



# **Cynulliad Cenedlaethol Cymru** **The National Assembly for Wales**

## **Y Pwyllgor Menter a Busnes** **The Enterprise and Business Committee**

**Dydd Iau, 21 Tachwedd 2013**  
**Thursday, 21 November 2013**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,  
cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, a transcription of the simultaneous interpretation is included.

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

|                  |  |
|------------------|--|
| Mick Antoniw     | Llafur<br>Labour   |
| Rhun ap Iorwerth | Plaid Cymru<br>The Party of Wales  |
| Byron Davies     | Ceidwadwyr Cymreig<br>Welsh Conservatives  |
| Keith Davies     | Llafur<br>Labour   |
| Mike Hedges      | Llafur (yn dirprwyo ar ran Julie James)<br>Labour (substitute for Julie James)     |
| Eluned Parrott   | Democratiaid Rhyddfrydol Cymru<br>Welsh Liberal Democrats                          |
| Nick Ramsay      | Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor)<br>Welsh Conservatives (Committee Chair) |
| Joyce Watson     | Llafur<br>Labour   |

**Eraill yn bresennol**  
**Others in attendance**

|                                   |   |
|-----------------------------------|---|
| Dr Andrew Bowman                  | Canolfan Ymchwil Newid Economaidd-Ddiwylliannol<br>The Centre for Research on Socio-Cultural Change   |
| Philippe Chantraine               | Cyfarwyddiaeth Gyffredinol Symudedd a Thrafnidiaeth<br>(MOVE), y Comisiwn Ewropeaidd<br>DG Mobility and Transport (MOVE), European Commission   |
| Joao Ferreira                     | Cyfarwyddiaeth Gyffredinol Symudedd a Thrafnidiaeth<br>(MOVE), y Comisiwn Ewropeaidd<br>DG Mobility and Transport (MOVE), European Commission   |
| Herald Ruijters                   | Cyfarwyddiaeth Gyffredinol Symudedd a Thrafnidiaeth<br>(MOVE), y Comisiwn Ewropeaidd<br>DG Mobility and Transport (MOVE), European Commission   |
| Yr Athro/Professor Karel Williams | Athro Cyfrifo a'r Economi Wleidyddol, Ysgol Fusnes<br>Manceinion, Cyfarwyddwr y ganolfan ymchwil newid<br>economaidd-ddiwylliannol y Cyngor Ymchwil Economaidd a<br>Chymdeithasol<br>Professor of Accounting and Political Economy, Manchester<br>Business School, Director, ESRC Centre for Research on<br>Socio-Cultural Change |

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**  
**National Assembly for Wales officials in attendance**

|             |                               |
|-------------|-------------------------------|
| Gregg Jones | Swyddfa'r UE<br>EU Office     |
| Olga Lewis  | Dirprwy Glerc<br>Deputy Clerk |
| Siân Phipps | Clerc<br>Clerk                |

Andrew Minnis

Y Gwasanaeth Ymchwil  
Research Service

*Dechreuodd y cyfarfod am 09:28.  
The meeting began at 09:28.*

### **Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions**

[1] **Nick Ramsay:** I welcome Members, witnesses and members of the public to this morning's meeting of the Enterprise and Business Committee. This meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English, on channel 1, or for amplification, on channel 0. The meeting is being broadcast and a transcript of the proceedings will be available. I ask Members to please remember to turn off their mobile phones. There is no need to touch the microphones; they should operate automatically. In the event of a fire alarm, please follow directions from the ushers. We have three apologies for absence today: from David Rees, Julie James and Alun Ffred Jones. I welcome Mike Hedges, who has very kindly agreed to substitute for Julie James. Thank you for being with us, Mike; it is really helpful.

09:29

### **Strwythur y Diwydiant Rheilffyrdd: Tystiolaeth gan y Ganolfan Ymchwil Newid Economaid-Ddiwylliannol Structure of the Rail Industry: Evidence from the Centre for Research on Socio- Cultural Change**

[2] **Nick Ramsay:** I welcome our witnesses. Thank you for agreeing to come in to help us with our inquiries. Professor Karel Williams is here today because, following additional evidence submitted by Railfuture to the Wales and borders rail franchise inquiry, the report prepared by CRESC, 'The Conceit of Enterprise: train operators and trade narrative', the committee decided to have a discussion on broader issues surrounding the structure of rail transport. Would you like to give your names and positions for the Record of Proceedings?

09:30

[3] **Professor Williams:** I am Karel Williams. I am a professor at Manchester Business School and director of an Economic and Social Research Council-funded research centre, the Centre for Research on Socio-Cultural Change.

[4] **Dr Bowman:** I am Andrew Bowman, and I am a researcher at the Centre for Research on Socio-Cultural Change at the University of Manchester.

[5] **Nick Ramsay:** Good. We have a large number of questions for you, so I propose that we go straight into those. The first question is from Byron Davies.

[6] **Byron Davies:** Good morning. You describe, in your report, privatised rail as a

[7] 'serial shambles creating artificial profits for the franchise holders and hidden costs for the public'.

[8] Would you like to expand on that?

