

Julie James AS/MS
Y Gweinidog Newid Hinsawdd
Minister for Climate Change



Llywodraeth Cymru
Welsh Government

Written evidence submitted by the Welsh Government (NZG0079)

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Darren Jones MP
Chair, Business, Energy and Industrial Strategy Committee

26 August 2021

Dear Darren,

I welcome the opportunity to share the Welsh Government's view on several of the questions in the Committee's call for evidence regarding net zero governance.

Wales, Scotland and the UK as a whole each have statutory climate targets. Although they are all underpinned by advice from the Climate Change Committee (CCC), they have necessarily been agreed independently by each legislature. It is likely Northern Ireland will shortly follow. The nature of the devolution settlement in each nation means that achieving these targets will require far more co-operation and collaboration than was necessary in setting them. By way of illustration, the CCC's Balanced Pathway identifies around 75% of the emissions abatement required in Wales during the 2020s as occurring in policy areas 'mostly reserved' to the UK Government.¹

I therefore welcomed the creation of the Inter-ministerial Group (IMG) on Net Zero, Energy and Climate Change last October. In the course of our five meetings we have explored certain crucial topics of interest to the four nations. However, the duration of the meetings (one hour), the scale and complexity of issues on the agenda, and the time between meetings means our discussions have, to date, remained largely superficial.

The Group is supported by a Net Zero Nations Board of senior officials. This second layer of governance has provided an opportunity to consider some of the issues in more detail. In addition, over the summer BEIS officials organised a series of workshops with the Welsh Government, Scottish Government and the Northern Ireland Executive to inform development of the UK Government's forthcoming Net Zero Strategy. This was a big step forward from the very limited engagement we saw for the 2017 Clean Growth Strategy. However, the workshops were limited to 1 to 2 hours duration per emissions sector. This did not allow for a comprehensive four-way discussion and limited the impact of the activity.

Moreover, I am yet to see a draft version of the Strategy. We are publishing our own emissions reduction action plan ahead of COP26 and this has to demonstrate how Wales will meet our second carbon budget (2021-25). The UK Government's intentions in non-devolved policy areas is therefore of fundamental importance to Wales. While I appreciate the difficulty involved in developing such wide-reaching documents, and the need to broker

¹ [The Sixth Carbon Budget – The UK's Path to Net Zero](#) (Climate Change Committee, 2020)

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Gohebiaeth.Julie.James@llyw.cymru
Correspondence.Julie.James@gov.Wales

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We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

cross-Whitehall agreement in parallel, the IMG and Board will only maximise their contribution to achieving the targets if all parties are willing to share information sufficiently early in the process.

There are, of course, similar IMGs covering other ministerial portfolios². Each of these should also be discussing the response to the climate emergency. Yet to my knowledge there is no cross-government system in place for joining up the activity of the various Groups. The First Minister created my portfolio in order to maximise the synergies across the various policy areas. With responsibility for transport, energy, housing, planning and forestry, among other things, the Deputy Minister and I are able to take a holistic view. I would suggest there is a need for a similar approach in the dialogue between the four nations. The First Minister has recently written to the Prime Minister in support of the First Minister of Scotland's request for a summit before COP26. If put on a long-term footing, such a forum would provide the opportunity for considering this all-government perspective.

While the Welsh Government is fully committed to playing its part in getting to net-zero, UK Government investment is key, especially given the challenges of decarbonising buildings and transport. The UK Government's National Infrastructure Strategy includes an ambition to support "Decarbonising the economy and adapting to climate change", as well as a restatement of their "Levelling Up" agenda. If the UK Government are serious about either of these ambitions, then capital funding of reserved areas through the upcoming Comprehensive Spending Review must reflect and reverse the historic levels of underinvestment in infrastructure, such as the rail network in Wales.

Early fiscal certainty would support more joined up action across the UK. We are currently developing a new Wales Infrastructure Investment Strategy, the primary role of which is to ensure that our capital investments support the delivery of a zero carbon economy. However, the delivery of the strategy relies on the budgetary processes that underpin it. Longer-term capital settlements from UK Government are crucial in allowing us to clearly set out how our multi-year infrastructure plans will be funded, providing confidence to our partners, stakeholders and supply chains in Wales.

I want to take this opportunity to press once again for greater flexibility from UK Government in terms of our capital borrowing limits, to allow investment in infrastructure that is needed now to support the delivery of a zero-carbon economy in Wales. This is an area where we would welcome much swifter progress, alongside a review of UK public accounting practices in terms of the treatment of natural assets, particularly in the context of capital budgeting. This can be a barrier to using our capital budgets in a way that recognises the value of nature in a decarbonisation or biodiversity context.

