

Economy, Trade and Rural Affairs Committee
Green Economy and General Scrutiny
Evidence Paper

Green Economy

Within its devolved powers, what should be the Welsh Government's key priorities to maximise the potential economic opportunities from green economy sectors? To what extent does its current approach reflect these?

The Green Economy will be one of the most important areas of economic development for the next decade and beyond.

We must grow our supply chains, unlock business opportunities, foster entrepreneurship and innovation and empower communities to lead on ambitious green funding investment. We want to ensure that businesses are resilient to changing climate conditions, have a skilled and knowledgeable workforce and that our businesses are meeting targets to reduce emissions.

We also want to create places where businesses can maximise the benefits of green infrastructure for sustainable growth. We must lead the current industrial revolution in our energy system to bring a just transition to a low carbon energy system.

We must also drive a circular economy where we keep materials in use and have a lower carbon footprint, reduces the environmental impact of extracting raw materials and reduces exposure to volatile global supply chains. Given Wales' market advantage with higher recycling rates and higher quality, source-separated materials, this creates opportunities for businesses.

Bringing the economy, skills, and energy portfolios together will facilitate our work to do this, by putting innovation, growth, entrepreneurship business opportunity and a resource efficient and green energy future at the heart of our economic policy.

The Welsh Government has prioritised the development of green economy sectors, through policy, legislation and funding. We have set ambitious targets, including:

- Wales to meet the equivalent of 100% of our annual electricity consumption from renewable sources by 2035, and to continue to keep pace with consumption thereafter.
- At least 1.5 GW of renewable energy capacity to be locally owned by 2035.
- Statutory recycling targets for Local Authorities – now at 70%

The move to Net Zero and supporting Carbon Budgets create a policy and legal framework that encourages decarbonisation, increased resource efficiency and associated growth in green economy sectors, including:

- The electrification of transport, including rail, bus, vans and cars;
- The generation of renewable power;
- Clean energy equipment manufacturing;
- Renewable fuels and green finance;
- Nature restoration and ecosystem services; and
- Increased resource efficiency in activity across supply chains, including development of Wales based supply chains where possible.

In many areas, we are already taking action to support businesses and unlock green growth. The Welsh Government's commitment to achieving net zero is acknowledged

and supported by the Business Wales service, which has integrated decarbonisation and climate change considerations into its service delivery. As a result, these issues are now central to conversations with businesses in addition to fair work and productivity.

The Development Bank of Wales is also remitted to develop financial products which support businesses transition towards net zero. It is piloting a new £10m pilot 'invest to save' offer called the Green Business Loans Scheme, which is helping businesses reduce their carbon emissions and save money on their energy bills.

We are also building supply chain maps to help companies bidding for Offshore Wind licences to be able to find a Welsh supply chain. The Welsh Government has also committed to track the growth (turnover and employment) in the low-carbon energy sector in Wales, using the Low Carbon and Renewable Energy Economy Survey. In future, we could supplement this data with information from industry leaders and representative organisations.

What are the key barriers to Wales making the most of opportunities in the green economy, and what steps should be taken to overcome these?

There are several barriers to making the most of the green economy:

- The need for **capital investment** for large-scale infrastructure;
- **Constraints of existing infrastructure**, including energy grids (much of energy infrastructure is a reserved matter including the financial levers to support that infrastructure)
- Enough **skilled and experienced workers** in areas such as renewables installation, resource efficiency and in nature restoration.
- Developing a **Wales-based supply chain**;
- Ensuring availability of **suitable premises** for companies to expand, diversify and better utilise secondary raw materials as part of a circular economy.
- Lack of certainty in **planning process** and the need to align consenting and planning processes to ministerial objectives including policy and the Wellbeing of Future Generations Act.

In short, businesses will not invest in developing green capability and innovation unless there is a clear and certain pipeline of planned investment, and an understanding of what is required regarding accreditations, qualifications and skills.

In addition, there is inconsistent understanding of what is meant by the 'green economy' and what the opportunities are. Dialogue is required with stakeholders, buyers, and suppliers in key green economy sectors alongside the development of contract and investment pipelines, so the market has full visibility and understanding.

To help address this, I have asked my officials to establish a new advisory group to engage business leaders in Wales and help steer government policy and programmes which will include looking at how Wales makes the most of opportunities in the green economy. My officials are also looking to map out stakeholders and supply chains. These will help in identifying those who can support industry, highlighting opportunities for collaboration in improving skills and removing blockers.

