

RESPONSE TO DETI CONSULTATION
on the
INDEPENDENT REVIEW OF ECONOMIC POLICY

Northern Ireland Manufacturing, the local voice of manufacturing, welcomes the Minister's foresight in driving forward change in this key area. Invest NI has the potential to lever Northern Ireland into a global prominence but its early delivery fell short of this ambition. We would suggest that this is possibly the result of a failure to be clear about Invest NI's purpose and methods, brought about in part, by an excessively constrained framework imposed on Invest NI by others, coupled with limitations in terms of delivery and focus.

While there is much that is good in Professor's Barnett's report there is a danger that it too shies from the fundamental issue that must be confronted: how can the issue of risk be handled within the framework of the public purse? We believe that the essential foundation for increased industrial activity must be a general acceptance that risks must be taken and that on occasion they will not pay off. This will become particularly important in the context of Green Technologies where much of the associated R & D funding will of necessity be spent exploring the many dead ends which are inherent in any new and emerging areas of expertise. Similarly if Invest NI is unable to support 'risky' projects, its role and potential impact, will be strongly curtailed, effectively degrading it to competing to subsidise the 'non-risky' sectors. These by their very nature will exhibit little growth and will not have the returns associated with transformational companies, and hence offer low value added and low wages.

NIM reject the defeatism on manufacturing that has characterised much of the thinking in policy circles and wishes to see it replaced with a clear vision of manufacturing vitality in Northern Ireland in the long term.

A key initial message for the Department, is then to work with the media to reshape attitudes to failure, to see it as an integral part of business reality rather than incompetence on the part of officials. Much of the coverage of Professor Barnett's report itself focused on this aspect, sensationalising findings that were mostly unremarkable, and in doing so suggesting money was wasted. On the contrary we at NIM can see that much support was well directed. Particularly effective was that resource which was directed towards higher value added in manufacturing, supporting advanced manufacturing processes or new product development.

The misplaced emphasis on 'jobs' was however responsible for an overemphasis on call/contact centre projects which represent poor value for money as the activity has low value added and demonstrates at best limited additionality. We will not become a wealthy society by paying others to establish contact centres for us to work in. Service sector jobs in sectors such as financial services or call centres are not durable, in that they can instantly be located elsewhere in the world, and they are particularly susceptible to world economic conditions. We believe that a policy which places an emphasis on competitiveness will

automatically generate jobs as an inevitable side-product. However an emphasis on jobs will blunt the working of the market and lead over time to fewer jobs, each of which will become increasingly difficult to maintain.

We suggest that the foregoing demonstrates, that in considering the effectiveness of any future Invest NI, the key determinants of its success will be the extent to which it identifies appropriate and challenging goals centred on transforming Northern Ireland's economic capabilities and builds a consensus with other stakeholders as to how to deliver those goals. What must be avoided now is a tinkering of mechanisms or a re-naming that fails to address this highest level of strategy.

In this respect we welcome the change in tone that has accompanied the recent appointment of the new Chief Executive. There is a growing sense of engagement and a 'can do' attitude that addresses some of the causes of past weaknesses. We are therefore optimistic that the organisation can be re-focused and deliver for all of Northern Ireland.

In doing so we would suggest that three broad principles be placed at the heart of strategy:

- ❑ The creation of effective partnering, which should be led by Government / Invest NI, and run across not only the 'assisted' part of the private sector but all businesses and other agencies including the Planning Service and economically relevant Departments (DEL, DRD, DSD...) and other bodies (Harbour Commissioners, Carbon Trust...) Examples of the thinking we need to demonstrate can be seen within the UK in the work of the Scottish Executive and the North East Development Agencies and also on the European mainland as at Bremerhaven which are examples of locations being pump-primed as a centres of excellence for the development and exploitation of offshore wind, wave and tidal energy. Particularly relevant is the way funding is through a mix of National, Regional funding, European Regional Funding and private funds. There is huge potential in the local Ports to service wind, wave and tidal installations in the Irish Sea (North and South) as well as further afield. However Northern Ireland is currently not being considered by BERR as one of the planned UK hubs – this core issue must be addressed as a matter of urgency. DETI must take the lead in securing Westminster funding, European money, together with pump prime funding from our own Assembly and putting together a package which is compelling to that private investment which is actively looking for eco friendly opportunities.
- ❑ That support be directed against specific gaps, rather than a generalised incentive to locate or expand, and be judged on the effectiveness with which it addresses those gaps, rather than the immediate or short-term outcome on the businesses that are involved. Thus for example, support should be targeted on a range of issues (many highlighted by Matrix) which are moving from 'blue sky' to 'commercial'. Support here should be assessed by the degree to which the necessary applied research is economical, cost effective and creates clear blue water between the NI companies and their competitors. The 'right' research will still be of value even if there is company failure as new activity will arise from its ashes.
- ❑ As well as research, support should be focused on 'business infrastructure', in its widest sense so that the investment is 'sticky', thus for example supporting bespoke premises (ideally with a significant R&D

