

Economy, Trade and Rural Affairs
Minister for Economy – Evidence Paper
6 March 2024

This paper provides an update on some of the activities in my portfolio since our last general scrutiny session in December.

The contents of this paper were prepared before, and are subject to, the forthcoming final budget. Spending plans have only been set, or are being set, for 2024-5 while future plans will be subject to the outcome of the Spending Review.

Whilst the backdrop of acute public financial pressures remains challenging, we continue to focus on strengthening the Welsh economy as we build a fairer, greener Wales for all.

I look forward to discussing the following matters with the committee next month.

Border Target Operating Model (TOM)

The UK Government (UKG) published the Border Target Operating Model (TOM) in August 2023, with the agreement of the Welsh and Scottish Governments, setting out safeguards intended to protect biosecurity and food safety. The first delivery milestone for border controls on sanitary and phytosanitary (SPS) goods imported from the EU – including Ireland - was 31 January 2024, and I am pleased to note that the implementation went smoothly, with few issues reported. This first stage requires health certification and pre-notification, with review by a central hub which is providing feedback. Over time, the enforcement will increase.

For imports other than from Ireland, physical checks are due to start from 30 April. We have not yet agreed a date for physical checks on imports from Ireland. I have committed that we will give reasonable notice for businesses to prepare for these checks. In the meantime, Wales continues to plan for three Border Control Posts (BCPs) for sanitary and phytosanitary checks: a government-run BCP in Holyhead; and two port-run facilities in Pembroke Dock and Fishguard.

The UK Government has published “Safeguarding our Union” (31 January 2024), which sets out rules around goods moving between GB and Northern Ireland. There are features we welcome, including tightening the definition of Qualifying Northern Ireland Goods (QNIGs). This restates a commitment made in the TOM which was key to our agreement, helping to protect biosecurity and avoid trade diversion away from Welsh ports. The UK Statutory Instrument to implement this change was introduced into Parliament on 1 February 2024. Provisions in another SI ensure that genuine QNIGs, travelling via Ireland (for example on the Dublin-Holyhead ferry), retain unfettered market to the GB market, again protecting our trade routes.

However, *Safeguarding our Union* also includes a statement that there will be no BCP at Cairnryan, even though it confirms that the TOM rules do apply to Irish goods (other than QNIGs) which are imported to GB via that route. We are pressing the UK Government for more information on their proposals to protect biosecurity and avoid trade diversion away from Welsh ports.

It is essential we have clear rules for goods coming from the island of Ireland to Great Britain, and that authorities on the front-line are able to distinguish between QNIGs and other goods which are subject to the TOM regime, and avoid abuse of the rules.

In steady state, the cost of border checks will be borne by importers, and the UK Government has agreed to meet the costs of building the Welsh BCPs, subject to approving business cases. However, they have made no commitment to fund wider costs, for example recruiting and training staff to conduct the checks. This is a Brexit-related cost which the UK Government should fund. In the absence of that commitment, the Welsh Government has provided initial funding so that Pembrokeshire and Ynys Mon can start preparations. However, they must recruit additional staff in the run up to physical checks, so we will need to identify funding before agreeing a start date.

UK-EU Trade

The Trade and Cooperation Agreement (TCA) is fundamental to the Welsh economy. It is the basis for Wales (and the rest of the UK) trading in goods with the EU. It also provides a commitment to a level playing field for open and fair competition by preventing distortions of trade or investment, which indirectly limits scope for divergence in relation to issues such as environmental and employment regulations, and state aid/public subsidies.

The TCA provides a complex structure of UK-EU committees to oversee its implementation, particularly in relation to trade and level playing field issues. These committees explore a range of issues and they provide for joint decisions to deal with evolving or immediate issues. For example, in December 2023, the UK and the EU took a joint decision that was in the UK and EU's mutual interest to extend time-limited trade rules on electric vehicles to minimise costs for manufacturers and consumers and to boost electric vehicle sales.

There has been continuous development of the TCA since its agreement in difficult circumstances just over three years ago. Initially, there was limited UK Government commitment to actively involving the Devolved Governments in making the system work in accordance with the devolution settlement. Now, we seem to have moved to a more positive phase, but there are still improvements we would like to see.

We have called for full involvement of the Devolved Governments in the preparation of UK positions for meetings with the EU on devolved matters, or on non-devolved matters that have a significant impact on devolved responsibilities. It should then flow through to providing for participation of the Devolved Governments as part of the UK delegation in those formal meetings. This is analogous to what used to happen when the UK was negotiating in the EU as a Member State. It should not present any practical or constitutional problems now the UK is a third country.