My officials are already developing a series of short turn-around reviews into five areas to convene with stakeholders and provide real challenge to the government. These will consider our priority areas and how we can accelerate delivery, including across green growth areas such as floating offshore wind and skills.

In addition, the previous Minister for Climate Change published the third and final update against the actions of the Renewable Energy Deep Dive in March 2024. The Steering Group of stakeholders from across the renewable energy sector identified 21 barriers and challenges to be addressed in the development of renewable energy in Wales. The 21 actions included work on consenting and whilst work is ongoing, a great deal of work has already taken place on planning and consenting.

We continue to work with consenting bodies – National Resources Wales, Planning and Environmental Decisions Wales, and local authorities – to ensure there are sufficient resources to meet the expected increase in casework as we transition to a net zero Wales.

What actions should the Welsh Government take to support development of Wales-based supply chains in green economy sectors?

Wales' success as a recycling nation, which is first in the UK, second in the World, puts us in a strong position to capitalise upon the economic opportunities presented by a circular economy.

In addition to the core actions taken by Business Wales, we are strategically working on the use of public procurement to develop Wales-based supply chains in green economy sectors. The Welsh public sector spends approximately £8billion each year on goods and services. We are supporting businesses in Wales via the Circular Economy Fund (CEF) for Business, to adapt their processes to utilise recycled material and improve their resource efficiency.

We are also targeting a range of indigenous and inward investment opportunities including supporting the investment by reprocessing businesses into Wales such as Jayplas. We are also working in partnership to develop opportunities for marine energy and floating offshore wind to maximise opportunity for the Welsh Economy. This includes our £31 million investment into Menter Môn's Morlais project with Natural Resources Wales, and our ongoing work to deliver Freeports in partnership with the UK Government.

However, we should not just focus on demand within Wales as this will only ever deliver a certain level of economic growth. There are several ways to support development of Wales-based supply chains more generally:

- Undertake a full analysis of supply side capability to identify current and potential future supplier capability.
- Ensure procurement approaches for work in the green economy are SME-friendly and are accessible to smaller Welsh firms.
- Establish what skills and accreditations are needed in the green economy sectors, undertake a skills analysis to gauge skills levels and gaps and provide the necessary training to Welsh firms.
- Ensure visibility of contract pipelines and investments in green economy sectors so businesses know what's coming up and can gear up for tendering
- Invest in new manufacturing where there is potential to exploit business opportunity in Wales and beyond.
- Learn from existing innovative approaches in this area and scale up.
- Expand the market for secondary raw materials to unlock the economic benefit of our high recycling rates, increasing resilience and competitiveness of Wales-based

supply chains. Continue funding and innovation-focused procurement approaches as a mechanism for developing Wales-based supply chains.

We need to identify the products and services of the future so that we can get ahead of the game and have a capable supply base ready to take advantage of the opportunities. We must focus on identifying opportunities which have sizeable and lasting demand within Wales and further beyond.

What skills challenges exist in relation to transitioning to a green economy? What actions should be taken, and by whom, to ensure the skills are there to meet the growing demands of a green economy?

Net Zero skills focuses on the sectors and skills necessary for achieving net zero. There are significant opportunities – and need – to build skills that will enable us to build climate resilience. This includes in areas like flood risk and drainage and in restoring nature and the functioning of ecosystems – as well as in areas like construction.

I particularly recognise the importance of creating a pipeline of skilled and talented individuals. This was one of our seven key priorities within the [Net Zero Skills Action Plan](#) that we published last year.

The direction of travel to meet the net zero commitments is further ahead in some emission sectors than others. In some sectors there is uncertainty amongst the workforce, industry, businesses and stakeholders on the direction of travel and how these changes could impact on the skills of their workforce or an individual's career pathway.

We also need to encourage more young people, especially women and minority groups, to study STEM subjects and train in engineering and construction.

To that end, in October 2023, we launched a Net Zero Sector Skills [consultation](#), which provided an opportunity to strengthen our understanding of the current skills position and skills challenges for each emission sector in Wales. The consultation aimed to capture further information on the skills needs for the current and future workforce. The summary of responses was published earlier this month.

