

Economy, Transport and Rural Affairs Committee
General Scrutiny - Welsh Government's evidence paper

Green economy

Our Economic Resilience and Reconstruction Mission published in 2021 outlines our plans to advance Wales as a low carbon economy; a circular economy with higher levels of circularity, innovation and resource efficiency.

In March 2021, the Senedd set Wales the target of achieving “net zero carbon” by 2050. In 2022, Net Zero Industry Wales was established. It will co-ordinate industrial decarbonisation activities by its members that align with the Programme for Government's decarbonisation priorities and the plan to become a Net Zero nation by 2050.

Ministers have set a target for the Welsh public sector to be carbon neutral by 2030. They have also set a target for 70% of electricity generated in Wales to be from renewable sources by 2030.

In line with these ambitions, the Welsh Government is supporting the expansion of the use of renewables to generate electricity in Wales, including on-shore wind, off-shore wind, marine and solar.

Wales based businesses are responsible for around 20% of the UK's overall industrial and business emissions. Of that 20%, the majority of Welsh industrial and business emissions can be directly attributed to companies along the M4 corridor. This is due in large part to our industrial heritage within the steel, oil, gas, and chemicals sectors in south Wales.

Clearly, securing decarbonisation pathways for our high carbon emitting sectors will make a significant contribution towards Wales achieving net zero.

In Wales, we expect the development and scaling-up of technological options for industrial decarbonisation, such as fuel switching and carbon capture utilisation and storage, to have a transformative impact on emissions from the end of the 2020s and through the 2030s.

This transition will be supported by collaboration with industrial clusters, a decarbonised energy network with enhanced grid infrastructure and access to UK-wide funding to implement decarbonisation plans.

The Climate Change Committee has assessed that by 2050 around 60% of the changes needed in Wales to achieve a pathway to net zero were influenced by powers mostly reserved to Westminster. There is a responsibility on the UK Government to deliver appropriately for Wales as the UK cannot reach its net zero targets without Welsh action. Conversely, Wales cannot reach net zero without the UK Government playing its fair part.

Further challenges exist around the technology options available that support the decarbonisation of the steel industry, these include Carbon Capture and Storage or fuel switching to facilitate lower carbon steelmaking. All options come at a significant financial cost and Tata Steel has detailed decarbonisation plans regarding their integrated iron and steel operations at Port Talbot. These are currently paused whilst negotiations continue with the UK Government on a potential package of financial assistance which the company state is necessary to enable their transition.

Lack of UK government support would risk the loss of one of only two primary steel making sites in the UK. This, in turn, would have a significantly detrimental impact on local communities and the whole of the UK's steel value chain. We continue regular engagement with senior executives from Tata Steel UK and UK Government on this to support a positive outcome for steel in Wales.

Net Zero Industrial Wales (NZIW) will support Welsh industrial clusters on their journey to net zero. NZIW will work with its member organisations to develop net zero pathways for industry in Wales and support the co-ordination of regional infrastructure development to enable the transition to a low carbon future. This includes working with stakeholders to develop proposals to feed into the UK Government for the non-pipeline transportation of CO₂. This could be essential to decarbonising industry and power generation in south Wales. Currently it is not clear how UK Government business models will support the non-pipeline transportation of CO₂.

In north Wales, we are working with regional partners to consider options to support the accelerated deployment of north Wales hydrogen infrastructure which includes Hydrogen Transport and Hydrogen Hub pilots in Flintshire and Anglesey. In 2021 the UK Government announced that HyNet had been chosen as one of two UK Industrial Clusters under its CCUS Cluster Sequencing Process Track-1 initiative. The initial phases of the project focus on hydrogen production in North-West England and constructing CCUS infrastructure including CO₂ pipelines through north Wales to offshore storage in repurposed oil and gas fields operated by Eni UK at Liverpool Bay. The expansion phase plans to include hydrogen pipelines to Connah's Quay for industrial off-takers in north Wales.

Skills

February 2023 saw the launch of our Net Zero Skills Action Plan. The Plan is an important first step in understanding the role of skills in making a just transition to net zero.

The challenge to meet our net zero commitment is huge and our future skills needs will require a collaborative approach across the whole economy. In shaping the plan, we worked cross government, with external stakeholders and key partners to gain a picture of the net zero skills landscape against the 8 emission sectors set out in Net Zero Wales.

Our net zero ambitions include a better, fairer, and greener future for us all. Skills are a key enabler to deliver these ambitions, ensuring the transition is fair and the most vulnerable in society are not unfairly burdened with the costs of change. The

changes driven by the need to decarbonise our economy will have impacts on industries, sectors of the workforce and socio-economic groups in different ways; depending on the pathways, policies and actions we choose. Through our Net Zero Action Plan we will ensure the opportunities presented by decarbonisation do not become onerous challenges, and that nobody is left behind.

