

# The Economy, Trade, and Rural Affairs Committee: Green Economy Inquiry – Onward written evidence

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?

## Sustainable Farming Scheme

As over 90% of Wales' land is used for agriculture, farming has a key role to play in meeting decarbonisation and biodiversity targets.<sup>1</sup> Most farmland in Wales is used for rearing sheep and cattle, which are some of the least profitable types of farming. Adopting the principle of public money for public goods through the Sustainable Farming Scheme (SFS) could support a green transition in farming, while providing opportunities for new income streams.

SFS has come under considerable scrutiny, but the Welsh Government should hold its nerve and introduce the scheme in a form close to that currently envisaged. Onward's *Greener Pastures* report recommended various changes to England's Environmental Land Management schemes (ELMs), designed to increase participation and raise ambition.<sup>2</sup>

Wales' SFS is ambitious, but some elements of the scheme may not be straightforward enough to encourage participation. In particular, the Welsh Government should consider giving farmers longer to meet the 10% tree cover rule or broadening the rule's scope to include other features that sequester carbon and enhance biodiversity. It also needs to accelerate the introduction of 'optional actions' and 'collaborative actions' to incentivise the most environmentally ambitious farmers.

## Business rates

Heavy industry plays a significant role in the Welsh economy. Fixed costs place a considerable burden on energy intensive businesses, which typically operate on low margins. To relieve some of this pressure, Onward's *Green Jobs, Red Wall* report recommended offering long-term business rates exemptions of up to 100% in return for investment in green technologies.<sup>3</sup> As the Welsh Government has responsibility for business rates, it could implement this policy to support industrial decarbonisation.

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?

## Planning capacity and capabilities

Onward's research for an upcoming report has identified five elements that need to be in place for the green transition – public investment, regulation, skills, planning, and international relations. Some of these elements are more relevant for the UK Government but the Welsh Government has some control over others.

One issue that is regularly cited as holding back the green economy is lengthy planning processes, in part caused by a lack of capacity and capabilities in local authorities' planning departments. For example, a survey by the UK Government found that only 5% of local authorities feel their ecological resource is adequate to

scrutinise applications that might affect biodiversity and less than 10% have sufficient expertise to deliver biodiversity net gain rules.<sup>4</sup> The Welsh Government should ensure that planning departments have the capacity and capabilities needed to accelerate planning processes without compromising environmental protections.

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

### Local content requirements

Onward's *Greening the Giants* and *Green Jobs, Red Wall* reports both recommended introducing domestic content requirements for the supply chain of key net zero technologies, such as battery technology and steel in the automotive industry.<sup>5 6</sup> The Welsh Government could explore local content requirements or work with the UK Government to expand domestic content requirements to industries that would support the Welsh economy, such as floating offshore wind.

## 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?

### Skills passport

Skills shortages are frequently highlighted as a problem for the green transition in almost every sector. Onward's *Green Jobs, Red Wall* report noted that one problem is workers having to retrain or gain new qualifications to do similar jobs in adjacent sectors, such as oil and gas and offshore wind. The paper recommended the UK Government work with industry to develop a "skills passport" for the energy sector.<sup>7</sup>

The Scottish Government has funded a programme to develop an energy skills passport specifically for offshore industries. The Welsh Government should work with the UK Government to accelerate development of a nationwide "skills passport" for the entire energy sector and heavy industry.

### Reskilling and upskilling support

There are several skills gaps in sectors that are key to supporting the broader green economy. Less than one in five boiler engineers are currently installing heat pumps and nearly half do not know where to receive training.<sup>8</sup> Only 16% of car mechanics are qualified to work on hybrids and electric vehicles (EVs).<sup>9</sup> Part of the responsibility for reskilling and upskilling these workers lies with their employers. But the benefits of their new skills would be felt beyond those companies as it will enable greater uptake of heat pumps and EVs, which would reduce emissions, enhance energy security and boost the green economy.

The Welsh Government provides some financial support for this reskilling and upskilling, for example through the Flexible Skills Programme. But it should consider whether this is sufficient to encourage companies to invest in their workforce's net zero related training.

## 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?

### Advice for farmers to restore nature and transition to regenerative practices

Onward's *Greener Pastures* report highlighted that farmland used for grazing sheep and cattle is well suited to entering environmental land management schemes that entail significant nature restoration, such as the 'higher tier countryside stewardship' in England or 'optional actions' in Wales. Farmers will need advice to enter these schemes and adapt their farming practices.