The outcome of the consultation will help inform Sector Skills Roadmaps, which will include key milestones, skills requirements and workforce demands for each emission sector. These roadmaps will allow us to shift to the forefront in order to stimulate and create the workforce of the future. These will also help to visualise the opportunities and highlight the actions needed within the skills system and wider levers to support growth in our economy.

In the meantime, we have invested £30m in our Personal Learning Account programme to help employed people upskill and reskill. Part of this programme includes a £3.5m investment to meet net zero skills gaps in construction, energy, manufacturing and engineering. The wage cap has been removed for this element to allow more people to access these valuable net zero skills and qualifications. We have also created a specific net zero skills element within our Flexible Skills Programme (FSP) - to support employers upskill their staff to meet future economy needs.

We already have a strong apprenticeships offer around net zero skills, and plan to incorporate new and revised qualifications as they are developed to meet the changing needs of industry. For example, our Welsh Apprenticeship Pathway in Energy Management which was issued in March 2023.

We are adopting a new approach to the review and development of apprenticeship frameworks. Alongside taking a co-constructive approach by working with strategic stakeholders, there will be criteria for prioritising frameworks and pathways for review. These will include qualification expiry dates, consideration of sector reviews, numbers of learners on the various pathways and any inherent net zero requirements.

What will workers and employers need for a just transition to a Net Zero economy to be achieved, and what actions should the Welsh Government take to deliver the elements of this that lie within its devolved powers?

Fair work and social partnership are essential for achieving successful and sustainable business decarbonisation. Indeed, it is impossible to deliver business decarbonisation without the workforce. As with any significant transition, there is potential for the costs and benefits to be distributed unevenly and for workers to be negatively impacted. By prioritising fair work and by embracing social partnership, we can ensure a more just and inclusive transition as we decarbonise our economy and businesses.

Embedding fair work as part of a just transition will help to safeguard worker well-being, job security, and encourage workforce learning and development, which is essential to the resilience businesses will need. Moreover, engaging workers and trade unions in social partnership and involving them in decisions which impact the workforce will foster higher levels of trust, cooperation and ultimately enable more effective decarbonisation outcomes.

Employers will need to understand the scale and certainty of future investment to have the confidence to fund growth in workforce capability. To take advantage of a Just Transition, where new green economy sectors and jobs are located in communities across Wales will require a workforce trained in the skills required. Apprenticeships are a key part of this.

Through our financial support to the Wales TUC, we are supporting their work on just transition, including their ambitions to develop a network of Green Reps. This delivers on our Programme for Government commitment to support Wales TUC proposals for union members to become Green Representatives in the workplace.

How will the Welsh Government need to work in partnership with others to realise the potential of the green economy and deliver a just transition? To what extent is the partnership working that is needed being undertaken?

Partnership working is essential to realise the potential for green economy. We are already working with the Offshore Energy Alliance, the Celtic Sea Alliance, Marine Energy Wales and the Marine Energy Programme. I announced on the 17 April that we will be taking forward work with industry on a sector deal for renewable energy which will look to build on the work of the deep dive.

We have committed to working with representatives of all sectors and regions of Wales to develop a set of principles for grid development. To this end, I will be convening an independent advisory group on future electricity grid for Wales. This group will build an understanding of possible approaches to delivering electricity transmission infrastructure, agreeing to principles for the most appropriate solutions for Wales, and create a public evidence base to support these principles.

Wales' success in recycling has been built upon partnership working with Local Authorities and the waste sector and is the foundation of our approach in *Beyond*

Recycling to transition to a circular economy. We are working in partnership with industry as well as the public sector, voluntary sector and academic institutions in Wales to implement *Beyond Recycling*. We are also working with international partners to share best practice, research and collaborate. Wales has been chosen this year to host the International Circular Economy Hotspot in recognition of its leadership in the transition to the circular economy,

The development of the Manufacturing Action Plan was also based on consultation with Industry, Academia, and the Trade Unions. We need to actively get companies in Green supply chains to commit to our Ethical Employment in Supply Chains Code of Practice, which addresses issues such as inappropriate use of Zero Hours Contracts, Union Blacklisting and the Living Wage Foundation "Living Wage". To go further, we need to identify what UK Government and its delivery partners are planning in terms of investment, so that we can offer them ready-made supply chains which will help maximise the social and economic benefits for Wales.

We must now build on our work across regions in partnership with stakeholders to coalesce various funding streams and initiatives across different tiers of government, working with the new Investment Zones, the City Growth Deals and Local Authorities.

