

MINUTES

Date 22 May 2002
Time 2.00 – 5.30pm
Venue Committee Room 1, National Assembly for Wales, Cardiff Bay

Attendance

Members

Chris Chapman
Andrew Davies (Minister for Economic
Development)
Ron Davies
Mike German
Chris Gwyther (Chair)
Alison Halford
Elin Jones
Dafydd Wigley
Phil Williams

Constituency

Cynon Valley
Swansea West

Caerphilly
South Wales East
Carmarthen, West and South Pembrokeshire
Delyn
Ceredigion
Caernarfon
South Wales East

Officials

David Pritchard Director, Economic Development Department
Emyr Roberts` Economic Policy Division
Caroline Turner WEFO
Steve Marshall Statistics Directorate
Mike Phelps EcAD
David Hobbs ICM
Mike Clancy ICM

In Attendance

Graham Meeks Combined Heat and Power Association
Ann Gardiner Future Energy Solutions
Jon Westlake Forestry Commission
Simon Hewitt Forestry Commission
Rob Osborne Pren Cymru
John Worthington Pren Cymru

Mike Marchant

Pren Cymru

Secretariat

John Grimes
Sian Wilkins

Clerk
Deputy Clerk

Item 1: Chair's opening remarks.

1. Declarations of interest were made by Christine Gwyther whose partner has a small consultancy business and Dafydd Wigley who is a director of a small company.
2. Apologies were received from Alun Cairns and David Davies.

Item 2: Energy Review – Combined Heat and Power

1. Introducing his paper, Graham Meeks referred to the key issues identified: the efficiency of CHP and its associated environmental and social benefits; the local nature of the benefits it provides; the critical nature of planning and other regulatory systems; and the major contribution it makes to limiting emissions of greenhouse gases and carbon abatement.
2. Anne Gardiner outlined the Government's targets for provision of CHP and the measures to support this. She highlighted the fact that Wales had roughly 3% of UK capacity – significantly less than its proportionate share.
3. In the discussion a number of points were made:
4. CHP plants came in a wide range of sizes and there were smaller ones suitable for location within rural areas. However, for most small systems the preferred fuel was natural gas and its availability was a constraint on development in certain areas of Wales. However, other fuels such as biomass, coalmine methane or methane derived from natural slurry could be used in appropriate circumstances.
5. Wales' low number of CHP plants, relatively to the UK, partly reflected fewer opportunities such as a smaller hospitals than in other parts of the UK, but also the lack of availability of natural gas in certain parts of the country.
6. Building Regulations did not provide any direct incentive for the installation of CHP systems as such but did nonetheless provide the flexibility for such systems to be used to meet overall standards.
7. Graham Meeks said that he would be happy to provide details of their members in Wales [**Action: G Meeks**].
8. Members commented on an apparent anomaly which meant that proposals in excess of 10 MW CHP required the approval of the DTI, when for wind farms the

Assembly was authorised to approve projects up to 50MW. Officials agreed to check this and clarify the reasons. **[Action: ED Minister]**

9. The New Electricity Trading Arrangements (NETA) were a major obstacle to the development of CHP because they had the affect of lowering electricity prices and penalising intermittent suppliers. This significantly reduced the benefit of CHP systems. The overall market structure in this sector was problematic and low prices, and the consequent increased risk, had led to a severe brake on investment. Reference was made to the Ofgem report: *'Report to the DTI on the Review of the Initial Impact of NETA on Smaller Generators'* (the Smaller Generators Report) and the Chair said that copies of this would be made available to Members.
10. A micro CHP system installed in a house would cost around £600 more than an equivalent domestic boiler and this difference would fall to around £400 if it went into mass production. Such an installation could lead to benefits of around £150-200 per annum thereby achieving a very rapid pay back of the investment.
11. Local Authorities had reported poor savings from CHP systems and there were a number of possible factors for this. First, the earlier systems were less efficient than those currently available and some Local Authorities had these. There could also be difficulties with CHP in schools because they were in use for only about 8 hours on weekdays. These problems could be overcome by 'energy linking' facilities such as schools and hospitals and residential developments in order to spread out these 'peaks' of activity and thus provide in aggregate a larger but less variable load.
12. The cost of pipelines was critical to the distance which heat output could be transferred. However, this varied significantly depending on the location and the terrain. It was also necessary to ensure very high quality insulation if this were to cover long distances. Graham Meeks said he would provide some figures on the range of costs. **[Action: Graham Meeks.]**