We want to work in partnership with our stakeholders, with unions and business, to upskill our existing workforce, but also attract and retain future workforces as we develop the Welsh economy towards net zero. This is a key challenge. Even within continuing industries, skill requirements change as technology advances.

Decarbonisation will be just one of the factors driving both the creation of new jobs and the change in the skill requirements of existing jobs, over coming decades.

It is likely that the biggest impacts to be felt will be the changes to the skills for the jobs we do now. The extent of these changes is likely to vary widely in their scale and nature. We will use the Well-being for Future Generations Act as the guiding principle for tackling the transition net-zero in Wales. This will allow us to both minimise the impacts but crucially maximise the opportunities it provides for Welsh workers and communities.

We will shortly be undertaking a consultation on net zero skills within the 8 emission sectors to support the development of a skills roadmap. The roadmaps will outline milestones in terms of investment opportunities, changes in industry practices aligned to carbon reduction, new technologies, developments, policies, transitioning activities etc; all factors that will have an impact on the skills needed to support these key shifts. This detail will allow planning and policy on skills to shift to the forefront in order to stimulate and create the workforce of the future.

Research and Innovation

Wales is committed to supporting and growing research and innovation. The increasing emphasis on RD&I is demand-led and aligned with Wales' industrial, business, and societal needs.

As we come to the end of the ERDF SMART suite of programmes, which wind up in 2023, and in line with our new Innovation Strategy, we are introducing a new more flexible approach to supporting innovation activities within organisations across the ecosystem – SMART Flexible Innovation Support (SMART FIS).

This new scheme will ensure that support will no longer be restricted to businesses and research organisations. It will be open to any established organisation wishing to engage and invest in research, development and innovation (RD&I), including third sector, local authorities and health boards.

This support will be under constant evaluation and will be refined in line with the commitments in the innovation strategy. An official launch is taking place 8th June.

Innovation Strategy

Our strategy *Wales Innovates*, published on 27 February, points the way to a different approach to innovation. It adopts a mission-based approach, prioritising work that is translational, promoting multi-disciplinary collaboration, promoting best practices and aligning with the aims of our Programme for Government.

The strategy empowers all stakeholders to work collaboratively towards shared goals for innovation, and to lever investment for innovation from external sources, primarily the UK Government, against our shared objectives.

An Action Plan is being developed, setting out a small number of goals in each mission area, actions we will take along with partners, short, medium and long-term milestones and measures.

This will be a living document with enough flex over time to respond to a changing political and economic landscape, to identify different and better opportunities.

Business support

Business Wales is the Welsh Government's bilingual business support service for Welsh micro-businesses and SMEs including social enterprises, and aspiring entrepreneurs of all ages to access the information, advice and support they need to start and grow their businesses.

The UK Government denying the Welsh Government access to replacement EU funds via the Shared Prosperity Fund (SPF) creates a significant funding gap for the Business Wales service. To mitigate this, we are investing an additional £20.9m per year of Welsh Government funding to up until March 2025 to fill the gap and extend the core service beyond the end of EU funding in 2023.

While the Welsh Government has been denied any access to the SPF to maintain funding for previously EU-funded pan-Wales business and employability schemes, the UK Government has top-sliced £101m of Wales' £585m allocation to fund its Department for Education priority to deliver an adult numeracy programme called Multiply.

Australia and New Zealand Trade Deals

The UK Government under the Trade (Australia and New Zealand) Act has made legislative changes to implement the Government Procurement chapters of the Agreements.

Secondary legislation entitled the Public Procurement (International Trade Agreements) (Amendment) (Wales) Regulations 2023. has been introduced by the Welsh Government under the Trade (Australia and New Zealand) Act, which will enter into force on the 26 May. The Regulations will ensure that Wales can implement procurement obligations contained in the Agreements.

It is important to stress that the Welsh Government is not responsible for what was ultimately agreed in the deals. Our role in negotiations is to ensure that the UK government understands where deals can create opportunities, risks, or challenges for Wales.

In both deals there are opportunities for Wales; for example, increased mobility for service providers wishing to operate in Australia or New Zealand, but these opportunities are tempered by potential risks such as offering increased market access for agricultural products.

The success of any trade agreement is in how businesses will use the new terms of trade and the Welsh Government already provides a comprehensive range of support for business to develop international trade in key markets. Recently the Minister for Economy met Minister Huddleston to explore how the UK Government's work to support businesses exporting to Australia and New Zealand can complement our own work.

Our Programme for Government commits us to delivering an ambitious programme of export support and trade promotion through the implementation of the Export Action Plan for Wales. As part of this, in March, the Minister for Economy announced investment of over £4m to deliver a major package of support to help Welsh businesses export globally.