The Welsh Government says it will face considerable budgetary constraints in the short term. How should it prioritise investment to support development of the green economy over the shorter and longer-term? What innovative approaches to financing could be considered to maximise potential investment and benefits?

Economic Impact Assessments show that delaying investment in climate change results in higher costs to the economy. It is key that we prioritise investment in a way that enables action and makes the Welsh economy resilient and competitive in a decarbonising global economy.

Over recent years, the Welsh Government and local authority partners have recognised that some services may be delivered more efficiently through partnership and shared procurements. This is reflected in the establishment of the Corporate Joint Committees (CJCs) and their statutory roles in strategic economic development.

CJCs, local authorities, the NHS and other parts of the public sector procure goods and services from the green economy. We are considering how these procurements might be made more efficient and more strategic. This will provide better value for money and help the public sector to support green economy supply chains in Wales.

Our work on energy prioritises the retention and value from investment in Wales. We are already innovating through Trydan Gwyrdd, Ynni Cymru and the Local Energy Fund. Wales is the only part of the UK to have a public sector renewable developer. Trydan Gwyrdd Cymru has been established to lead new renewable energy projects on public land in Wales. This approach will ensure Wales benefits directly from the development of new renewable projects with income from developments coming back to the Welsh Government. Through Trydan we will also look to secure a greater level of direct benefit to communities supporting local green jobs and wider environmental and social value.

Budgetary constraints mean that we must think and act smarter on how we support Industry and leverage UK Government investment in line with our priorities. We also need to make even better use of assets such as the Advanced Manufacturing Research

Cymru facility, which is currently working on numerous initiatives to decarbonise our supply chains and could expand operations into developing green technology.

General Scrutiny

Border Target Operating Model and Border Control Posts

The UK Government 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.

For imports other than from Ireland, physical checks on sanitary and phytosanitary (SPS) goods imported from the EU started from 30 April. This means that the checks have not yet gone live at Wales' three ferry ports.

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. Construction has started in Holyhead, and we are finalising the designs with the Pembrokeshire ports.

The policy issues which were outstanding at the time of the TOM have not progressed and there is no prospect of resolution before the summer, more likely autumn.

The UK Government 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.

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 have been pressing the UK Government for more information on their proposals. 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.

We hope that a new UK Government will be able to address the issues that have been bequeathed to them in a constructive and collaborative way. If that new Government is a Labour administration then of course we will want to consider with them and other

administrations the implications of any potential veterinary agreement with the European Union, but at this stage, that is about all we can say.

EU/Non EU trade

Prior to the announcement of the UK General Election several negotiations were underway; including with India, the GCC (Gulf Co-operation Council), Israel, Switzerland, Korea and Turkey. Negotiations are currently on pause with Canada and Mexico. On the 17 May the UK announced that it had formally deposited its instrument of accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Officials continue to engage with counterparts in UKG over the implementation of work under FTA committees, and the EU Trade and Cooperation Agreement (TCA).

We continue to see the value of a more substantive arrangement led by UK Government for the involvement of the Devolved Governments in work related to the TCA and the wider relationship. We look forward to progress on this after the UK General Election.

The UK-EU Partnership Council met on 16 May with WG officials present to represent Welsh Ministers. The TCA committees have begun to meet for 2024 with the meeting of the Fisheries Specialised Committee on 23 May. The large majority will be held in the Autumn.

Apprenticeships

In our Policy Statement on Apprenticeships, we have developed a strategic framework for the future of the apprenticeship programme. There is a focus on addressing the challenges that both individuals and employers are facing due to the impact of the pandemic, the cost-of-living crisis, and economic changes.

We will be working closely with the Commission for Tertiary Education and Research to deliver against the Statement, ensuring that we maximise opportunities for the people of Wales.

This financial year we will invest over £143m in quality apprenticeships which deliver long-term economic benefits and strong careers.

We are proud of our record on delivering our flagship apprenticeships programme in Wales. Despite a backdrop of significant economic challenge - the loss of promised post EU funds, inflationary pressures and the rising cost of frameworks, Apprenticeship investment remains a key spending priority.

While the loss of ESF, with no replacement, means there will still be an impact on contract size while compared to 2023/24, officials are working positively with the network to plan delivery to maximise the use of available funding.

We carried out a Strategic Integrated Impact Assessment (SIIA) on the impacts of budget decisions which is publicly available.