Item 3: Forestry Commission/Pren Cymru

1. Simon Hewitt explained the major impact that the loss of UPM at Shotton as a customer would have on the timber industry in Wales. Whilst it had an adverse effect on the Forestry Commissions budget they saw it as an opportunity to develop new markets especially in the area of providing renewable fuels.
2. Jon Westlake outlined the number of jobs in Wales created by the industry and said that most of the people working in forestry were from an agricultural background. He highlighted the recent downturn in the timber market and said if it did not recover then it would become increasingly difficult to manage woodlands. There was currently no alternative market for the wood chip that previously had gone to Shotton. He felt there was a role for the timber industry in renewables generation and that they would be able to provide a guarantee of a base-load supply.

3. He explained that the timber economy was fragile largely due to the eastern European market opening up and that credit should be given to the large number of users in the UK who choose to use home-grown timber.
4. Rob Osborne explained that Pren Cymru had been set up recently and they were currently looking at the scope to increase the use of Welsh timber in construction. Wales benefited very little from the construction industry and almost all of the timber used for this in Wales was imported. He explained that their approach was to address the needs of the market, which was moving increasingly towards pre-modularisation, and to an increase in timber-framed construction. He suggested that it could be argued that in order to satisfy 'best value' in public procurement Welsh timber should always be the first option.
5. In discussion members asked if the characteristics of Welsh timber made it less suitable for current construction methods. Pren Cymru said that whilst Welsh timber was different in character to that from Scandinavia, for example, there were current research projects in existence to develop modules that took that into account.
6. A member offered an alternative view of the industry, highlighting that it could be seen as heavily subsidised, ecologically damaging and with no obviously viable market. The Forestry Commission said they acknowledged that the strategic drivers for the industry had changed and that many of the purposes for the timber had disappeared, quoting the need for props in mining as one example. They explained that we had the natural resource and that it had to be managed. There was a conversion process in hand to move from softwood to hardwood but that was a very long process. It was also noted that timber imports were not normally from a sustainable source.
7. Some members identified the important part the industry plays in economic activity and that it can employ a greater number of people per unit of area than can agriculture.
8. The Forestry Commission explained that 40% of each log processed ends up as chip and that both this waste and the logs would be suitable as a renewable fuel. The availability of the existing infrastructure for delivery was also noted. If a use was not found for the waste that currently does not have a market then the alternative would be for it to be placed in landfill sites as early as 2003.
9. The importance of a renewable energy strategy and clear planning guidelines through a spatial plan and Technical Advice Notes was considered crucial to the successful diversion of timber waste to this sector.
10. Members considered that the discussion had raised many issues and they asked the Minister to consider presenting a further paper with the Minister for Agriculture on how the ideas discussed could be taken forward. **[Action: ED Minister]**
11. Members felt it important that the use of woodchip as a renewable source of energy should also be included in the Committee's review.
12. The Forestry Commission raised the issue of contracts for motorway fencing explaining that the regulations needed to be looked at so that spruce could be

used.

13. The Chair said that she would write to the Minister for Local Government, Housing and Finance about the issues raised and asked that Pren Cymru and the Forestry Commission contact the Clerk to the Committee with further details of the specific issues. **[Action: Chair/Clerk]**

