Why the UK Government reshuffle matters for compound semiconductor manufacturers

Howard Rupprecht, managing director of CSconnected, on what July's UK Cabinet reshuffle means for compound semiconductor manufacturers across the UK and beyond, and why South Wales is a central global asset to UK sovereign capability in this critical sector.

This July, as the UK welcomed Andy Burnham as Prime Minister, the Department for Science, Innovation and Technology folded and a new Department for Business, Innovation, Science and Trade (DBIST) was created. At the same time, Kanishka Narayan MP was elevated to Cabinet as Minister of State for Artificial Intelligence, jointly in the Cabinet Office and DBIST.

This is a clear signal of the importance the Burnham administration is placing on AI. Narayan now sits in the room where spending decisions get made and, as co-chair of the UK Semiconductor Advisory Panel, alongside South Wales compound semiconductor cluster members IQE and KLA, the government now has a more direct line into the sector than ever.

Why this matters to compound semiconductor manufacturing

The industry has for many years welcomed the direction of travel from the UK Government: more ministerial attention, a named Semiconductor Advisory Panel, growing recognition that this is a strategic sector rather than a niche one. Here at CSconnected, as convenor of the South Wales compound semiconductor cluster, we've welcomed a steady flow of Westminster figures to roundtables and fab tours. Our aim has always been to facilitate discussions around public funding and policy by highlighting activities that reflect the interest of the UK in growing our sovereign semiconductor capability, while demonstrating the value of an end-to-end supply chain cluster within it. While I welcome the news of Narayan moving into the Cabinet, I'm eager for confirmation that semiconductors will continue to sit with him or indeed which other minister will take over.

Compound semiconductor manufacturing runs on long cycles. A decision to expand epitaxy capacity, bring on a new process tool, or commit to a multi-year skills program is made against an assumption of who in government you can go to, what they can unlock, and how long that will stay true. When that assumption is unclear, investment decisions can stall. And that's a cost that could put UK competitiveness at risk at a time when the global semiconductor market is racing towards a value of $1.5–2 trillion by 2030.

Why all eyes will be on the UK Semiconductor Panel

While the question of formal departmental ownership is yet to be confirmed, the UK Semiconductor Advisory Panel is the functioning link between industry and the people who make spending decisions, with Narayan co-chairing it from inside Cabinet, and IQE's Jutta Meier and KLA's Andrew Evans sitting on the panel. For manufacturers, I'd recommend engaging with the Panel now. While semiconductors underpin more technology than just AI, having a minister who understands the technology at a Cabinet table should raise the attention that the Panel's recommendations get across government, rather than in just one department's budget.

What does the £1.1bn AI Hardware Plan mean for semiconductor manufacturers?

When the £1.1bn AI Hardware Plan was announced in June, most of the coverage focused on what it does for AI chip and inference startups: a £150m advance commitment, with the Government acting as first customer to buy British-made inference chips this summer rather than waiting for the market to mature around them. That's a genuinely useful piece of industrial policy, and it's had the attention that it deserves.

What has had less attention is what a demand signal like that does further down the value chain, at the materials and equipment layer that inference chips depend on. Every inference chip built in Britain needs epitaxial materials, substrates, and process and

packaging equipment behind it — exactly the capability that the South Wales cluster has spent a decade building.

When Government commits to buying finished British hardware, it's also backing the supply chain that makes that hardware possible. The practical question for semiconductor manufacturers is not whether they qualify for the £150m directly; it's whether procurement policy going forward recognises that this approach only works if the materials and equipment going into British chip manufacturing are also British, or at least reliably sourced from businesses operating in Britain. A chip strategy that secures the top of the stack while leaving the base exposed to global supply shocks risks further problems in the future.

Why policy must now back what is already working

Over the past year to 18 months, two global companies have independently backed South Wales with real capital: KLA opened a $138m facility in Newport in May 2025, expanding process equipment capability directly tied to AI-driven chip demand, and Vishay committed £250m to its Newport Wafer Fab for silicon carbide production, doubling its workforce with 500 new jobs. That's on top of IQE's own continued scale-up of indium phosphide (InP) and photonics manufacturing at a site just a few miles away. Three independent capital decisions from different global businesses in the same postcode inside 18 months feels like a real signal in the market.

Our ask to the UK Government now is to compound that signal. The single highest-value thing it can do is to distribute capital where we know inward investment will follow. The case studies above evidence exactly that. I would like to see Burnham's administration prioritize converting the capital from previous announcements or extending the Good Growth Fund into the cluster to build on the successes from the past ten years.

Zoom out from the UK, and the same argument is relevant. Demand for indium phosphide, the material behind the optical components used in AI-driven data-center interconnects, is accelerating faster than global supply can comfortably meet. IQE's own public statements this year have linked its growth directly to that trend, citing accelerating demand for InP solutions driven by their role in optical photonics for data centers and AI infrastructure, with that growth scaling through its Newport manufacturing base.

This is what makes the UK Government changes a global story, playing out against a backdrop where supply security is increasingly geopolitical rather than purely commercial. China's export licensing controls on indium-bearing materials have already constrained supply for manufacturers dependent on Chinese-sourced inputs, a live example of how quickly a fast-growing market can be disrupted by decisions made outside it entirely. For a UK Government thinking about resilience as well as growth, building domestic capacity will improve global trade alongside national sovereignty. Even now in the South Wales cluster, we delivered £480m in exports in 2025, with over 90% of industrial output sold internationally.

This is what makes the case for backing established capacity over funding something new so significant. The South Wales cluster is already growing, already exporting, and already attracting capital that could have expanded anywhere in the world, choosing Newport. Government support that is aimed at the capacity already meeting global demand reaches the market faster than support aimed at capability that is yet to be built, at a moment when speed is key to remaining globally competitive.

The South Wales cluster is a highly evidenced example of what a functioning international cluster should look like. Established manufacturing capability, multiple independent investors backing the same location, and a growing share of a market that isn't waiting for anyone's industrial strategy to catch up.

Time is of the essence

Semiconductors have never just been about AI, although they are a fundamental piece of that story. They underpin defence, automotive, clean energy and telecoms as much as they do data-center infrastructure.

As the foundational technology behind many of the industrial sectors recognised by the government, our ask is simple. Back capital into what is working, extend the mechanisms that already exist rather than designing new ones, and let skills and export support do what they're meant to: turn capacity into growth. Germany, the EU and the USA are not pausing to watch how the new government settles, and manufacturers here in Wales haven't paused either. ■

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CSconnected and the South Wales compound semiconductor cluster

CSconnected is the not-for-profit convenor of the South Wales compound semiconductor cluster. Optimizing a quadruple helix of industry, academia, government and community, it promotes the cluster to customers, investors, and government stakeholders, developing the talent pipeline, facilitating public investment and policy engagement, and driving the growth of the local supply chain through its Supply Chain Development Programme. It does not do this alone. Its strength lies in the collective, in the partnership of organizations that together make the cluster the most strategically significant industrial asset that the UK has in this advanced technology race .