These principles should be advanced under a single theme – ‘Sustainable NI’ – with responsibility for the same resting at Director level with Invest NI or Permanent Secretary level within DETI. We must ensure that inward firms are capable of renewing themselves, so that they are in Northern Ireland for the long term, and that local firms are encouraged to be active in the green / eco energy fields, a sector which in Germany alone has grown very significantly since 2000. Strikingly, that increase (i.e. the additional manufacturing centred on green technology in Germany since the Millennium), is no less than TEN times the entire extent of manufacturing in Northern Ireland, showing that manufacturing need not be lost to China and ‘low cost’ producers. Indeed it is being increasingly recognised that importing goods from China is simply exporting our carbon impact, and that it is important to take control back over our impact on the earth.

Northern Ireland is well placed to capture and profit from new developments in both the renewable energy sector and energy efficiency measures in the transmission and distribution of existing energy sources, ranging from updates to the National Grid to electric vehicles. In this regards we must ensure that NI companies are involved at all stages of the development of new technologies in partnership with other key home based resources such as the universities. Opportunities exist at all levels from concept development through to prototype build, component supply, installation, operation, maintenance support and decommissioning

To take the example of the wind industry, which is probably the most mature element, yet still at its early stage of development: This sector has grown at a phenomenal rate with turbines getting bigger by the year. Only a few years ago 500kw machines were thought to be cutting edge. Intermediate machines are now 1.5mw and a larger ones already at 3mw with the development of 5mw well advanced.

At present Ireland has some 805mw of wind power installed and the UK 2,389mw installed. Approximately 50% of these turbines are coming out of manufacturer’s warranty. In terms of maintenance contracts and the supply of aftermarket parts alone, this sector presents major opportunities as existing machines lapse from manufacturer’s warranty

Northern Irelands large engineering, electronic and composite manufacturing base also provide the basic ingredients for the manufacture of large scale turbines, but once again action is required now to create partnerships for turbine manufacture. There is even potential for the precast concrete industry as manufacturers turn to pre-stressed concrete towers instead of steel.

The Carbon Trust forecast that 16,150 NI jobs will be created in the renewable energy sector by 2020 simply to service installations within the Province. However if we can seize the opportunity now and create a reputation for excellence in Northern Ireland to benefit from the many and varied opportunities arising through the renewables supply chain in the coming years, the number of jobs created in NI could potentially be around 33,000; this represents an addition to the economy of c£1billion per annum in terms of GVA.

These jobs will only be created if manufacturing in NI can exploit the supply chain opportunities by exporting its services and products to the UK and EU. Key renewable sectors with the greatest potential are: Offshore wind; Onshore wind;

Tide and wave; Solar thermal; Hydro; Geothermal; Bio-waste; Solid / Bio Mass; Bio gas.

Invest NI must become a “driver for change” ensuring that other Departments prioritise action on key areas to remove the barriers for change, whatever the scale. There are many examples of these ranging from the ongoing dispute as to ownership of the seabed in the Irish Sea, through to Planning, notably policies which restrict test sites for new green technologies. Once again we believe that this will only be achieved if Government take ownership of the issue at a senior level as detailed above.

In arguing for others to change, Invest NI must be itself a visible beacon of change. In particular it must take on a freedom to operate that makes it entrepreneurial and responsive to business needs. Its delegated authority needs to be ramped up, with its success being measured in terms of its impact, and being rewarded with ever increasing freedom.

That in turn requires DETI to be focused on policy, and we welcome the suggestion that the the core economic functions (covering existing DETI and DEL areas of responsibility) should be brought under a single ‘Department of the Economy’. The reduction in the governance overhead in Northern Ireland is necessary and will free up much needed frontline resources but, handled correctly, can also improve service provision, particularly in a case like this where policy needs to be handled on a holistic basis, where the skills agenda feeds into the manufacturing strategy and vice versa.

We welcome too the suggestion that The FM / DFM and the Executive should establish a permanent sub-committee, chaired by the ETI Minister and comprising Ministers from other relevant departments involved in economic development, to priorities action on the Economy.

Our own proposal in our action document – *‘Manufacturing Counts’* - of 2008 was that the ETI Minister would prepare an annual ‘Report on Manufacturing’ for consideration by the whole Assembly, with the Finance Minister providing a companion report on the associated public costs and revenues. Regardless of the exact mechanism we feel it is vital that the economy is put centre stage and that intervention is transparent. We would stress that what is urgent is that the new strategy for the economy is put in place as a prime consideration, as we consistently argue that there is an asymmetry, in that jobs once lost are harder to win back.

The IREP proposed that a small business unit should be created within Invest NI to develop supply chain capabilities throughout the NI business base and also co-ordinate policy when the agreed economic development functions are devolved to local authorities. NIM strongly agrees that many SMEs have had difficulty engaging with Invest NI in the past, illustrating the gap in ‘culture’ between the organisation and small business. We think the way to overcome this is to place the responsibility for support clearly on Invest NI, so that failure to support following an enquiry would be reviewed as to how Invest NI could have performed better, making its processes simpler or itself better understood.

