

Economy, Trade & Rural Affairs Committee – General Scrutiny Session 13-12-2023 – Evidence Paper

The contents of this paper were prepared before, and are subject to, the forthcoming budget.

This paper provides a written update on our key economic priorities over the second half of 2023. Against an incredibly challenging backdrop of acute financial pressures and uncertainty at UK Government, we are proud of the outcomes we have delivered. We continue to focus on strengthening the Welsh economy as we thrive towards creating a fairer, greener Wales for all.

Economic Mission

As part of our plan for economic growth, we want to strengthen the unique partnerships that bring together businesses, local authorities, trades unions and academia. Last month, we launched the Economic Mission refresh which sets out the next steps for our Economic Mission, focussing upon a set of national priority areas. The four priorities areas are:

- **Net Zero and Just Transition** – realising the enormous Net Zero opportunities provided by Wales’ natural environment, supporting business growth and engaging with people and businesses to move towards a just transition.
- **Ambitious Futures** – backing young people to achieve the ambitious futures they deserve in Wales, by developing their skills and creativity, which are supported by fair work and align with our economic needs.
- **Stronger Regional Economies** – focussing upon place, to enable strong regional economies which prioritise the population’s wellbeing needs, supporting the foundational economy and access to fair work.
- **Innovation, Investment and Growth** – strengthening innovation to boost investment and growth, supporting commercialisation and entrepreneurship across businesses, regions, academia, and public services to realise opportunities within existing and new markets and technologies.

Regional development

Our commitment to collaboration and regional working ensures more decisions can be taken closer to the communities within a shared mission that allows more people to plan ambitious futures here in Wales. We work with partners to commit to shared priorities to support inclusive and sustainable growth to maximise opportunities to address regional and local inequalities, centred on the principle that places matter, and a belief in the importance of delivering prosperity and the benefits of economic growth to all parts of Wales.

Rural economy

We are working to promote growth throughout Wales, including our rural areas. In the Minister for Rural Affairs, North Wales and Trefnydd's portfolio, we have protected the Basic Payment Scheme for farmers, continued to invest in food businesses, and supported actions to help us move to a sustainable and green economy.

The Minister for Rural Affairs, North Wales and Trefnydd has already announced a package of support through Rural Investment Schemes for farmers, foresters, land managers and food businesses, worth over £200m to support the rural economy and our natural environment.

Tech Valleys

Tackling regional inequalities is part of our strategic approach to economic growth and developing our well-being economy. The Tech Valleys programme is one of our best examples, and biggest investments. After considerable work, the Tech Valleys programme has gathered momentum and will have delivered a significant positive impact by the end of 2023/24. We have:

- committed over £40 million to projects in the growing portfolio, and we are continuing to work with partners to identify and develop new projects;
- helped create 298,000 sq ft of new and refurbished floor space enabling a figure of 600 potential jobs;
- helped raise STEM skills performance in local schools and colleges.
- ensured the successful direction of UKG LUF to Blaenau Gwent to create the High Value Engineering Centre – a hi-tech training facility for up to 600 student and commercial users that will be opening at the end of 2024.

Investment Zones

Our approach to working in partnership is evidenced in how we plan on applying the Investment Zone policy to Wales. We want to see Investment Zones build on Wales' specific strengths, contributing to our Fair Work agenda and helping Wales become a Net Zero country.

Welsh Government has agreed to support two Investment Zones in Wales, with UK Government providing funding in the following locations;

- South-East Wales, covering the whole area
- North-East Wales, covering Flintshire and Wrexham

Any Investment Zones will be developed via CJs as the most appropriate vehicle for planning and delivery – in line with Economic Mission, ensuring benefits are spread across the region.

Investment Zones are a perfect example of how we can be a partnership of equals with UK Government.

Decarbonisation of industry

The potential impact of decarbonisation policies on industrial competitiveness requires a balanced system of support across the UK. The Climate Change Committee has assessed that over 60% of the necessary changes required to achieve a net zero pathway in Wales will be influenced by powers primarily reserved to Westminster. This must take into account the unique geographical challenges of the industrial regions of Wales. Our pathway to a net zero Wales is challenging, but it will offer opportunities for sustainable growth and more resilient businesses.

In March 2022, we established Net Zero Industry Wales (NZIW) to support the co-ordination of industrial decarbonisation projects and prioritise the UK-level support required to enable a just transition to net zero for industry.

Decarbonisation of the steel industry continues to be a priority for the sector. Delivering a just transition to a low carbon future is critical. Energy intensive businesses such as steel continue to operate in a challenging environment with UK electricity prices significantly higher than those of other countries.

The EU is implementing its own Carbon Border Adjustment Mechanism (CBAM). UK Government has consulted on a range of carbon mitigation measures including a UK CBAM and mandatory product standards. The steel industry believes it is essential that appropriate UK measures are implemented to ensure a level playing field with European competitors.

The transition to low-carbon steelmaking will require significant levels of high-quality domestic steel scrap to be retained within the UK. Globally, the supply of scrap will become a more significant issue.

