral to supporting entrepreneurs.
- Investment in skills and education, supported by migrant and graduate retention schemes, will assist indigenous businesses and the foundational economy by providing a pool of skilled workers; it will also attract inward investment.
- Collaboration between industry, local communities and research institutes has the potential to boost innovation while

¹ The Expert Group comprised four standing members: Torsten Bell (Chief Executive of the Resolution Foundation), Rebecca Heaton (UK climate change committee), Paul Johnson (Director of the Institute for Fiscal Studies) and Miatta Fahnbulleh (Chief Executive of the New Economics Foundation).

increasing skilled workers and resilience in communities.

- There is an opportunity to encourage a 'green recovery' by identifying parallels between the Coronavirus and climate crises to frame the discourse in a way that reinforces the Government's ambitions for a 'greener' Wales.
- Moving towards low-carbon production will require attention to the location, carbon intensity and wider environmental impact of supply chains.
- The Welsh Government should seek to identify those sectors where regulation would risk off-shoring emissions and work with them to promote the transition to lower carbon approaches using methods such as carbon capture and storage and replacing high-carbon fuels with 'green' hydrogen.
- The Welsh Government's action to address climate change should be explicitly framed in terms of the need to protect those groups that are most vulnerable to its impacts and who are also adversely affected by other forms of social injustice.
- Ministers need to secure public support for policies to decarbonise the economy. The 'social partnership' between trade unions, business groups and government could be used to build consensus for transition measures, as could citizens' assemblies and community-focused projects.

Indigenous business and inward investment

The UK's exit from the European Union and the Coronavirus pandemic have created uncertainty

and destabilised trade and investment in Wales and the rest of the UK. The restructuring required presents an opportunity to create a future Welsh economy that is both resilient and sustainable. The challenge is to focus Welsh Government support on sustainable economic activities which have the potential to secure a more prosperous, fairer, greener Wales for the future. This requires support for indigenous business growth and the foundational economy and inward investment. They are mutually beneficial strategies, not mutually exclusive, and should be pursued in parallel.

Investing in skills and education for future labour markets will not only assist indigenous businesses...but should also help to attract inward investment from firms looking for high-skilled labour

Recent Welsh Government economic strategies have sought to increase resilience and raise productivity, while emphasising the importance of the foundational economy. They have specifically prioritised improving innovation and fair work in the foundational economy and aiming to strengthen indigenous businesses (Waters, 2020). Cutting across this is a continued interest in high-value manufacturing, tradeable services, and 'enablers' of competitiveness (e.g. digital) (Welsh Government, 2017), supported by direct financing through 'Calls to Action'² and setting conditionality for Government support through an 'Economic Contract'³. Alongside these are efforts to build on the successes of waste management and recycling to highlight the

² These are: 'Decarbonisation; Innovation, entrepreneurship and headquarters; Exports and trade; High quality employment, skills development and fair work; R&D, automation, and digitalisation'.

³ This includes: 'Growth potential; Fair work; Promotion of health (including mental health) skills and learning in the workplace; Progressing in reducing carbon footprint.'

potential of the circular economy. Balancing these interests through cohesive policies is a key challenge for the Welsh Government.

Inward investment can provide high quality employment opportunities, boosting deprived areas, particularly where the foundational economy does not currently deliver high quality jobs or fair work. Specifically, incentives to attract inward investment for key sectors, with conditions around procurement and skills development, are important to achieve the aims stated in the Welsh Government's Economic Action Plan. Government support for inward investment should be designed in ways which encourage foreign companies locating here to invest in Welsh supply chains. There are positive examples of this such as Airbus in North Wales: a global company with a substantial network of local suppliers, although it has not escaped the impact of the pandemic with knock-on effects for businesses in its supply chain.

Targeted support for new technologies could open up new pathways and provide new, skilled jobs across the breadth of Wales...[which] could put Wales at the global forefront of decarbonisation

Evidence suggests that Welsh businesses can be supported through procurement strategies and by supporting SMEs to compete for bids by improving information and communication, resulting in local economic and social benefits (Price, 2019; What Works Local Economic Growth, 2020). Manchester City Council created a network of suppliers to understand its supply chain, resulting in a 16% increase in spend with local suppliers over a six year period (Jackson, 2016).

Welsh businesses are characterised by relatively low levels of firm growth and profitability with a preference for favouring stability over growth, which has implications for policy (Heley et al., 2012; Kapitsinis et al., 2019). Despite R&D tax credits being available, uptake of these is low and securing investment in R&D remains a challenge. Increasing awareness of these incentives could encourage companies to take them up.