[9] **Professor Williams:** Yes. Basically, the privatised system has fragmented railways

between the leasing companies, which own the rolling stock, the infrastructure company, Network Rail, and the train operators. What has happened is that, overall, the industry is substantially loss-making and requires a public subsidy, but the train operators and the leasing companies have secured profitable niches for themselves within a loss-making industry. It is not clear, if you look at the statistical evidence—and our expertise is on the accounting and the financial evidence—what, for example, the train operating companies are doing that justifies their deduction of dividends. Furthermore, the complicated structure of the industry means that substantial hidden subsidies exist in the business and there is a large accumulating debt mountain at Network Rail. As we said in earlier research, this amounts to about £30 billion and is rapidly increasing. That is, essentially, our analysis of the rail industry.

[10] **Dr Bowman:** If I could add, in terms of the serial shambles, this relates to the franchising process, which is, essentially, where Government and a rail operator have to agree on a guess about future economic conditions, sometimes 10 or 15 years into the future, to determine levels of subsidy, levels of premium payments and service provision, which then forms a contract that both Government and rail operator have to stick to. As we have seen, most notably with the west coast main line, this creates all kinds of incentives for rail operators to overbid and promise more than it is possible to deliver. As we have seen with Arriva Trains Wales, it is also possible, when you are tendering a franchise during difficult times for the railways, to have too little put in the franchise document.

[11] **Byron Davies:** So, in a few sentences, what is your version?

[12] **Professor Williams:** Do you mean an alternative vision of the industry?

[13] **Byron Davies:** Yes.

[14] **Professor Williams:** First, you need to see that the leasing companies and the train operators are not really much about private enterprise; they are about rent seeking and finding profitable niches in an unprofitable industry. Therefore, we would recommend that they should be removed. For example, Arriva Trains Wales should be replaced by a not-for-profit franchise. Beyond that, you have to think about the long-term integration of the whole transport system. It is not simply that train leasing and rolling stock are separated from the operating and from the infrastructure; it is also true that buses are separated from railways. This means, of course, that it is very difficult to think of an integrated transport system. If you take, for example, one of the needs of Wales, which is the way that the Valleys communities have become dormitory communities, which requires people to commute to employment in the coastal belt, it seems to me that you need an integrated response to that kind of problem that, for example, reduces the costs of commuting from the Valleys to the coastal belt.

[15] If you take one quite simple thing here—and, at this point, we will come to the financials—since Arriva Trains Wales introduced its franchise, it has extracted £90 million of dividends from the operation.

[16] **Dr Bowman:** That is in 2012 prices.

[17] **Professor Williams:** That equals, I think, 12% of the passenger revenue in the system. That is £1 in every £8 of the passenger revenue tendered on its franchise that has gone out as dividends to the owners of Arriva Trains Wales. If you look at that, it would be possible to significantly reduce fares overall, or strategically to decide, for example, that you wanted to reduce commuting fares for lower-paid workers from the Valleys down to the coast, simply by taking that cushion of dividends and applying it to fare reduction schemes in a strategic kind of way. That is the kind of thing that we would be interested in.

[18] **Byron Davies:** The train manufacturers that have given evidence here, like Angel

Trains and the people who lease the trains, tell us that the not-for-profit model would be very difficult and expensive to organise by Government here. Would you agree with that?

[19] **Professor Williams:** No. To start off with, there are a lot of not-for-profit examples in the British system; the parent company of Arriva Trains Wales, for example, is Deutsche Bahn, which is effectively a nationalised, not-for-profit company. If you look at the record of not-for-profit versus for-profit in the British context, the standout point is very clearly that the east coast main line, which is currently operated by Directly Operated Railways, is performing very satisfactorily on all performance measures, without a for-profit incentive. Why can you not do that for other franchises?

[20] **Mick Antoniw:** You have some interesting analysis in your report with regard to drivers for growth within the industry. I would like to explore that a little bit. The rail operating companies and the Association of Train Operating Companies say very clearly that there has been a massive increase in the take-up of rail travel, and that this is down to their good performance, showing what a good job they are doing. Could you respond to that?

[21] **Dr Bowman:** There are lots of different drivers of growth on the railways, GDP being one of them, the cost of motoring being another, and also changes in people's working patterns and changes in where people are living. The railway industry has benefited from this. Undoubtedly, there may be a role played by train operators in that as well, but it is probably exaggerating a bit for them to claim all the credit on this.

[22] The other major thing that has improved the railways over the last decade has been an absolutely enormous increase in funding by Network Rail, which is what makes the experience of travelling on the railways better. There is better infrastructure, which means fewer delays. So, Network Rail has had a major part to play in the increase in passenger numbers as well.

[23] **Mick Antoniw:** Your report suggests that three things are responsible for the growth: GDP growth, costs and problems of motoring and the impact of the south-east. Your report also refers to a dual position that seems to be being adopted by the train operating companies. On the hand, when it comes to franchise and dividends, they say, 'Look what we are doing—we are achieving all this progress'. However, when it comes to negotiating the financial terms of the franchise, they say that GDP is a major factor and, therefore, you must have risk insurance in it et cetera. How do you explain that dual position that seems to be being adopted by the rail companies?