There also needs to be greater openness by the UK Government in its approach to the TCA implementation and to seeking stakeholders' views as part of this. There are structures in the TCA that are important and on which we should build, such as the UK Domestic Advisory Group (DAG) that feeds into the UK-EU Civil Society Forum. These

have an increasingly significant influence on the UK and EU's approach. I am pleased there is effective Welsh input to the UK DAG and would like to see this strengthened.

There is also an increasing role for the Parliamentary Partnership Assembly established under the TCA, bringing together Parliamentarians from the UK and EU. I am grateful to the Senedd for sending Members as observers to this, and hope that their influence in it can increase.

The Inter-Ministerial Group on UK-EU Relations chaired by FCDO Minister for Europe meets before meetings of the Ministerial level TCA UK-EU Partnership Council. It oversees input of the Devolved Governments to the implementation of the TCA. I attend as the Welsh Government representative.

Freeports

In May 2022, the Welsh and UK governments agreed to establish a Freeport programme in Wales. In March 2023, the Welsh and UK governments jointly agreed to invite two prospective freeports in Wales to develop business cases: Anglesey Freeport; and Celtic Freeport in Milford Haven and Port Talbot.

The 2023 UKG Autumn Statement announced an extension to the English Freeports from five to ten years and was followed by the publication of a Freeports Delivery Roadmap. The Roadmap includes a £150 million Investment Opportunities Fund to help land investment into Freeports and Investment Zones. We are working with the UK Government to ensure Welsh Freeports will benefit from these announcements.

The Welsh Freeports have ambitions to create 29,000 jobs and attract £6.9 billion of inward investment. The Freeports and businesses will be supported through a range of tax incentives including Land Transaction Tax relief and Non-Domestic Rates (NDR) relief. They will also be supported by NDR retention for 25 years to invest in regeneration and infrastructure, seed capital funding (up to £25m), and revenue funding (£1m) for each Freeport.

In December 2023, the Anglesey and Celtic Freeport consortiums submitted their Outline Business Cases (OBCs). Officials across Welsh Government, alongside UK Government officials, are undertaking detailed assessments of those OBCs.

Investment Zones

I set out the Welsh Government's support for two Investment Zones in Wales on 7 November 2023, which was agreed and announced by the Chancellor at the 2023 Autumn Statement. One will be in North-East Wales (Flintshire and Wrexham) and one in South-East Wales (Cardiff and Newport travel to work areas).

Joint discussions are now underway between officials in the Corporate Joint Committees (CJCs), UK Government and Welsh Government to identify priorities for investment in each Investment Zone and begin the process of developing business cases. Technical Guidance to support CJCs develop business cases is under discussion between the Welsh and UK governments. Once this is jointly agreed and published business cases from CJCs can formally be submitted.

Skills and Apprenticeships

Last year, I published the Net Zero Skills Plan for Wales. In October, I launched a Net Zero Sector Skills consultation which will inform the development of our skills roadmaps. In shaping the plan, we worked across 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.

In the spring, the Welsh Government will publish sector skills roadmaps, which will include the key milestones, investment into Wales and skills requirements, for each emission sector. We all have an important role to play in ensuring that skills are a key enabler for delivering net zero Wales, promoting fair work alongside good and safe employment, and making sure that the appropriate framework is in place from an early stage. These roadmaps will inform our policy and help us plan to ensure that we stimulate the creation of our future workforce.

The scale of the budget challenge Welsh Government now faces is a consequence of the UK Government's decision to take powers and money from Wales. The UK Government has failed to replace EU funds in full, resulting in a shortfall of nearly £1.3 billion in real terms for Wales during the period January 2021 to March 2025. There were a considerable number of beneficiaries from ESF funding in Wales, particularly national programmes such as Apprenticeships, Community Employability Programmes, ReAct+ and Jobs Growth Wales+. These programmes and their predecessor programmes relied heavily on European funding (employability programmes benefited by around £30m per annum for example). Disappointingly, the UK Government has denied the Welsh Government any decision-making role or access to EU replacement funds through the UK Shared Prosperity Fund. Consequently, these programmes cannot continue to operate at the same scale as they have done previously.

In the meantime, I have allocated funding to critical activities that ensure the skills system in Wales continues to operate effectively with a focus on our ongoing investments and efforts in key areas such as Apprenticeships and Jobs Growth Wales Plus. Since May 2021, we have delivered more than 43,000 all-age apprenticeship starts. Between January 2015 and the end of December 2023, the apprenticeship programme is expected to have drawn down £206m of ESF funding, supporting around 5,000 apprenticeships in Wales. This is the size of the hole left by the removal of EU funding.