Item 4: Minister for Economic Development's report

1. The Minister provided a brief oral update which is attached to his written report.
2. As members had only received the WAC report on Objective 1 that morning the Chair agreed to schedule a discussion on it at EDC on 12 June. **[Action: Clerk]**
3. A member highlighted the need for the government to have plans in place to support the remaining coal industry in Wales once the existing State Aid arrangements end in July 2002. The Minister confirmed that he had made strong representation to the DTI.
4. The Minister agreed to give further consideration to a request to provide figures on RSA and AIG in a form which identified companies which could be regarded as indigenous to Wales. The Chair also asked that when AIG figures were provided they included a geographical split. **[Action: ED Minister]**
5. Whilst noting that the Chair had agreed to have a discussion on the WAC Objective 1 report at a later date a member commented that due to the delays in programme expenditure so far, the level of public sector match funding required for the remainder of the programmes would need to be considerably higher than was planned. If this match funding were not available the Assembly would fail to utilise the full resources available from the Structural Funds.
6. Members were pleased to see the good start made in the Interreg IIIA programme but were concerned that the programme would be oversubscribed. They were also concerned that the response for some measures such as Rural Development and Culture, Heritage and Tourism had been disappointing. Officials confirmed that the £12m mentioned in the Minister's report related to applications and these had not been assessed yet. They also said that some of the measures quoted by members were new since they had not been included in the Interreg II programme and that it would take time for the partnerships to be established and projects prepared. Members asked about the geographical split of applications and WEFO agreed to provide further detail to members. **[Action: WEFO]**
7. A member commented on the fundamental way in which public finance was allocated to Wales and the effects that this had on economic development. It was claimed that the current allocation did not acknowledge that Wales' relative share of GDP had fallen since the block was set up and the fact that health expenditure had since risen disproportionately. The Minister reminded members that the EDD budget had increased by 70% over the last year but agreed to discuss with the

finance minister the case for providing a more detailed paper on the matter.

[Action: ED.Minister]

8. It was suggested that members should receive more information on the progress being made in areas that were not normally associated with tourism and the progress being made by the Regional Tourism Partnerships. The Chair suggested that the Committee might speak to RTP's and possibly Local Authorities and said that the autumn would be a good time to review the results of the summer season. **[Action: Clerk]**
9. It was noted that the Assembly had no control over the level of spending by the Wales Office which could have a direct effect on the level of funds that were devolved to the Assembly. Concern was expressed that the Assembly had no powers to appeal if they were unhappy about the level of spending allocated.
10. Some members said that several economic forecasts suggested a widening of the gap in GDP between Wales and the rest of the UK. They agreed that these predictions should be viewed cautiously but felt that they illustrated that the policies put in place to close the gap were not working. It was said that the Committee had always been uneasy about the targets within A Winning Wales and felt that it was necessary to examine the underlying policies if the targets were not being met. The Minister responded by saying that other forecasts gave a different view.
11. The Minister said that A Winning Wales had only been approved in December 2001 and as it was a 10 year strategy it was far too early to say if it was failing or succeeding. He also said that the Structural Funds programmes were also in the early stages of the total programme. He said he felt Wales had come through a difficult period of global downturn very well. He added that he saw reducing economic inactivity as a central priority to Wales' economic development and had held meetings with various groups and was looking with Cabinet colleagues at ways of addressing the problems.
12. Members also raised concerns over regional disparities in grant funding but the Minister pointed out that it was the Government's policy to spread prosperity throughout Wales. He reminded members that Cardiff generally did not benefit from RSA funding and that clear limits existed on Objective 1.
13. A member asked how much WDA money was spent in Cardiff Bay through the Section165 agreement with the Harbour Authority and other projects. The Minister agreed to provide the figures. **[Action: ED.Minister]**

Item 5: Budget Introduction

1. The Chair outlined the budget process the first part of which was the Finance Minister's paper outlining the issues that the Committee should consider in offering its advice.
2. Members discussed the Minister's paper summarising outturn expenditure for 2001-2. They recognised that this was much closer to budget than in the previous

year and felt that credit should be given for this improvement from the previous year.

3. Reference was made to the pressures that could be expected in the immediate future: possible activity following the Committee's report on renewable energy; emerging pressures on the WEFO budget for match funding; and the Pathway to Prosperity Fund. They hoped that in his proposals, which would be discussed at the next meeting, the Minister would have regard to these.
4. Members also welcomed the references to deprivation in the Finance Minister's paper and expressed the view that these should be properly reflected in the Minister's plans. They thought it was important that programmes should seek to target resources effectively, although the Minister commented that it was important not to be too prescriptive if this led to a loss of flexibility.
5. Members emphasised the importance of setting realistic targets for expenditure in relation to deprivation and thought that efforts should be made to measure the performance of programmes against these, although it was recognised that this could not happen overnight.

Item 6: Minutes of Previous Meetings

1. The Minutes of 8 May were agreed as a true record of the meeting.

Committee Secretariat