[24] **Professor Williams:** It is a complete inconsistency. On the one hand, they have a trade narrative that is for the benefit of the general public, Members of this Assembly, or whatever, emphasising all the social benefits that they deliver. This involves them, as Andrew has been arguing, claiming all the credit for the increase in passenger numbers, when the drivers of increasing passenger numbers are multiple and diverse.

[25] In another sense, this comes back to the rent seeking. The rent seeking is not only that they want the £90 million of dividends to continue, but that they also want a profitable position; they want returns while minimising risk. The whole emphasis on getting guarantees against GDP downturn, or, in the case of the south-eastern franchises, against employment in central London, is obviously an attempt to ensure that there is very little downside risk in any franchise that you take out with those conditions.

[26] **Mick Antoniw:** KPMG, which was commissioned by ATOC to independently analyse the impact of GDP and the performance of the companies, suggests that they are value for money. Your report seems to cast doubt on, I suppose, the bona fides of the KPMG analysis. What are your main concerns about the analysis that has been produced and on

which the train companies rely?

[27] **Professor Williams:** The main concern is simply that KPMG is a consultancy firm, and it was retained to produce a report that just lists the many benefits of train operating companies—the wonderful things that they have done with absolutely no negatives and no questions whatsoever. It seems to me that that is not a public service. This is not the kind of knowledge that we need if we are to have an informed debate about the future of the franchise.

[28] **Nick Ramsay:** Professor Williams, I hear what you are saying, which is that you think that they should not claim credit for all of the increase in passenger numbers and improvements, but would you give the train operating companies, under the existing system, some credit for the increase?

[29] **Professor Williams:** Yes, of course. It is a complex world with multiple drivers, as Andrew has just been arguing. However, if you look at how the train companies have filled the trains—their fractional contribution—I think that the yield management is the most important single contribution. Elderly people around this room will remember the off-peak return: you waited until 9.30 a.m. and then you got a cheap ticket. What the private train operators have done is to introduce yield management, which is essentially trying to sell all the capacity for some kind of price, which is the standard practice of airlines over the past 20 to 30 years. Now, at one level, this contributes to increasing passenger numbers, and, of course, it does offer the possibility of ridiculously cheap fares from Cardiff to London at very inconvenient times on days that you do not want to travel. One of the interesting things, therefore, is that the main contribution of the train operating companies has been through yield management. If you go through the passenger satisfaction evidence, you will see that, in fact, fares are a bone of contention. They are a bone of contention because people like low fares, but they do not like the inconvenient times at which the yield managers make them available. Fares are a bone of contention because, of course, on commuting fares, the Government's present position is that the share of the cost of the railways that is met by passengers should be increased towards 75%, and, as part of that, commuter fares are being pushed up year by year. So, it is a less than triumphant contribution that train operating companies have made.

[30] **Nick Ramsay:** 'A less than triumphant contribution'—I shall remember that phrase. Eluned Parrott has a supplementary question.

[31] **Eluned Parrott:** Thank you. I want to return to a point that you raised earlier about Directly Operated Railways having high performance standards. I am looking at the Office of Rail Regulation's statistical digest for the latest quarter, and the east coast main line is the third-worst performing network in the UK at present. Do you have any other examples of not-for-profit operations that you believe to be successful?

[32] **Professor Williams:** There is a limited number of not-for-profit operations that you can actually evaluate, for the simple reason that the system was privatised, and it is privately owned franchises that we are actually looking at.

[33] **Eluned Parrott:** Indeed, but you gave the east coast main line as an example of one that is being run as a not-for-profit entity at the moment, and it is currently running at a public performance measure of 85.4% compared with Arriva Trains Wales's 93.8%. Clearly, you have made a contention there that these not-for-profit franchises improve performance, but that does not seem to be borne out by the Office of Rail Regulation's statistics.

[34] **Professor Williams:** I do not think that anybody should think that ownership is a magic formula that can actually deal with the underlying problems of a transport system. It is

possible to think, if you think of Arriva Trains Wales, about what else you would do with the £90 million that was extracted as dividends. For example, Arriva Trains Wales claims to have invested £30 million in the course of the franchise. Clearly, if the £90 million had not gone out, it could have invested four times as much.

09:45

[35] Leaving that to one side, many of the problems of the railway system relate to two things. One is the long-run problem that there is not enough money in the farebox to cover the services and the network that the British public want. That has been true under public and private ownership. Secondly, the quality of the service depends crucially on the amount of investment—that is, public investment—that goes into infrastructure. That is to say, if people want a good service from Cardiff to London, it clearly depends on using something other than clapped-out InterCity rolling stock. It depends on the electrification of the line, it depends on all those improvements and, therefore, simply trading percentage satisfaction measures seems to me to be not entirely the way of resolving the matter. Whether you look at Directly Operated Railways or, indeed, at the record of British Rail at the end of its franchise, there is no evidence whatsoever that a profit motive produces a miraculous improvement in operating.

[36] **Dr Bowman:** If I could just come in there, the public performance measure does vary a bit from quarter to quarter, year to year.

[37] **Eluned Parrott:** Yes, I am looking at the measure here, and there does seem to be quite a variation in it.