Unlike England, we have chosen to protect the quality of our apprenticeships. Investing in quality apprenticeships helps learners build stronger careers. It helps them to earn more over the longer term in work that offers progression. Apprenticeship investment remains a key spending priority and despite the financial backdrop we are still making a significant investment in apprenticeships. With a reduction much smaller than in other budget lines, we will invest £138m next year in quality apprenticeships which deliver long-term benefits and stronger careers.

Working in partnership with the apprenticeship network we will continue to promote and prioritise quality apprenticeships including those in higher level, more technical

sectors - moving Wales towards apprenticeships in STEM and net-zero preparedness. The apprenticeship programme will also continue to play a role in the Young Persons' Guarantee. We expect to achieve this by increasing the proportion of people aged 16-24 entering an apprenticeship (i.e. within the overall number of starts that can be delivered within the available budget).

Whilst we cannot guarantee the availability of apprenticeships for young people, we will aim to influence employers to provide more opportunities for young people. We will work with our provider network to identify potential options for encouraging employers (including engaging with new employers) to increase the number of apprenticeship vacancies available for young people. We will also maintain funding for the shared apprenticeship scheme which provides new opportunities for young people who cannot find permanent employment to learn new skills in the workplace and to gain qualifications that will enable them to gain and sustain full time permanent jobs.

The Personal Learning Account Programme will continue to provide upskilling and reskilling opportunities for people in employment. Helping them to access and gain higher level qualifications, through flexible and personalised learning, will enable these individuals to develop adaptable skills and progress their careers in priority sectors. While this will also help increase the resilience of our workforce, we need to consider how we address the under-investment by employers in the skills of their workforce. Our Flexible Skills Programme offers support to businesses to help them upskill and reskill their workforce.

We will be working together with CTER and employers to develop a co-investment approach. This approach will aim to provide a solid foundation for shifting the emphasis from a government-led approach in terms of skills investments to a system led by and co-funded with employers. Only by working together will we address skills shortages across Wales.

Steel

The sector continues to operate within a challenging environment, the steel industry has identified several key priorities including, decarbonisation, international trade, energy and carbon taxation costs, and the public procurement of steel. The availability of quality scrap steel is also an emerging priority.

Delivering a just transition to a low carbon future is critical and because of the mix of reserved and devolved responsibilities relating to business and industry we need to work closely with the UK Government to deliver the right policy mix.

Tata Steel UK

Tata Steel is expected to invest £1.25 billion in steel production at Port Talbot which includes UK Government funding of £500 million. The Company announced on 19 January the proposed closure of blast furnaces at Port Talbot by the end of this calendar year affecting up to 2,800 jobs. Of which, around 2,500 roles would be impacted over the next 18 months. Tata Steel expects that the further 300 roles could be impacted in two to three years at Llanwern. The communities in which these steel plants are located are in some of the least well-off parts of the UK. The proposal to

close the blast furnaces by the end of this year is a real concern, we would have preferred a longer, slower transition to green steel production at Port Talbot. I recently made two statements on this incredibly important matter.

Formal consultation between the Company and unions is now underway. We have regularly met with the Company and unions across TSUK sites in Wales. We will continue to engage with the business, trades unions and UK Ministers to support the best deal for steel.

The UK Government has established a Transition Board with £100m funding (£80M from itself and up to £20M from TSUK) for short-term support and long-term economic regeneration. Three Board meetings have been held to date. The Welsh Government has levers and knowledge critical in ensuring positive outcomes from this work. We are working in partnership with the Board in a genuine and transparent way to support areas of shared priority and to try and deliver the best outcomes for all concerned.

We will work closely with key partners such as Jobcentre Plus, Working Wales, local authorities, health boards, the trade unions and third sector organisations to ensure communities, businesses and the people who are facing redundancy are provided with information, advice and guidance about the support available to them.

Alongside the resources offered by Tata Steel itself and that of our partner organisations, the Welsh Government's employability programmes, ReAct+ and Communities for Work+, can provide support for training and mentoring to those who wish to remain in the labour market. Business Wales will provide information, guidance and support to supply chain businesses impacted. The Development Bank of Wales is a key part of the Welsh Government's strategy to support the economy of Wales and gives businesses in Wales a valuable support mechanism particularly in critical periods of economic uncertainty.