The apprenticeship levy is a UK Government employment tax, which directly conflicts with, and undermines, areas of devolved responsibility. We work with all employers across Wales to support their current and future needs, irrespective of the levy.

As the revenues from the levy have replaced existing apprenticeship funding in England, the levy does not provide significant new money for Wales. The overall apprentice levy allocation that the Welsh Government receives from the UK Government is arrived at through the Barnett formula, Welsh Ministers then allocate resources in its budget according to Welsh priorities, as approved by the Senedd.

Since 2020-21, levy revenues can no longer be separately identified within Barnett payments. So, although the Welsh Government knew the actual amounts transferred over the first three years of the levy's introduction, we now have no knowledge of what these amounts are.

Foundational economy

Nurturing the Foundational Economy continues to be a priority within my overall economic vision. Work is in hand to establish a new baseline of the sectors which make up this part of the economy. This will help us understand the current makeup of the Foundational Economy from a business and workforce perspective and will help inform our priority interventions going forward.

Plans are being developed to undertake evaluation of projects which completed in the last financial year and the learning from this work will be shared across portfolios to encourage further adoption of good practice.

Foundational Economy support is mainstreamed within the Business Wales offering. Through this, work is in hand to deliver two Foundational Economy expo events in the autumn, allowing local businesses to meet organisations and understand qualification requirements associated with upcoming contracts.

Our work on the Foundational Economy can contribute to the green economy. We are supporting Cyfle to provide 120 young people with training and work experience which will help provide vital skills in low carbon electrical and plumbing works. Wood Knowledge Wales is also being funded to coordinate low carbon timber networks, including focus on creating skilled roles and growing demand for locally produced timber products.

Freeports

In December 2023, the Anglesey and Celtic Freeport consortiums submitted their Outline Business Cases (OBCs) which were assessed and outcomes discussed by Cabinet in March 2024. The former Minister for Economy agreed Celtic Freeport's OBC could be agreed by senior officials once some critical actions were addressed, and that a resubmission of the Ynys Mon OBC would require Ministerial sign-off as issues were more substantive. Both Freeports submitted their response to these critical actions on 22 April and these have been assessed by officials in both UKG and WG.

The General Election has meant the UKG is unable to make decisions and cannot undertake the process to designate tax sites until the OBCs have been approved. We had been working to get this process completed before summer recess. The designation of tax sites and further decisions will now be for a future UKG to consider. There are no delays from the WG side.

Steel

The steel industry in Wales continues to operate in a challenging environment and has identified a number of priorities that need to be addressed to support sustainable steelmaking. These include decarbonisation, energy costs, the public procurement of steel and matters affecting steel trade.

We continue to work with the UK Government to maximise the opportunities arising for Welsh industry and business from UK initiatives including the Industrial Energy Transformation Fund. Celsa Steel is one of the Welsh based companies that was successful in receiving approval of over £20m of support through IETF.

From investing in the Steel and Metals Institute in Swansea University to the creation of the new Celtic Freeport – a move supported by Tata Steel UK - the Welsh Government has remained committed to using its levers to support the industry's transition and the jobs it can support.

The confirmation by Tata Steel UK on 25 April regarding the ending of blast furnace steel production at Port Talbot will have wide-reaching impacts for Tata workers, their supply chain and local communities. It is disappointing that the recommendations from the multi-union report commissioned by the UK Steel Committee on the transition to lower-carbon steelmaking at Port Talbot have not been taken up.

Since taking up my current post I have held meetings with the Company, the Steel Trade Unions, the Secretary of State for Wales and Neath Port Talbot Council regarding the future of Tata's Port Talbot site and downstream operations. The First Minister has also held talks with the Secretary of State for the Department of Levelling Up, Housing and Communities.

The First Minister visited Tata Steel Ltd in Mumbai on 10 April to discuss the future of Tata Steel UK and we will continue to engage with the Company to understand what the transition will mean in practice for all sites in Wales at ministerial and at official level.

The Tata Transition Board has agreed five priority areas for support. These cover Job Matching, Skills and Employability; establishment of a Supply Chain Transition Fund as well as a Business Growth and Start Up fund and support for mental health and wellbeing and a regeneration projects. We are working closely with partners on the Transition Board to ensure that people are aware of and can access to the support available to them.

The Welsh Government will continue to support steelworkers in any way we can and continue to push hard for the future of steelmaking in Wales.