

# **THE NORTH WALES ECONOMY AND OBJECTIVE 1**

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In recent years the Institute of Welsh Affairs has emerged as Wales' leading independent think-tank. The Institute played a leading role in informing and developing Welsh public opinion during the crucial period of devolution of power, and continues to do so. So I am grateful for the opportunity to discuss some of the issues which face Wales and the Welsh Development Agency.

This gathering is one of my first public exposures since taking up the post of Chief Executive of the Agency. I am no stranger to the Agency – having served as a member of the WDA Board for five years and as Deputy Chairman for two of those. But a full-time executive role is very different from acting as a non-executive – so much of my first three weeks in post have been spent listening - meeting our staff in all parts of Wales and looking at first hand at the way we deliver our services.

Listening to the views of the Welsh business community and our partners is every bit as important, because our performance is measured by the success with which we meet their needs. So tonight I want to listen – after I take full advantage of your kind invitation to assess some of the challenges we face and discuss the potential offered by European Structural Funds.

In just a month's time, on the second of January to be precise, the WDA marks its 25<sup>th</sup> year of existence. It has achieved a great deal in those 25 years, although there is much more that remains to be done to help make Wales the prosperous country we all want to see.

Times move on – Welsh business and the WDA operate against the background of a fast-changing global economy in which one international company based in Wales [3M] develops and markets fifty new products a year, and derives thirty per cent of its annual turnover from products which did not exist four years ago. We operate in a new political environment in which the Agency works to a strategy developed by the National Assembly.

To support that strategy my job has to focus a number of key areas – including increasing prosperity across Wales, making the best use of European funding, and building a knowledge-based economy. All of the tasks set for us mean great challenges.

Take the aim of raising our country's Gross Domestic Product per head, currently 82 per cent of the UK average. The objective of the National Assembly set out in [betterwales.com](http://betterwales.com) is to raise Welsh GDP to 90% of the UK average by 2010, and ensuring a better spread of prosperity across all regions.<sup>1</sup>

But it is not enough for us to close the eight per cent gap in the next ten years – because in the meantime the UK economy will have grown still further. We estimate that to achieve the Assembly's target, the Welsh economy as a whole would have to grow by around 4% per cent a year, year after year, or more than 1% per annum more than the UK. A challenging target, by anyone's standards – and it's not the only one.

So given the scale of the challenges, why take on this job? It's not as if I needed the publicity! You probably think I've had more than my fair share in recent times! In fact I took up the post because I am involved. I'm a Welshman. I want to contribute to Wales - Wales has been good to me and I want to put something back.

And also I think the Agency is good, very good. I said that I am very much in listening mode – and I have not come here tonight with any blueprints in my briefcase. But I do have ideas – anyone taking up an exciting post like this is bound to bring with them their own ideas for the way we go about our job.

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<sup>1</sup> [betterwales.com](http://betterwales.com), page 21, clause 8, National Assembly for Wales, March 2000

I want to see the Agency meeting the challenges of the new century by focusing on three key concepts, my three 'C's': customer focus, clarity and creating the future.

First I believe we have to be customer focused – we have to deliver what business needs, in every part of Wales. Our programmes must work for business – we have to be judged by 'outputs', by results. It is no good being really expert at delivering a certain sort of product or service if that's not what business requires.

And it's in the nature of the modern globalised economy that things change fast – just look at the ups and downs of the world market for semi-conductors if you want an example. If we want to help technology based businesses, we have to be as fleet of foot as they are, and constantly monitor and assess the services we provide.

Secondly, clarity is vital. We need to be clear about what we're doing, and who does what. We need clarity of strategy - to work out our agreed strategy, and then get on with it. When I say 'we' I mean all of us, private and public sectors - Team Wales, led by the Assembly.

The Agency has a responsibility to assist the National Assembly to work towards that strategy via documents such as [betterwales.com](http://betterwales.com), and business of course contributes to that process through the Business Partnership Council. But once the strategy is agreed, we must get all our partners signed up and move ahead. There has got to be clarity of role – what functions are carried out nationally at an all-Wales level and which are carried out locally.

Now one guaranteed piping hot potato in any discussion about economic policy in Wales concerns the topic of inward investment vis-à-vis indigenous businesses. I'm not in the least fazed by that debate, quite the contrary. It's only fair that we should discuss policy issues that involve large sums of public money.

There is a consensus that there must be stronger focus on encouraging new businesses and helping them grow. But I do want to see a rational debate.

So I would like to speak plainly – because in the past I think that sometimes the WDA allowed its critics to have a field day. With the result that the debate has not focused on the really important issues. One example - we have faced a barrage of criticism that we didn't do enough to help new businesses. Some of that criticism, I am afraid, has been wide of the mark.