[38] **Dr Bowman:** There is variation in it. It does move around from quarter to quarter, so I would be uncomfortable with picking the latest quarter to damn Directly Operated Railways. In terms of other circumstances, it is succeeding in turning a profit after two private franchises failed in quick succession. It is dealing with a very economically depressed part of the country in the north-east, and it is also using some of the UK's oldest rolling stock, so it does have difficult circumstances, in which I think its performance has been very creditable.

[39] **Mike Hedges:** Moving on to infrastructure debt and access charges, should the current mode of financing infrastructure investments for the rail industry be changed? That is, should rail operating companies pay more than they currently are paying in order to make it more viable? You believe that the debt will lead to a crisis at some point in the next decade, and the only people who can come riding to its rescue are the Treasury. If that is the case, should the ONS not redefine these debts and put them onto the Government books now?

[40] **Professor Williams:** Yes. I think one of the fundamental problems of the railway system is that the system is heavily, at a national level, dependent on subsidy, and we are in fairyland about actually admitting that fact, so that Network Rail has been allowed to issue large amounts—billions of pounds—of publicly guaranteed private debt, which does not appear in the public sector borrowing requirement, and is the key fudge behind the present financing of the railway system. That is why, in a way, all these miraculous improvements in infrastructure appear while a debt mountain accumulates at Network Rail in a way that is not transparent. That is the fundamental problem of the system.

[41] As for the increasing of track access charges, the track access charge is crucial to the position of the train operating companies. If you look at the position from 2008 to 2012 on the Arriva Trains Wales franchise, the direct subsidy that Arriva was claiming went down by £32 million, but the track access charges were lowered by Network Rail by £28 million. It is completely fairy-tale accounting, because the direct subsidy that Arriva claims is reduced, but the indirect subsidy via low track access charges is increased. Arriva Trains Wales can of course say, 'Look, we are no longer as heavily dependent on subsidy as were', but from a

taxpayer point of view it is almost worse, because what is happening is it is increasingly non-transparent and all hidden in Network Rail's debt mountain.

[42] **Keith Davies:** Rwy'n mynd i ofyn fy nghwestiynau yn Gymraeg. Yn eich adroddiad, rydych yn edrych ar y difidend o'r cyfalaf a'r difidend sy'n dod o'r busnes, ac mae eich ffigurau ar dudalen 14 yn dangos bod yr elw ar y cyfalaf—os gallaf ei ffeindio—yn 121%, rwy'n credu. Wedyn, ar y refeniw sy'n dod o'r hyn y mae pobl yn ei dalu, maen nhw ond yn gwneud elw o rywbeth fel 2% neu 3%. Pam mae hynny'n achos pryder i chi?

**Keith Davies:** I am going to ask my questions in Welsh. In your report, you look at the dividend from the capital and the dividend that comes from the business, and your figures on page 14 show that the capital return—if I can find it—is 121%, I think. Then, on the revenue that comes from what people pay, they make a profit of only 2% or 3%. Why does that give you cause for concern?

[43] **Professor Williams:** To start off with, if you think of the idea of private enterprise, it involves taking risk for some kind of return. I think that it is quite remarkable that you can run a firm, which has virtually no capital in it, so that a small operating margin translates into a massive return on capital. Arriva Trains Wales's return on capital averages, I think, at about 90%.

[44] **Dr Bowman:** Yes, about 90%.

[45] **Professor Williams:** This is not quite what you would expect from an economics textbook. You then say, 'Well, these guys do not in fact own the trains, but they are leasing the trains. They do not have a lot of capital in the business, and they are taking a small margin on sales'. Well, in the case of Arriva Trains Wales, it is 5.5% on sales, and more than half of the value of sales is direct public subsidy, so it is 12.5% on the tickets over the life of the franchise. A figure of 12.5% on the tickets over the life of the franchise is a substantial deduction. The excuse for this would be, 'Well, we do not have any capital in the business, which is why we have this 100% return on capital employed, but we are taking a risk.' Where is the operating risk for the train operating company? It has made no loss on any year since the franchise was introduced and, as Andrew would tell you, in the case that significant operating losses are incurred by franchises, our experience is that the franchisees walk away.

[46] **Dr Bowman:** Yes, with very little capital in the business, they lose very little by walking away. That has been the case several times in England. I think that this point about the capital invested in the business almost would not matter so much if it were not for the fact that train operating companies, in the political context, justify themselves as investors taking a risk.

[47] **Keith Davies:** Rydych chi'n dweud hefyd yn eich adroddiad fod yr Adran Drafnidiaeth yn Llundain yn dweud bod y buddsoddiadau gan y cwmnïau yn isel iawn, ond bod risg uchel o godi prisiau tocynnau. A fydd yr Adran Drafnidiaeth yn gwneud rhywbeth am hyn? Mae hi'n feirniadol iawn, o'r hyn yr wyf yn ei weld yn eich adroddiad.

**Keith Davies:** You also say in your report that the Department for Transport in London says that investments from these companies are very low, but that there is a high risk of increasing fares. Is the Department for Transport going to do something about this? It is being quite critical, from what I can see in your report.