A transition to net zero cannot be delivered through stand-alone initiatives and small pockets of additional spend. It requires a step change in the way the whole of Government funding is used. For example, in our new "*Beyond Recycling*" Circular Economy strategy we have committed to driving a transformation across the public sector in Wales, so that for the £6.7bn spent by the public sector in Wales, the procurement of sustainable goods and products becomes the norm. Structures which support thinking about how we can collectively use our financial levers to drive the change we need would be helpful. Our Budget Improvement Plan³ provides some additional reflections on how fiscal and budgetary policy needs to change.

Regarding taxation, the aim of devolved taxes such as the landfill disposals tax is to contribute positively to the wider Welsh Government agenda on climate change. It is important to develop policy inclusively with UK Government to ensure positive changes in

² <https://www.gov.uk/government/collections/intergovernmental-relations>

³ <https://gov.wales/sites/default/files/publications/2020-12/2021-2022-budget-improvement-plan.pdf>

one jurisdiction do not impact negatively elsewhere, for example on matters like “waste tourism”.

For taxes developed on a UK wide basis, the development of a plastic packaging tax highlights the importance of working together across governments to achieve ambitious environmental aims. In this example, we have shared our experiences and evidence from key stakeholders in Wales to support development of the tax design. It is also important to have clarity and transparency on how resources from UK wide taxes are allocated and spent to ensure we understand and can consider the implications for funding and spending decisions in Wales.

Turning to the role of business and industry, there are several signals and forms of support that the UK Government needs to provide as a matter of urgency. Stakeholders have expressed some confusion about the UK Government’s offer. It would be helpful if the support could be streamlined and presented in a way that is clear to different business audiences.

As well as clarity, long-term policy mechanisms are also important to provide consistency and surety to facilitate industrial investment. Many of our key sectors face complex and deep decarbonisation challenges. Without the ability to apply long-term solutions around their reinvestment plans, international headquarters are reluctant to invest in emerging technologies. The UK Government needs to increase funding for key programmes, including the Industrial Energy Transformation Fund. It needs to bring forward the Clean Steel Fund.

The UK Government must also follow the EU’s lead in setting out initial thoughts for a Carbon Border Adjustment Mechanism. This will have the dual effect of levelling the playing field for EU ETS participants, while also generating revenues on imported goods with no carbon price. This will provide further vital funds for decarbonisation.

The ability of industry to switch to lower carbon fuels will be dependent upon affordable alternative fuels. Currently the alternatives to gas are significantly more expensive and the UK’s current high electricity prices act as a barrier to switching to electricity. A solution to this issue needs to be found that does not result in the operating environment in the UK being significantly uncompetitive, or for costs for the least affluent households to increase further.

While areas of energy policy remain reserved to the UK Government, delivery is likely to be much more responsive to local characteristics and opportunities, particularly in areas such as heat decarbonisation. Wales is already identifying regional energy priorities through our Regional Energy Strategies, and will be translating these into spatial delivery through local detailed modelling and planning. The approach we are taking in Wales, setting a national framework and providing support to build capacity at a local level to develop and deliver plans for a net zero energy system, could inform an approach that UK Government and Ofgem together can deliver across the GB energy system.

We welcome Ofgem’s recent change in approach to decarbonisation, in setting a net zero ambition and establishing the Net Zero Advisory Group at official level. We also welcome the involvement of Welsh Government officials as Ofgem considers a switch to a more proactive approach to investment in the grid. In Wales we will need a transformation of the energy networks if we are to eliminate virtually all emissions from electricity generation by 2035, decarbonise the way we heat our homes and business premises and accelerate the uptake of electric vehicles. In addition to our work on energy planning, Welsh Government is working with a range of partners to understand the likely grid requirements for 2050 and the immediate requirements to achieve 2030 targets. We welcome Ofgem’s involvement in this work, and we will need Ofgem’s support to agree that electricity and gas grid companies can deliver on these requirements at pace.

The Welsh and UK Governments need to work together to further explore the role hydrogen can play in a low carbon energy system. Investment in the innovative and effective design and delivery of green hydrogen solutions both onshore and offshore will accelerate our shared ability to understand the extent of its role. Alignment of policy and support mechanisms for supply and demand development of a hydrogen economy is needed until full commercialisation is achieved. In addition, Wales needs a Carbon Capture, Utilisation and Storage shipping and transportation business model that will enable competitive industrial solutions. Without this, industry in south Wales will be at a disadvantage to other parts of the UK given the lack of storage off the south Wales coast.

Finally, the latest independent Climate Change Risk Assessment for Wales (CCRA3) recognises the potential for increases risk of future landslips, landslides and subsidence linked to historic mining activities.

These assessments underline further the need for a formal strategy and funding programme for long-term remediation of coal tip sites to manage climate impacts on our communities. A joint Welsh-UK government commitment is imperative at this time, to ensure we can respond effectively.

Yours sincerely,

Julie James AS/MS

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