The funding enables a range of support, from inspiring businesses to take up exporting; building export capability; helping businesses find overseas customers; and accessing overseas markets, including those where Free Trade Agreements are agreed.

This includes actions to support businesses to prepare for and maximise opportunities from any new free trade agreements, including, for example, through dedicated 'on-the ground' support and advice via our team of International Trade Advisers, based across Wales; a programme of webinars on specific exporting topics and markets; and trade missions to key markets (one of which will be a trade mission to Australia scheduled for spring 2024).

Regional Investment and Borders

UK Government published the draft Target Operating Model 5 April, which we agreed. It's in our interest to have a coherent approach to our borders across Great Britain. The draft TOM has been undergoing consultation and the final model will be published in June.

Until we all understand the implications of the Windsor Framework and have proposals for a workable regime for goods coming from the island of Ireland into Wales, it is very difficult to make decisions on practical delivery arrangements for border controls at Welsh ports.

It is essential we have clear and enforceable rules for goods coming from the island of Ireland to Great Britain. Without that, neither the authorities nor traders will know enough to be able to prepare for the smooth implementation of these checks.

We are determined to give businesses reasonable notice to prepare for full physical checks once we have the rules.

The UK Government Cabinet Office have led a review of the planned Holyhead Border Control Post with a view to consider size and cost.

Following consideration of options, it has been agreed to progress with plans on Plot 9 of Parc Cybi, with a smaller facility making greater use of shared spaces and intensified cleaning regimes. The layout has been critically reviewed to reduce additional works, for example, avoiding poor ground, and maximising previous construction such as the current HGV layover area.

The redesign needs to be formalised to allow agreement, pricing, and subsequent construction to commence from September.

In Pembrokeshire, activity has been concentrated on understanding the new checking regimes and seeking to apply a consistent approach to reduce building footprints in light of lower check volumes. Opportunities for on-port delivery are feasible, and are to be developed in partnership as business cases are developed in parallel.

Freeports

The Freeport Programme in Wales offers an opportunity to harness Wales's abundant economic potential. A Welsh Freeport must operate within the Well-being of Future Generations (Wales) Act 2015 and the Welsh and UK Government's net zero commitments. The Programme includes our policies on fair work and social partnership to ensure workers are fairly rewarded, heard, and represented, so that they can progress in a secure, healthy, and inclusive working environment and have their rights respected.

Freeports are special areas within the UK's borders where different economic regulations apply. By delivering investment on specific sites benefitting from tax and customs incentives, Freeports intend to create thousands of high-quality jobs in some of our most disadvantaged communities. These sites have been carefully selected for their suitability for development by local authorities and key private partners and sit within an outer boundary, which represents the geographical location within which the benefits of Freeports are targeted and does not in itself confer any special tax, customs or other status.

Eligible businesses in Freeports will enjoy a range of tax incentives. These tax reliefs are designed to:

- establish the Freeport as a national hub for global trade and investment across the economy.

- encourage the maximum number of businesses to open, expand and invest in the Freeports which in turn will promote regeneration and high-quality job creation.
- drive innovation - creating new markets for UK products and services, that drives productivity improvements, bringing jobs and investment to Freeport regions.

The Porthladd Rhydd Ynys Mon / Anglesey and Celtic Freeports will act as drivers of growth and employment in their areas. Collectively their ambitious proposals could create as many as 20,000 new jobs.

Bidders were also required to explain how their choice of tax site location(s) minimises displacement from wider local areas, especially other economically disadvantaged areas.

The Porthladd Rhydd Ynys Mon / Anglesey and Celtic Freeports will act as hubs for regeneration, innovation and global trade, creating the opportunity to attract over £1billion of investment benefitting not only their surrounding communities, but across Wales and the rest of the UK.

The two Freeports have now progressed to the next stage of the process, officials from both governments will now support the Freeports to become operational. This will involve establishing suitable governance arrangements, developing outline and full business cases, and if successful - designation of a tax and customs site.

The successful bids will receive up to £26 million seed investment each as well as a package of benefits which potentially spans tax and non-domestic rates relief, streamlined planning, customs site designation and wider government support for trade, investment, and innovation.

The Celtic bid plans to focus on low carbon technologies like floating offshore wind (FLOW), hydrogen, carbon capture, utilisation and storage (CCUS) and biofuels to support the accelerated reduction of carbon emissions.

The Anglesey bid plans to build upon the Energy Island Programme – focusing on Marine energy technology testing on the seabed (tidal/ Wind) and low carbon energy.

The development of the Outline Business Cases will give further information on how these proposals will be delivered.

A Freeport's tax sites will not be approved until its Outline Business Case has been and the Government reserves the right not to proceed with the designation of a prospective Freeport tax site that it deems to not meet the criteria set out in the Bidding Prospectus, does not represent good value for money, or an optimal, effective or deliverable use of the tax site powers.