The fact is that back in 1991, the Government of the day, for whatever reason transferred responsibility for business start-ups to the TECs. That meant the end of the Small Firms Service, managed by the WDA on behalf of the Department of Employment. The Agency's Enterprise Support Function ceased in January 1994, and the management was stood down. The Secretary of State for Wales, then the Right Honourable John Redwood, transferred loan schemes for small firms and community enterprises from the WDA to the local authorities later the same year.<sup>2</sup> In effect, as far as micro-businesses were concerned, the Agency was told, in no uncertain terms, to keep its nose out.

I dredge up that bit of ancient history only to show that some at least of the slings and arrows hurled in the direction of the WDA might better have been directed elsewhere. Now of course the pendulum has swung again. Two years ago the Agency was asked to take on new responsibilities in the field of enterprise. WDA staff have supported a private sector led group in producing the *Entrepreneurship Action Plan for Wales*.<sup>3</sup>

This is a programme aimed at increasing the level of business start-ups and increasing the rate of SME survival and growth. The overall package has been endorsed by the National Assembly's Economic Development Committee. Next April we inherit the enterprise functions of the TECs – so the WDA will be even more involved in promoting business, and in North Wales we are working closely with Celtec to ensure a seamless transfer of services and protect clients from any disruption.

So the brief given to us by the Welsh Government is to ensure greater support for the home-grown business sector, and this is a process already well under way.

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<sup>2</sup> Transfer of the Mid Wales Development Grant, DRIVE, Rural Conversion Grant and Community Enterprise to local authorities announced to the House of Commons, 7 July 1994

<sup>3</sup> Professor Dylan Jones-Evans is a member of the EAP Steering Group

WDA spending on Business Development went up by over 70 per cent to £24.3 million in the last financial year<sup>4</sup> – and most of that spending is devoted to what has traditionally been called indigenous businesses.

The future of successful business support will depend on effective partnership across the region. Increasingly the WDA will adopt a strategic and policy role, and will rely on partners in the public (and private) sectors for delivery. One example of this new emphasis in North Wales is the Small Towns & Villages Initiative - an integrated community economic and environmental development package aimed at targeted small towns and villages in rural Wales.

Working alongside our local authority partners, communities are being encouraged to develop local "business plans" and a public/private sector partnership then implements action points. So the Agency is moving back to an increasingly proactive role in promoting business – a role which had been reduced by Government in the early 90s. In preparation for this renewed emphasis we have announced our intention to form a Small Business Division to spearhead our services for SMEs.

Increased support for small and medium sized enterprises doesn't mean we stop marketing Wales as Europe's best location for companies from other parts of the world. Life is never a question of 'either-or' – there is always a balance to be struck. And that balance has to take account of the contribution that overseas-owned companies make to the Welsh economy.

A recent review of business services estimated that foreign direct investment has contributed some five thousand new jobs per annum in recent years.<sup>5</sup> Companies like Ford for example have been major players in the Welsh economy for decades – Ford has reinvested time after time in their Welsh plants.

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<sup>4</sup> From £14.1 million to £24.3 million, an increase of 72.3%. The comparable figures for the International Division were £4.5m and £4.1m, a decrease of 8.9%; and Property £74.9m and £65.0m, a decrease of 13.2%. Source: Welsh Development Agency Annual Report 1999-2000, page 17

So perhaps I could venture a suggestion. Given the complexity of ownership of major companies, perhaps it is now time for us to stop thinking in terms of inward investing and indigenous companies. Perhaps it would more meaningful to talk about 'businesses in Wales'.

I know we were all disappointed at the job losses announced by some of our major investors in recent months. But that doesn't mean we should ignore the huge contribution made by companies like Toyota over recent years. Toyota for example has a total investment of over 300 million pounds in its Deeside plant which by January 2003 will employ 500 people – as well as its substantial spending on orders from Welsh-based suppliers in the automotive components sector.

And besides that direct contribution, there are benefits such as trade links, the transfer of technology, and co-operation between major companies and our Universities and colleges. It would be most unwise for us to ignore those realities, and throw away the precious networks we have built up since 1983 when the WDA took over responsibility for inward investment.

The Agency is already seeking to attract appropriate projects for areas such as north and west Wales. We are very much aware of the need for more sites and premises for Inward Investment and indigenous companies in North Wales, especially in such areas as Ynys Môn.

So to the third point tonight – creating the future. You may think that's a bit ambitious. Shaping the future economy is something way beyond the power of any single agency. It is only by working together, in support of an agreed programme that we can have any effect.