Evidence from other countries highlights the importance of collaboration between industry, local communities, universities and research institutes in supporting growth in deindustrialised areas and regions. Although progress has been made in building relationships, these networks are still underdeveloped in Wales (Asheim and Grillitsch, 2015; Huggins and Prokop, 2017). Such collaboration has the potential to boost innovation while increasing skilled workers and resilience in communities. Some of the business support measures proposed in our first paper for the Expert Group could support this, including creating innovation clusters across Wales and targeted support to SMEs for entrepreneurship, collaboration and networks (Morgan and Holtham, 2020). A local entrepreneurship strategy that is connected to economic policy and regional investment strategies could be developed. Through supporting networks, and providing location and connectivity incentives, it could encourage small entrepreneurs to relocate to Wales resulting in positive spillovers and shorter supply chains.

Other measures suggested in our first paper that would be beneficial for indigenous business and maximise the value added in Wales include an artificial intelligence institute; a business support system for technology start-ups; a new skills framework; substantially increasing funding to support digital infrastructure, innovation and skills in the foundational economy (Brown, 2019; Huggins 2020); reshaping the role of the Development Bank of Wales to that of a restructuring and regeneration organisation; and supporting innovation in manufacturing processes. Public sector investment decisions that aim to support businesses should be informed by behavioural profiles for the area. Identifying the characteristics of an area will determine whether the investment is likely to be successful, and what support would be beneficial (Huggins, 2020).

To manage risks associated with future crises, parallel supply chains offer a solution to supply chain bottlenecks by building 'surge capacity' because businesses can switch to Welsh suppliers when global supply chains are affected. This could be particularly important for goods where there may be urgent demand (such as medical equipment or critical drugs). Under normal circumstances 20-30% of the supply chain for a product would be in Wales and then in the event of a crisis this would increase to 80-90% (International Trade Committee, 2020; Roscoe, 2020).

Changing supply chains for services as well as manufacturing can, however, be prohibitively expensive. Making changes should therefore be part of a long-term strategy supported by Government. This would help develop the adaptability and innovative capacities of businesses, critical for achieving this vision. The potential policy tools to achieve this could be tax incentives, guarantees, subsidies, and investment in training, alongside developing business networks to address productivity and performance issues (Roscoe, 2020; Morgan and Holtham, 2020). These could be formulated

through consultations with business representatives.

The Coronavirus pandemic and resulting restrictions have led to more people shopping locally, a greater appreciation for green space, and decreased travel emissions as more people work from home

Investing in skills and education for future labour markets will not only assist indigenous businesses and the foundational economy, but should also help to attract inward investment from firms looking for high-skilled labour. While the best incentive for employees to relocate to an area is a thriving economy, migrant and graduate retention schemes, as suggested in our first paper, could be part of the labour market measures to make it more attractive for home and international students to stay in Wales to work.

Global leadership in low-carbon production

Production and decarbonising production

Wales has a high proportion of carbon-intensive and/or high-emissions industries, including steel production, aviation, and automobiles, but also has the potential to become a world leader in decarbonisation⁴. However, moving towards low-carbon manufacturing does not necessarily imply abandoning all support for high-emissions industry in favour of 'greener' industries. There will be continuing demand for carbon-intensive products and, as in the case of steel, Wales may produce to a higher environmental standard than other parts of the world, so closing its

⁴ Previous papers have covered decarbonising housing (paper 2), energy (paper 2) and agriculture (paper 4).

industry might simply offshore emissions (Mahler, 2019).

Some high-emission industries should therefore be retained rather than replaced, while working with them to support decarbonisation. Carbon capture and storage will need to play a significant role in this in the long term (CCC, 2017), and there are initial proposals from HyNet in North Wales that should be supported. Other options may include replacing high-carbon fuels with 'green' (i.e. cleanly produced) hydrogen (Sen, 2020). This has been tested for steel production in Sweden.



This will require significant investment from both government and the private sector in developing processes and technologies designed for Welsh industries, including supporting the work of industry groups such as the South Wales Industrial Cluster. Targeted support for new technologies could open up new pathways and provide new, skilled jobs across the breadth of Wales. These technologies could be some years from maturity but supporting these industries could put Wales at the global forefront of decarbonisation. Wales will need to continue support for low-carbon energy generation, including being open to new nuclear power plants, particularly if the use of hydrogen becomes widespread (Sen, 2020). Deployment of new, UK-based models of Small Modular

(nuclear) Reactors in Trawsfynydd could support resilient, low-carbon energy generation.