*Greener Pastures* recommended the UK Government accredit third party organisations to advise more farmers on higher tier stewardship agreements, a policy the Welsh Government could adopt to help farmers undertake optional actions.<sup>10</sup> The Welsh Government currently plans to introduce optional actions between 2025 and 2029. It should accelerate the introduction of these actions to support environmentally ambitious farmers. Accrediting third party organisations to advise farmers on these actions could help to bring them in more quickly.

### Supporting workers to move into adjacent industries

Onward's *Green Jobs, Red Wall* report recommended that the skills passport should include the ability to add additional "bolt-on" training for more specific skills requirements to prevent them having to repeat training they have already completed.<sup>11</sup> This would support workers that need to move into adjacent industries to begin new jobs more quickly.

## 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?

### Private markets for nature based carbon and biodiversity credits

Onward's analysis of Climate Change Committee data in the *Greener Pastures* report showed that UK companies could have demand for over £3 billion of carbon credits by 2030. Farmers that undertake nature restoration projects or transition to regenerative practices could capitalise on this demand as well as emerging demand for biodiversity credits.

But they will need to have confidence that they will profit from creating credits to make the necessary investment. And when they do make the investment, they will need to demonstrate that they have produced high quality credits to attract buyers. *Greener Pastures* recommended the UK Government develop mandatory standards for private biodiversity and soil carbon credits. And it called for the creation of a "nature credits bank" to purchase nature based carbon and biodiversity credits that cannot receive a pre-determined base price in the private market.<sup>12</sup>

The Welsh Government should work with the UK Government to progress the development of policies that are needed to establish a robust, well-functioning private nature based credits market. It should also engage with large corporates and private investors to drive demand for Welsh nature based carbon and biodiversity credits.

## 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?

### Rural affairs budget

The rural affairs budget has been cut by 13% for 2024/25 and stands at just over £400m.<sup>13 14</sup> Analysis conducted for the RSPB, the National Trust and The Wildlife Trusts suggests that Wales needs around £500m per year to meet its environmental land management priorities.<sup>15</sup> And Welsh Government modelling shows farm business incomes could drop by £81 million following the introduction of SFS.<sup>16</sup> The Government should

not reduce the rural affairs budget any further and should aim to increase it when possible to deliver a green transition in the agriculture industry.

### UK Infrastructure Bank

The UK Infrastructure Bank (UKIB) has £22 billion of financial capacity to provide debt, equity and guarantees to businesses and local government to deliver a green industrial revolution. The bank's capacity includes £4 billion specifically for local authorities.<sup>17</sup> Given budgetary constraints, local government could look to UKIB for capital to support environmental projects. And the Welsh Government should engage with the bank to provide financing to companies where it does not have the capacity to offer direct support.

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- <sup>1</sup> Welsh Government, 'Survey of agriculture and horticulture: June 2023', 23 November 2023
- <sup>2</sup> Onward, 'Greener Pastures', 16 December 2023
- <sup>3</sup> Onward, 'Green Jobs, Red Wall', 16 December 2022
- <sup>4</sup> The British Property Federation, 'BPF calls for a better resourced planning system to ensure the success of new biodiversity net gain regulations', 7 February 2024
- <sup>5</sup> Onward, 'Greening the Giants', 26 March 2021
- <sup>6</sup> Onward, 'Green Jobs, Red Wall', 16 December 2022
- <sup>7</sup> Ibid
- <sup>8</sup> Installer Online, 'Only 18% of installers install heat pumps and 44% don't know where to go for training', 17 March 2023
- <sup>9</sup> Auto Repair Focus, 'EV qualified technicians – numbers grow but skills gap predicted by 2029', 16 January 2023
- <sup>10</sup> Onward, 'Greener Pastures', 16 December 2023
- <sup>11</sup> Onward, 'Green Jobs, Red Wall', 16 December 2022
- <sup>12</sup> Onward, 'Greener Pastures', 16 December 2023
- <sup>13</sup> The Farmers' Union of Wales, 'Cuts to rural affairs budget major blow to industry, FUW says', 19 December 2023
- <sup>14</sup> Welsh Government, 'Wales Budget 2024–2025', December 2023
- <sup>15</sup> Rayment Consulting Services, 'An assessment of the financial resources needed for environmental land management in the UK', 6 June 2023
- <sup>16</sup> Welsh Government, 'Potential economic effects of the Sustainable Farming Scheme', December 2023
- <sup>17</sup> UK Infrastructure Bank, 'Strategic Plan', June 2022