[48] **Professor Williams:** Is the Department for Transport going to do anything about fares? Is it going to insist on lower fares? The department's present policy is to look at the mess that is railway finance and to think about how it can raise fares on commuters and on other people who have no choice, so that they will pay for more of the cost of the system.



[49] **Dr Bowman:** It has a 75% target that will have to be met through the farebox in one way or another.

[50] **Professor Williams:** That is why it is strategically important that we think about things such as dividend extraction in south Wales, on lines such as the Valleys lines. It has the possibility—if you think of the economic geography of the new south Wales, the Valleys have become dormitory communities with people moving down to the coast, which is why we need to electrify the lines. It is crucially important that, for relatively low paid workers, we get relatively low fares. I think that we have to think of the integrated transport system as an investment in connectivity. We can improve that connectivity by a relatively modest rearrangement.

[51] **Nick Ramsay:** There is a lot of interest in your comments on this, Professor Williams. I know that Byron has been waiting for a while to ask a question.

[52] **Byron Davies:** I would like to pick up on the last point. Who do you think should pay for the railways, then—the rail user or the taxpayer in general?

[53] **Professor Williams:** The British have always wanted a larger network and more services than the rail user is able or willing to pay for. That is the central problem of rail. Privatising the system complicated matters, because it created all these conflicting interests and these rent seekers, like the leasing companies and the train operating companies that are trying to construct profitable positions out of a loss-making industry. In the end, the taxpayer has to pay. However, if you run an integrated transport system, you could begin to think about how you could minimise dividend leakage from the system and put together the profitable and unprofitable bits.

[54] One of the big problems is that people only start saying, ‘Oh, woe is me’ about rail because it is losing money. It has always lost money; it always will, unless you cut it back to a core network that does not include the branch lines and would not include adequate commuting from the Valleys. I think that you also need to look at integrated transport in a much broader sense, for example, the way that the buses are, in fact, really moneyboxes on wheels. If you looked at an integrated transport system, you would want to think about bus and rail in an integrated kind of way.

[55] **Dr Bowman:** I also think that if there is the acceptance that rail is extremely capital intensive and that it is not going to be possible to recover those costs from the farebox—it is always going to be loss-making and it will always require taxpayer subsidy—then part of it is not only about looking at where you can stop leakage, but looking at other ways of raising tax revenues for the railway. New infrastructure, for instance, will raise property prices, and this is an untapped increment, which could be tapped by some form of land-value tax. This is something that is, I guess, more of an issue in London at the moment, looking at the impact that Crossrail is having on property prices. However, I think that, in the long term, it is something that regional Governments should be looking at, too.

[56] **Professor Williams:** So, it is not simply a question of the taxpayer paying, but how the taxpayer pays.

[57] **Nick Ramsay:** Professor Williams, you just said that the railways have always lost money, which I agree with. However, just thinking back to the post-war early days of British Rail, when a number of lines were then considered for closure and the network started to shrink, even then, a non-franchise system did not deliver this panacea of benefits that some might say you are suggesting would happen.

[58] **Professor Williams:** I do not think that there is a panacea. On the train operating

companies, I hope that I have said that their record is less than triumphant; that is our line on the train operating companies. On the question of whether there is a panacea around the corner, I think that the answer is ‘definitely not’, because it depends on large amounts of infrastructural expenditure. To develop Andrew’s point, the central problem, historically, in the railways has been that you build networks and you put in services, but you have no tax mechanism for recovering the benefits that people receive, particularly in improved property prices; that is the central problem.

[59] We have a farebox system. The farebox system did not work for the Great Western Railway, it did not work for British Rail and it is not working for First Great Western and Arriva Trains Wales. We have to think about how we supplement it. If you supplement it with appropriate taxation in the long term, which is a long way away—not something for the next manifesto nationally, let alone for the National Assembly—I think that it would be possible to conceive of a system that had a proper modern infrastructure and was providing the support services that we need for the rest of the economy.

[60] **Joyce Watson:** Thank you for coming this morning. I read your submission very early on with a lot of interest. I want to come back to this comparable profit that Keith was trying to draw out, and the fact that the train companies and operators that we are talking about do not invest in capital but extract, as you have just said, 12.5% profit through subsidy. I want to put in something comparable with that. Let us look at the supermarkets, which get hit when they announce their figures. The difference between the operating costs and profit is roughly 3%, I think, because they are capital intensive. So, it is really about trying to draw in some comparable statistics to make that more meaningful.

10:00

[61] **Professor Williams:** The supermarket margin on sales is about 5%. Arriva Trains’s margin in Wales is 5.5%. On the return on capital employed, Arriva Trains Wales is close to or around 100% and the return on capital employed in supermarkets is 8%. Supermarkets are locked in competition, as you see every quarter when they publish their data. They lose share; they win share. This is a proper capitalist business. I think that our point about railways is that it is a kind of pretence of capitalism, which is making money for some people. This is not a left-wing point. A right-wing economist should be horrified by what is going on in the railways, because it is an attempt to produce a kind of competitive model where the competition is for the franchise, which results in producing a profitable little niche with almost no risk for the operating company. That is our fundamental objection.