Groups most vulnerable to climate change have often been the most adversely affected by the pandemic

As there is scope for hydrogen and energy generation to be based in Wales, this could also support the shortening and reshoring of supply chains where these have a damaging environmental impact, as importing raw materials and fuels from overseas markets can be environmentally damaging even when the process is 'clean' in Wales. This will have benefits for local communities, particularly if there is a greater element of local production or manufacturing throughout industrial supply chains. As discussed above, this will require Government support including investment in training and skills but could provide good jobs across Wales and the UK.

Local supply chains are more likely to be visible and transparent, but businesses could be encouraged or incentivised to promote sustainability in their suppliers – particularly if they are already re-examining supply chains following the pandemic. Government could provide criteria to aid the selection of more local and more sustainable suppliers, possibly based on its own procurement advice.

An opportunity to generate a green recovery

There is an opportunity to use increased public concern about climate change to encourage a 'green recovery'. The Coronavirus pandemic and resulting restrictions have led to more people shopping locally, a greater appreciation for green space, and decreased travel emissions as more people work from home. Some of these changes are being capitalised upon already with the aim of making them

permanent e.g. improved cycleways in Cardiff to encourage active travel. Other 'green recovery' plans could include prioritising access to green spaces within planning approaches, and targeting support for local high streets to create the right mix of retail and services to establish local shopping as the norm.



A number of parallels can be drawn between the current crisis and the risks and challenges that society faces in addressing climate change: the pandemic has highlighted a lack of long-term planning; underscored existing inequalities; and seen public acceptance (for now at least) of large-scale state/public sector intervention. Steps are being taken by the Welsh Government to operationalise the interconnections between environmental, social, cultural and economic goals, such as the following plans that align with the aims of the Well-being of Future Generations (Wales) Act 2015 of delivering a greener, more prosperous and more equal Wales:

- Specific proposals for achieving a 95% reduction in emissions by 2050 detailed in 'Prosperity for All: A Low Carbon Wales' (Welsh Government, 2019);
- Preparation of a 25-year vision for transport in a Wales Transport Strategy (WTS); and
- A commitment to publishing a final plan for eradicating fuel poverty in 2020.

Parallels can also be drawn between climate justice and social justice. Groups most vulnerable to climate change have often been the most adversely affected by the pandemic. In supporting a green recovery, the Welsh Government will need to promote the idea of a 'just transition', i.e. managing decarbonisation in such a way as to mitigate against unjust outcomes and to promote just outcomes (Price, 2019). In this context, calling for action on climate change can be framed in terms of acting to avoid future crises.

For the Welsh Government to successfully frame the 'challenge' in terms of equity and preparedness, broad-based public consent is required to ensure that policy actions will work in the long-term and are accepted by the public (Corner, 2020).

Top-down action by government will not be sufficient. Ministers need to secure public support for decarbonisation. The 'social partnership' between trade unions, business groups and the government could be used to help to secure increased 'buy-in' to transition measures, as could citizens' assemblies and community-focused projects such as Project Skyline, which enabled residents in some South Wales Valleys communities to decide what to do with publicly-owned land. The Welsh Government could also consider devolving powers to communities, recognising that local needs, priorities and opportunities vary across Wales.

Sources

Asheim, B., and Grillistch, M. (2015). **Smart specialisation: sources for new path development in a peripheral manufacturing region**. Papers in Innovation Studies. Retrieved from: https://ideas.repec.org/p/hhs/lucirc/2015_011.html

Brown, P. (2019). **Review of digital innovation: delivering economic transformation for a better future of work.** Retrieved from: <https://gov.wales/review-digital-innovation-final-report>

Committee on Climate Change. (2017). **Building a low-carbon economy in Wales – Setting Welsh carbon targets.** Retrieved from: <https://www.theccc.org.uk/publication/building-low-carbon-economy-wales-setting-welsh-carbon-targets/>

Corner, A. (2020). **Covid, climate change & citizens' assemblies: the critical role of deliberation for planned transitions.** CAST. Retrieved from: <https://cast.ac.uk/covid-climate-change-citizens-assemblies-the-critical-role-of-deliberation-for-planned-transitions/>

Heley, J., Gardner, G., & Watkin, S. (2012). **Cultures of local economy in a Celtic fringe region.** European Urban and Regional Studies, 19(4), 366– 382.

Huggins, R. (2020). **Why economic development needs to get a handle on regional behaviours to maximise its potential.** Business Live Opinion. 18 May. Retrieved from: <https://www.business-live.co.uk/opinion-analysis/economic-development-needs-handle-regional-18271499>

Huggins, R. and Prokop, D. (2017). **Network structure and regional innovation: a study of university-industry ties.** Urban Studies. 54(4): 931-952.