For our part, the Agency is committed to placing greater emphasis on quality jobs – quality rather than quantity, where difficult choices about scarce resources have to be

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<sup>5</sup> National Assembly for Wales Economic Development Committee, Review of Business Support and Development Services (the Driscoll Report) (Draft for Discussion), November 2000, Executive Summary Clause 11

made – although of course we need a wide variety of jobs for a wide variety of people.

We have sought to work with business in facing up to the rapid changes in the global economy, by promoting innovation through the Wales Regional Technology Plan. This has involved a wide range of activities, including identifying 36 centres of excellence in Wales which can assist businesses in finding the answer to their latest technological problem.

The aim of such measures is to support companies in meeting the challenge of innovation. Building a knowledge economy, adding value by applying ideas and information, has got to be one of the priorities of any development agency.

Already, employment in knowledge-based activities accounts for one in four new jobs in Europe, and it is predicted that ‘knowledge’ workers will form the majority of the labour force of the United Kingdom in the 21<sup>st</sup> century.<sup>6</sup> Businesses that want to survive and thrive in this globalised 21st century have to embrace new technology and ensure that it works to their advantage – or run the risk of being pushed to one side.

Our future work in this field will focus closely on the need for an integrated approach in three key areas:

- Increasing Research and Development activities;
- Establishing a network of innovation centres; and
- Developing an integrated cluster strategy.

One example of this promotion of cluster activity is the development of a North Wales software sector, which promotes both indigenous growth and inward investment. Software companies have a strong propensity to cluster, to gather together – get one or two, and you have a better chance of attracting another.

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<sup>6</sup> Source: Objective 1 Regional Partnership, ‘The Information Society’, Regional Action Plan Priority 2 Measure 2: To Stimulate and Support Demand for ICT (ERDF) (Draft, 21 July 2000)

They are susceptible to ‘catalyst initiatives’, such as the installation of broadband intercoms. Above all, they must have access to a local skill and technical base, which underlines the vital role of education and skills development in ensuring a high value added economy.

The arrival in Caernarfon earlier this year of the software development house Wolfe Data<sup>7</sup> is an example of exactly the sort of investment we wish to promote in this part of Wales. This company is training young people straight from school, increasing the capability of the region to support yet more software developer investment.

Ireland has shown how appropriate training can assist the attraction of new industries, and Welsh Universities are proving powerful magnets for innovative businesses. I am delighted that the University at Bangor is co-operating in the development of a software cluster, and in support of this objective the WDA has worked actively to support the establishment of a Chair in Computer Science at the University of Wales, Bangor.

The Agency also plans to provide support in such fields as the promotion of digital media, and building on our existing strong conventional broadcast industry and digital media enterprises. This will close the “digital divide” between Wales and many other parts of the UK, which we regard as a most urgent task.

Another key cluster activity in North Wales involves the Optronics sector – one of the jewels in the crown of the Welsh economy. North Wales is already home to many companies working within this sector - companies such as Deeside Optical Fibres manufacturing fibre world-wide, and Pilkington Optronics designing and manufacturing equipment such as night vision displays for both civil and defence markets.

Using Objective 1 funds a public/private/academia partnership will create OpTIC, an Optronics Technology and Incubator Centre in North Wales. OpTIC will provide a technology centre, incubator facilities and a dedicated business support unit. The

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<sup>7</sup> Creating 15 jobs; Source: Tim Raby, WDA

project is designed to create an engine for the growth and long term sustainability of the opto-electronics industry in Wales.

It will provide a focus for both new companies and inward investment, raising the profile of the country in this important sector.

Time prevents me from looking in any detail a number of other vital roles the Agency plays. One is land reclamation – the overall programme taken over by the WDA in 1976 has cleared a total of 1200 sites, about the size of 7,000 rugby pitches. Large, complex, contaminated sites can sometimes take years of negotiation to resolve.

The recent announcement that we have finally secured a partnership mechanism to reclaim the former steelworks at Brymbo, near Wrexham, is a case in point. The area can now look forward to a major improvement to its environment, coupled with land for housing, industry and leisure uses.<sup>8</sup>

Another key role is assisting urban and rural regeneration, in centres all over North Wales, from Wrexham to Caernarfon.

I would however like to mention the Small Towns and Villages Initiative. This Initiative is an innovative way of providing an integrated delivery of our services into rural areas such as the Conwy Valley.<sup>9</sup> It combines community economic regeneration with business development and capital programmes. This year's pilot stage is a partnership with the local authority and Business Connect providers, but particularly focuses on our business clients, helping them shape a strategy for the development of their area while at the same time providing a range of grants and support which have previously been lacking in rural areas. The overall pilot projects across North Wales are now being evaluated with the aim of making them more widely available next year to the rest of Wales.