[62] **Mick Antoniw:** One point that comes out of your report on that—quite an important point that we have not really pursued at the moment—is the scale of the public debt. You say in your report that Network Rail is now spending more on debt service than it is on track maintenance. Clearly, there are ongoing changes taking place in terms of the devolution of responsibility for franchises. We do not quite know what their future structures might be, but, of that £30 billion of public debt, if you just take the 5% consequential-type approach that we do in Wales, and our proportion of the population, that means that the Welsh proportion of the rail service has potentially a debt of £1.8 billion. Do say so if you are not qualified to say, but it sounds to me as though we are heading along a downward plane of some sort of major financial collapse or catastrophe within the rail system. What are the implications of that scale of debt within the current structure and, in particular, what are the implications for Wales in respect of our share of that?

[63] **Dr Bowman:** I think that the debt of Network Rail needs to be looked at as public debt and it is a public liability. I do not necessarily think that there is going to be an immediate catastrophe, but if it keeps stacking up like it has been, there is a long-term problem here.

[64] **Professor Williams:** The great hope of insiders is that, on a wet Tuesday afternoon in the House of Commons, some Minister for transport will make an announcement that rail is being reorganised and, probably, that there is going to be some degree of regional reintegration of train and track and says that, as part of that, the consolidated debts of Network Rail will be written off, and, on that wet afternoon, £50 billion will vanish. If that does not happen, the second scenario is that somebody will say that the successor companies, or whatever the organisation will be, will have to bear its share of the debt; the debt burden is really onerous. This is really like a 1960s and 1970s nationalised industry. In the 1960s and 1970s, what you had was that the National Coal Board had a wrecked set of accounts and you could see every year that it had a wrecked set of accounts. In this case, it is all dispersed in several people's sets of accounts, but the end result is much the same: accumulated losses piled up in somebody's balance sheet. In this case, it is not the NCB, but Network Rail, and, in this case, they are not public debts, but private debts publicly guaranteed, which are planned to go to £50 billion in the present control period.

[65] **Mick Antoniw:** When Network Rail announced record profits, as it has just done, how can it do that when it has that level of debt within the company's structure? How has that actually been achieved?

[66] **Professor Williams:** It makes a profit at an operating level, while issuing huge amounts of debt and while it is actually paying out very large amounts to service that debt. You have mentioned the point that it is spending more on servicing existing debt than it is on actually maintaining the railway system. I find that to be a quite remarkable position.

[67] **Nick Ramsay:** The next questions are from Eluned Parrott.

[68] **Eluned Parrott:** I just wanted to return to the issue of fares, which is obviously very important to users in terms of their experience of the service. You were talking about the balance between the burden for paying for investment falling on either the passenger or the taxpayer. You said that relatively low fares were important in areas where there are relatively low wages. Could you tell me how the fare per mile on, for example, the south Wales Valleys lines compared with other commuter networks in Britain?

[69] **Dr Bowman:** I do not have data on fares per line for the Valleys lines.

[70] **Professor Williams:** One of the issues, I think, is that lots of the things that we need to know about social connectivity, if you like, are not easily available because we have a complex regulatory structure that generates all kinds of opaque information. For example, when we looked at it when we were writing our main report, the comparison of fares is actually quite difficult. The British system, because of yield management, essentially offers low inconvenient off-peak fares, but places an increasing burden on commuters and long-distance travellers.

[71] **Eluned Parrott:** Surely, it is possible to compare like with like because, obviously, we do not have advance tickets on short commuter routes such as the south Wales Valleys lines. So, every fare is either the full fare or the off-peak fare. That will surely be the case as well in Merseyrail, for example. Can we not compare, as I say, like with like, the commuter routes against the commuter routes, where yield management is not an issue?

[72] **Dr Bowman:** We have not done research on fares, comparing franchises. Our main research was looking at the national rail industry rather than comparing the performance on ticket prices between franchises.

[73] **Eluned Parrott:** Right; I see. Thank you. With regard to some of the issues that you

raised in your paper in terms of policy, obviously, you are aware of the ‘Reforming our Railways: Putting the Customer First’ White Paper, which was launched in March 2012. You say in your submission that,

[74] ‘realigned incentives for over-empowered TOCs and the break-up of Network Rail are very unlikely to deliver the projected efficiency savings.’

[75] Can you explore why you believe that to be the case, please?

[76] **Dr Bowman:** I am sorry; could you please repeat the question?

[77] **Eluned Parrott:** Why do you believe that,

[78] ‘realigned incentives for over-empowered TOCs and the break-up of Network Rail are very unlikely to deliver the projected efficiency savings?’

[79] Obviously, that is a quotation from your paper referring to ‘Reforming our Railways: Putting the Customer First’ White Paper.

[80] **Dr Bowman:** That is because I think that we have already seen what happened with Railtrack when you insert the profit motive into the loss-making part of the business, which is the infrastructure. The result then was that there was efficiency of the wrong kind, which accumulated long-term problems around renewal and maintenance. That is where our scepticism is drawn from.

[81] **Eluned Parrott:** Have you looked into the individual proposals that are proposed in the White Paper and analysed to what extent you think that these are positive developments, or negative developments, in terms of the evolution of the rail industry?