International Trade Committee. (2020). **The COVID-19 pandemic and international trade: First Report of Session 2019–21.** House of Commons 29 July 2020. Retrieved from: <https://publications.parliament.uk/pa/cm5801/cmselect/cmintrade/286/28602.htm>

Jackson, M. (2016). **Creating a good local economy through procurement.** European Regional Development Fund - URBACT. Retrieved from: https://urbact.eu/sites/default/files/pages_de_procure_state_of_the_art.pdf

Kapitsinis, N., Munday, M. and Roberts, A. (2019). **Medium-sized businesses and Welsh business structure.** Economic Intelligence Wales. Retrieved from: <https://developmentbank.wales/sites/default/files/2019-11/EIW%20Quarterly%20Bespoke%20report%20English.pdf>

Mahler, L. (2019). **UK steel industry on the brink.** The Ecologist. Retrieved from: <https://theecologist.org/2019/may/30/uk-steel-industry-brink>

Morgan, K. and Holtham, G. (2020) **Managing Productivity in Welsh Firms: Final Report.** Cardiff Metropolitan University & The Hodge Foundation. Retrieved from: <https://www.welsheconomicchallenge.com/wp-content/uploads/2020/03/Cardiff-Met-Hodge-Final-Report-2020-final.pdf>

Price, J. (2019). **Why a 'Just Transition'? Decarbonisation and economic justice.** Wales Centre for Public Policy. Retrieved from: <https://www.wcpp.org.uk/commentary/why-a-just-transition-decarbonisation-and-economic-justice/>

Roscoe, S. (2020). **The future of UK supply chains in a disrupted world.** LSE Politics and Policy. Retrieved from: <https://blogs.lse.ac.uk/businessreview/2020/05/19/the-future-of-uk-supply-chains-in-a-disrupted-world-brexit-and-covid-19/>

Sen, S. (2020). **Only Connect: Joining Up Wales's Clean Energy Opportunities.** Institute for Welsh Affairs. Retrieved from: <https://www.iwa.wales/agenda/2020/07/only-connect-joining-up-wales-clean-energy-opportunities/>

Welsh Government. (2017). **Prosperity for all: Economic Action Plan.** Retrieved from: <https://gov.wales/sites/default/files/publications/2019-02/prosperity-for-all-economic-action-plan.pdf>

Welsh Government. (2019). **Prosperity for All: A Low Carbon Wales**. Retrieved from: https://gov.wales/sites/default/files/publications/2019-06/low-carbon-delivery-plan_1.pdf

Waters, L. (2020). **It's time to focus on the everyday economy**. Institute for Welsh Affairs. Retrieved from:

<https://www.iwa.wales/agenda/2020/01/its-time-to-focus-on-the-everyday-economy/>

What Works Local Economic Growth. (2020). **Local procurement**. Retrieved from: <https://whatworksgrowth.org/resources/local-procurement-1/>

Author details

Helen Tilley, Craig Johnson, Manon Roberts and Jack Price – Wales Centre for Public Policy

Our work on the Coronavirus pandemic

We have conducted a range of projects to provide policy makers and public services with independent evidence on economic and social recovery from the Coronavirus pandemic. In addition to papers prepared for the Expert Group convened by Welsh Government Ministers, we have led a comprehensive assessment of the evidence on Supporting Public Services for the UK Government's initiative on 'Rebuilding a Resilient Britain' led by

Sir Patrick Vallance; published [the conclusions reached by six expert roundtables](#) on recovery from the pandemic; published an analysis of [responses to the Welsh Government's consultation](#) on 'Our Future Wales'; and produced [a series of blogs](#) on key issues including: [loneliness in the lockdown](#), the [implications for the Welsh economy](#), the [importance of a green stimulus to aid recovery](#), and the [future of health and social care](#).

About the Wales Centre for Public Policy

Here at the Centre, we collaborate with leading policy experts to provide ministers, the civil service and Welsh public services with high quality evidence and independent advice that helps them to improve policy decisions and outcomes.

Funded by the Economic and Social Research Council and Welsh Government, the Centre is

based at Cardiff University and a member of the UK's What Works Network.

For further information contact:

Professor Steve Martin

+44 (0)29 2087 5202

steve.martin@wcpp.org.uk

Wales Centre for Public Policy

Cardiff University, 10/12 Museum Place, Cardiff CF10 3BG



www.wcpp.org.uk



029 2087 5345



info@wcpp.org.uk



@WCfPP