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<sup>8</sup> The private sector is bearing a significant part of the costs; the Agency is funding an estimated £8.5 million for Wrexham County Borough Council's part of the site.

<sup>9</sup> In Llanrwst, Dolgarrog and Trefriw

The Agency is also involved in work with businesses in the environmental sector, through the 'Environmental Goods and Services Programme'. This initiative seeks to help new and existing companies to exploit the growing global market in this area. I am pleased to be able to tell you that, following a successful two-year pilot project, additional funding has recently been allocated by both the Agency and the National Assembly to roll out the programme on an all-Wales basis, to companies of all sizes within the environmental sector.

I hope that these ideas - customer focus, clarity and creating the future - will help make a difference by building on the work already under way. And in working for greater prosperity in north and west Wales we have the seven-year window of opportunity opened up by the prospects of European Structural Funds.

This additional funding will help make a step change in the economy. But making the best use of European funding involves yet more challenges. First of all is the challenge of living up to the expectations raised about Objective One.

European structural funding is not intended to be a major grants scheme for the private sector - that is the role of Regional Selective Assistance. Rather, as the name suggests, it aims at ensuring structural change - to lay the foundations for greater prosperity. If it is to succeed, the Private Sector must be very much involved - but there are quite stringent rules about individual companies being the sole beneficiary, and information about how to participate has not yet been issued.

Whatever the final shape of the various European partnerships, the WDA will be closely involved and rightly so. For the WDA is the main economic development agency of the National Assembly, the deliverer of the Assembly's vision for Wales, and the Priorities of the Structural Fund Programmes fit closely the strategic objectives of our own Corporate Plan.

Objective 1 of course is the major European Structural Fund programme in North Wales, covering the counties of Anglesey, Gwynedd, Conwy and Denbighshire. About 20 per cent of the population in the Objective 1 area of West Wales and the Valleys is located in North West Wales.

Objective 1 is not the full European funding story in North Wales but I will focus on it for the next few minutes. Looking at Wales as a whole, I think it is fair to say that the process of getting Objective 1 up and running is capable of some improvement – I am being really polite tonight!

But the partnerships responsible for delivery of Objective One are now being reorganised to simplify the process and to correspond with the six main Priority headings, and I hope that will produce greater momentum. In North West Wales, as many of you will know, there has been great co-operation and effective working between the Objective 1 partners, in particular County Local Action Plan Partnerships have been working tirelessly on developing their Action Plans

Over the past 18 months partners have been working together at sub-regional and local level to consider how Objective 1 can be used as a single instrument to improve the economy as well as preparing and developing projects.

Earlier this year the WDA, with support from its partners, commissioned a piece of work to develop a North West Wales Economic Strategy. This was undertaken by a team led by Professor Dylan Jones Evans and launched earlier this year. The Strategy provides a useful framework of economic priorities for the sub-region.

Local Action Plan Partnerships have worked on developing Local Plans. These Plans, which are closely linked to the proposed Priority Action Plans, provide the key to the successful development and implementation of the programme, and it is good to see this work beginning to bear fruit, with projects finally coming through for approval.

One example is the North West Wales Employment Zone Intermediary project, which is attracting £6 million pounds' worth of European funding for an £11 million pounds project designed to draw economically inactive people back into the workforce.

The local Objective 1 Partnerships and the North West Wales Strategy Group have an important part to play in maximising the benefit of European funding, with the Strategy Group having the key role of ensuring effective co-ordination of activity at a

sub-regional level. So I wish to congratulate all the Objective 1 partners for their work in developing projects in the area. Your work is a model for the rest of the Objective 1 area in Wales.

Important as it is however, Objective 1 is not the whole story. In North East Wales, the counties of Wrexham and Flintshire are eligible for Objective 3 European Social Funds, while a small part of the old Objective 5b area in rural Wrexham will receive 'transitional funding'. Objective Three funds will be important for communities and businesses in these counties as their industrial profile changes and develops. A lot of hard work has been already taken place in both Local Partnerships on the preparation of their Plans to deliver the Objective Three programme in North East Wales.

The task of making the European Funds work for Wales is only just beginning, and my message to all our partners and especially the private sector is – stay engaged in this process. Help us concentrate on creating the sort of innovative projects that can really make a difference and begin to increase prosperity. Because it is business that generates prosperity. It is business that will close the GDP gap - not the National Assembly, not the European Commission, not even the WDA!

What we can do is help you to do it. The only promise I am making tonight is to work harder than ever with our business community to secure a prosperous 21<sup>st</sup> century Wales.