[82] **Professor Williams:** What we do know is that, based on the comparisons that provided the basis for the White Paper, various operations in the UK, like replacing the rail or standard maintenance operations, appear to cost more in the UK than they do in continental European countries. Most of the international comparisons are not very favourable. International comparisons are actually quite hard to make because systems are very different. That was the basis for the claim that large operating efficiencies could be screwed out of the system. I am not at all clear that that is possible or, if it is possible, whether it will not take the form of scrimping on essential maintenance, which was the problem under Railtrack before 2002.

[83] **Eluned Parrott:** So, essentially, your scepticism here is based on past experience as opposed to the detail that is within the White Paper that you refer to.

[84] **Professor Williams:** Yes, it is past experience.

[85] **Eluned Parrott:** I am surprised by that, because you identify specific problems in your paper, which, in part, are addressed by the UK Government White Paper. It would have been helpful to have a direct response to that. For example, you refer to:

[86] ‘black boxes whose internal operations are unexamined’

[87] in terms of the transparency. That is how you describe the transparency of the rail industry. However, the UK Government White Paper has identified that need for greater transparency. Could you comment on its proposals to achieve that?

[88] **Professor Williams:** On transparency?

[89] **Eluned Parrott:** Yes.

[90] **Professor Williams:** I think that the system is massively non-transparent—

[91] **Eluned Parrott:** Which is what the UK Government White Paper says.

[92] **Professor Williams:** Yes, of course. On quite elementary things, it produces socially useful information, and I do not think that there is any proposal to do so. If we look at the last accounts of Arriva Trains Wales, they were 24 pages long and you go to Companies House to look at them. They are pretty opaque, so they allow the company to say, in an edited highlights kind of way, ‘We’ve invested £30 million over the life of the franchise’. It is not entirely clear what this investment is in. I can see that it has £20 million of tangible assets. I can see that it is depreciating by about £3.5 million a year. However, there are many things that one really wants to know and one cannot see from any publicly available information.

[93] Much of the information is geared up—this is true of the Office of Rail Regulation and of successive inquiries—to the question of the satisfaction of the consumer: ‘Are there trains clean?’ and ‘Do they run on time?’ I think that is important, and I would not disparage that. There have been improvements due to the investment in infrastructure, and, no doubt, due to the efforts of the train operating companies.

[94] However, when that is said and done, there is a whole series of broader issues, such as fare comparisons, what the companies are investing in, et cetera, which are completely opaque. This does not simply apply to the train operating companies; it applies to almost everything in the system. If we look at the major source of investment in railways in Wales, it is Network Rail. Leaving aside the big projects such as Loughor or electrification, it is spending about £300 million a year in Wales currently on investment, of which, I think, Andrew, £180 million is on renewals.

[95] **Dr Bowman:** Yes.

[96] **Professor Williams:** What is this investment? Is this routine maintenance? Is the system being upgraded? There are lots of questions here that are very difficult for any outsider to answer.

[97] **Dr Bowman:** Our experience as academics has been that it is an extremely difficult industry to research, and that is the experience of most other academics coming before us. Improvements would obviously be welcome. However, as it stands at the moment, there is a problem with what train operating companies are legally required to divulge about what their investment goes into.

[98] **Nick Ramsay:** Do you support the UK Government’s goal of greater transparency?

[99] **Professor Williams:** Yes, of course. One of the problems is that, with the present divided system, the objective of greater transparency is quite hard to achieve.

[100] **Eluned Parrott:** I do not think that anyone is disagreeing with you, Professor Williams, that there is a lack of transparency in the industry, and we have received evidence to that effect. Indeed, the UK Government’s White Paper says that specifically. However, my question to you was: are the UK Government’s proposals likely to improve transparency?

[101] **Professor Williams:** I think that much will remain buried in the accounts of the companies. We need to be thinking of something that is different from an Office of Rail Regulation, and we need to think of some kind of social audit of what the companies are

doing, such as what they are investing in Wales and what the fare structure is: questions to which there are no answers from present publicly available information.

[102] **Eluned Parrott:** Thank you. In terms of, again, the UK Government's White Paper, it calls for a more strategic role for Government, with, essentially, more devolution of rail structures and perhaps more vertical integration between train operating companies and the infrastructure. Do you think that that is a positive development?

10:15

[103] **Professor Williams:** I think that the disintegration of the system has been a problem in all kinds of ways—not least because it has allowed the train operating companies to make money while the infrastructure company is increasingly in a mess. I also think that vertical integration—that is, the integration of train and track—would, broadly speaking, be sensible. At the same time, one needs to be clear, as we have been clear, that we need to separate two separate accounts in the railways. We need to distinguish between the investment account, which needs to be generously funded, and the operating account, which needs to be fairly parsimonious. If you look at the publicly available information, the most efficient period in the history of British railways was the latter days of British Rail, when it had been completely cash starved for a period of time and was managing in terms of cost per kilometre and most of the other indicators to perform relatively well against its European competitors. What that encourages is the idea that operating should always have a relatively small budget and that investment should have a generous budget.