The Celtic Sea floating offshore wind (FLOW) sector could provide a market opportunity of up to £12 billion to the UK, across a series of test and demonstration and commercial scale projects.

We are working with developers and other key stakeholders, to develop supply chain opportunities for Welsh businesses.

As part of our Manufacturing Action Plan, we are currently undertaking a supply chain mapping exercise of this sector, particularly looking at the capacity, capability and resilience of existing supply chains and identify where we can take advantage of opportunities like offshore wind.

We are also working with the Celtic Sea Cluster (CSC) and Offshore Energy Alliance (OEA) to mobilise local supply chains across Wales, the south west and north west of England, to ensure that they are in a position to successfully bid for contracts. WG

is a founding member of both CSC and OEA.

We have provided Marine Energy Wales (MEW) with £150k in 2023/24. This provides funding for sector engagement, signposting, and advice to businesses to raise awareness of opportunities across wave, tidal, and floating offshore wind technologies. It is an important part of the work that we are supporting to develop the offshore marine energy sector in Wales.

The launch of the Net Zero Skills Action plan in February 2023 was the first milestone for Wales in terms of positioning the skills landscape against our net zero commitments.

The plan focuses on the skills needed across Wales, and aligns to the 8 emission sectors in Wales which includes Industry and Business, and Electricity and Heat Generation

The plan details 7 key priority areas, including building evidence of future skills needs, ensuring the skills system is responsive to changing demands and reskilling and upskilling the workforce for the transition to net zero.

Our aim is to grow and equip sectors with the right skilled workforce to support our just transition to net zero. The consultation will close on 31 December 2023.

Development Bank of Wales

The Development Bank of Wales' remit includes decarbonisation as a policy priority, and the bank supports businesses transition towards net zero.

Welsh Government has delivered funding through the Development Bank of Wales and targeted advice from Business Wales to support businesses to create and sustain new jobs, find new export markets, and invest in sustainable green industries. Since 2021, DBW has provided loan and equity funding to support businesses create and sustain thousands of new jobs.

Research & Development

Our Innovation Strategy contains a strong message for the entire Welsh RD&I ecosystem to collaborate and leverage more funding from Innovate UK, and the other research councils that make up UKRI.

Business communities across the devolved nations differ in size, capacity, and access to funding opportunities; Welsh Government would like to see delivery structures that respect and embrace these differences.

Wales has the ability and experience to be a delivery partner in implementing funding opportunities on the ground. Robust and mature delivery structures are already in place in Wales, and we welcome the joint work on international partnering.

Working collaboratively across Government, and in line with the commitments made in our co-operation agreement with Plaid Cymru, the missions in the Strategy have

parallel actions and milestones in an Innovation Delivery Plan. Published on 17 October, this also contains underpinning commitments to geographic and demographic equality alongside the joined-up way of working.

As with the Strategy, the Plan is designed to be a living document which will evolve as actions are taken and new opportunities and priorities emerge.

Apprenticeships

Changes in technology and the ability to automate work will place an increased requirement on support for retraining and upskilling. Automation and artificial intelligence will impact all occupational structures, and demand for re-skilling is therefore likely to be complex and affect all skill levels.

To meet these challenges, we need to continue to align our delivery model to economic needs; supporting people to re-skill and update their skills in response to changing job and qualification profiles and emerging professions.

We prioritise apprenticeship investment in those sectors that will support economic growth and community cohesion, including net zero and the foundational economy. Welsh apprenticeships are being designed to improve productivity and meet strategic skills needs.

UK-EU Trade

Our Programme for Government commitment to implement our Export Action Plan has put in place a comprehensive package of support for businesses, inspiring businesses to begin to export, building export capability, finding overseas customers, and supporting businesses to get to overseas markets.

A key focus of our trade promotion activity is the European market. The European Union remains Wales' largest trading partner, with goods exports to the EU valued at £11.6billion in 2022 accounting for 56.6% of Welsh exports (compared with 52.2% of UK exports).

Our team of WG International Trade Advisors, based across Wales, alongside our WG Overseas teams (and other key partners, including Department for Business and Trade) continue to provide ongoing support our exporters to understand trading requirements in key markets, including the EU.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership with non-EU trade

We do not believe the impact of the UK's accession to CPTPP on Welsh businesses and consumers, and on the economy of Wales more broadly, is likely to be significant. Although there are some potential benefits of the UK accession to CPTPP for Welsh businesses, this is likely to be limited due to the number of existing bilateral FTAs with CPTPP members.

We have always had, and continue to have, concerns with certain elements of the CPTPP agreement. Provisions in areas such as climate change, labour and women's economic empowerment are not as ambitious as we would typically want to see in FTAs, or do not contain robust enforcement mechanisms.

There has been good progress in some areas, but the negotiations have not yet concluded.

However, our approach to trade policy, through the lens of the Well-being of Future Generations Act, means we consider trade deals to be about more than purely economic gains. We believe trade deals should contain provisions on other key issues such as worker and gender rights and the environment.