We would however go much further than the IREP in relation to small business which we think was underappreciated in the report. Small business is the nursery for our entrepreneurs, an essential provider of jobs, notably in rural areas, and the backbone of the supply chain and service providers that enable large manufacturing firms to operate. We want to see a redoubling of efforts to reach what the Germans call the ‘Mittlestand’, those small businesses that are mostly

family owned, have established a niche and a reputation over time and which can grow with help to transfer that capability to new markets and new customers.

As noted above we feel that the concept of Invest NI 'clients' is already fading with change at the top and we see this as vital. We need to allow Invest NI to work throughout the entire business base to raise awareness and provide support for businesses undertaking Innovation, R&D and exports.

It is also unarguable that Invest NI should work to significantly reduce, as well as simplify and better communicate, the number of its support programmes.

A change of emphasis so that much assistance delivered via SFA should be redirected between now and 2013 to provide greater levels of support to Innovation and R&D is also required. However, in NIM we believe the threat of termination under State Aid tightening is an argument for increasing support ahead of the cut-off rather than tapering down, which may be an administrative convenience but is not what the economy needs. We believe that acquiescing in this fashion is damaging in the short term. It is also counterproductive to efforts, as the IREP report itself recommends, for a continuation of this freedom to work with growing companies.

In the very short term, while the present credit crunch and trading difficulties continue, Invest NI should restructure its term of assistance to move away from the concept of revenue grants triggered by a turnover target. In the present recession, small and medium sized companies cannot access the capital required to get projects up and running through traditional sources of credit, and consequently cannot meet the revenue targets required to access grant aid. This is leading to stagnation in the economy with few new projects coming on stream. The situation would be much alleviated by the introduction of alternative capital grants for plant and equipment while the present credit situation persists.

We agree with IREP that Invest NI could further reduce its support for company training, but only in those cases where the support has degraded to simply subsidising that which would have occurred anyway in large firms. What NIM wish to see is a concentration of support directed mainly to small firms and to projects with a high innovative content, where retraining is necessary to realise a substantial rise in productivity, and the training provided is tightly focused on that productivity transformation, realising significant and early gains to the firm.

It is however, vital that appropriate support is available through DEL programmes or elsewhere to ensure that we not only maintain our existing skills base, but upskill our workforce if we are to successfully drive the change to a higher value economy. Our universities, schools and colleges also have a major part to play in forming better links with industry to ensure that courses and career paths are tailored to meet the needs of the jobmarket.

Government must also place the competitiveness of the Northern Ireland manufacturing sector at the top of their agenda. Recent energy price increases, industrial rating, increasing water and sewerage charges and the general costs associated with peripherality in Europe, have all eroded our ability to compete not only with our near neighbours in both GB and the Republic of Ireland, but with the rest of Europe, Energy prices more than 50% higher than in the USA will have a major impact on our ability to attract inward investment from that source. Invest NI's efforts will be wasted against the backdrop of a cost heavy local economy.

We have found the suggestions of the EDF helpful, for example, their support this summer for a Rates holiday for manufacturing. We do however concur that the ETI Minister should stand down the Economic Development Forum and establish a small advisory body, comprising expertise on regional economic development (drawn from business and economics) to provide independent advice on the economy.

We attach a copy of our paper, *'Manufacturing Counts'*, as we feel that it will be helpful in answering the question – what needs to change and how? The detailed suggestions therein draw on both global and more local (with both GB and Irish examples being used) best practice. The report has extensive, pragmatic suggestions that range from creating a business park focused on advanced manufacturing to changing school leavers attitudes to manufacturing. We commend the paper to you and are keen to debate its proposals.

In closing NIM wishes to express its appreciation for the work that gone before and also its absolute commitment to making sure that the future work can be more closely aligned to the needs of the Northern Ireland economy as we believe the days of a public sector based dependency, reliant on hand outs from Great Britain, are numbered.

The new INI should be beside the best of private enterprise pushing at the unknown, jointly creating new activity, not subsidising or 'buying' non-commercial activity.

In relation to Invest NI, where there was bureaucracy there needs to be responsiveness, where there was delay there needs to be dynamism and where there was an inability to assess risk there needs to be a more mature attitude generally to taking controlled and measured risks. We concur with the views of IREP, and the current Chairman, Board and senior staff in believing that this is best handled not by removing duties from INI or placing additional controls upon it, but rather by giving Invest NI the operational freedom that its staff seek, and backing it strongly, and wholeheartedly, in the days to come.

We believe Invest NI can remake itself as the champion of NI industry we all wish to see, and that the process is already well underway. We hope that the current Chairman, Board and new Chief Executive will be renewed in their efforts, knowing that manufacturing strongly backs them and the future prosperity of this country hangs on those efforts.