[104] **Dr Bowman:** To return on that, I do not think that it is just a question of whether regionalisation, devolution and integration are good in and of themselves. It depends what kind of businesses you are doing this with and what kind of business models they are using. Hence our current concern with the train operating companies—their business models, motivations and incentives, and what effect that would have if placed into this kind of system.

[105] **Nick Ramsay:** We are moving into the last quarter of an hour now. I want to bring in Rhun ap Iorwerth.

[106] **Rhun ap Iorwerth:** Hoffwn sôn ychydig am y cyd-destun y byddech yn hoffi gweld y rheilffyrdd yn datblygu o fewn iddo. Rydych wedi crybwyll ambell i ddiwygiad y tu allan i'r sector y byddech yn leicio eu gweld ar ben diwygiadau i'r sector rheilffyrdd yn unig. A allwch sôn ychydig bach yn fwy am y mathau o ddiwygiadau y tu allan i'r sector y byddech yn dymuno eu gweld?

**Rhun ap Iorwerth:** I would like to talk about the context within which you would like to see the railways developing. You have mentioned some out-of-sector reforms that you would like to see in addition to reforms to the rail sector alone. Could you tell us a little bit more about the out-of-sector reforms that you would like to see being delivered?

[107] **Professor Williams:** If we look at the out-of-sector reforms, the two key things are that we need to think about integration, not simply within the railways but between rail, bus and all forms of transport. This is because that is important to connectivity and because some bits are relatively easy to make money on, like buses, and other bits, like railways, are very difficult to make money on. The second point regarding out-of-sector reforms comes back to this basic point: in the long run, we have to address the question of the taxation base that funds transport. The fundamental problem in the system is not the train operating companies, egregious as the dividend extraction is; the fundamental problem is that the system will always require subsidy if you want that level of network and service. You could, of course, decide—we did not over the Beeching closures—that we do not want the mid-Wales line. People have always wanted the mid-Wales line but, in a sense, have not been clear about how

it is going to be paid for. I think, therefore, apart from integrating connectivity and services, and the loss-making and profitable bits of the system, in the long term, you should be thinking about the tax system. If you think about things like Crossrail, as Andrew said, that is boosting property prices hugely along the lines of development and we are getting no social return whatsoever. The thing that is fundamentally broken with railways is cost recovery from the farebox.

[108] **Rhun ap Iorwerth:** Dof yn ôl at y dreth ar dir yn y funud, ond, o ran yr elfen ranbarthol, a ydych chi'n credu y dylai fod cyfrifoldeb rhanbarthol a threthiant ar y lefel ranbarthol neu wahanol genedlaethau o fewn y Deyrnas Unedig er mwyn symud i'r cyfeiriad iawn?

**Rhun ap Iorwerth:** I will come back to land tax in a minute, but, in terms of the regional element, do you think that there should be regional responsibility or taxation at the regional level or the level of the various nations within the UK in order to move in the right direction?

[109] **Professor Williams:** If you look at regional Government, one of the key issues is: what is regional Government responsible for? It seems to me that it is manifestly clear, if transport is connectivity, that transport should be thought of on a regional basis. This would, broadly speaking, encourage people to go into the polling booth and answer the question at the four-ale bar as to what they are doing in the Assembly. It would give regional Government a serious responsibility and role. I think it is hard to see in England, where we do not have regional Government, how you would begin to think of a different kind of transport system.

[110] **Rhun ap Iorwerth:** O edrych ar y dreth y byddech yn dymuno ei gweld ar dir o gwmpas y rheilffyrdd, ydy'r math hwnnw o dreth yn deg mewn gwirionedd o ystyried, o bosibl, nad yw unigolion a busnesau yn yr ardaloedd hyn yr ydych yn sôn amdanynt wedi cael dylanwad dros y buddsoddiad mewn isadeiledd yn eu hardal nhw a gallent hyd yn oed fod wedi bod yn gwrthwynebu'r buddsoddiad hwnnw?

**Rhun ap Iorwerth:** In looking at the land-value tax that you would like to see imposed on land around the railways, is that sort of tax truly fair, given the possibility that individuals and businesses in those areas that you mentioned have not had any influence over the investment in infrastructure in their area and could, perhaps, have even opposed such investment?

[111] **Professor Williams:** All taxes are unpopular. Nobody likes paying them, but, in a sense, if you say, 'the fundamental problem with railways is not enough money in the farebox', the question then is how should taxation be deployed to bridge the gap? It seems to me that, given the many problems we have in justifying taxation, land-value tax is the simplest solution to that problem, because you simply say, 'Whether you wanted the development or not, you have obtained a substantial increase in the value of your house, your office block or whatever and we are now going to tax you on that.'

[112] **Rhun ap Iorwerth:** Er hyn, efallai na fyddai'r bobl a drethir yn cael budd o'r cynnydd hwnnw mewn gwerth eu tir.

**Rhun ap Iorwerth:** However, perhaps those people who would be taxed would not benefit from that increase in the value of their land.

[113] **Professor Williams:** No, but, in a sense, what the tax argument is about is that the whole of urban city life, the whole of a region, is a complicated network and that people benefit in all kinds of ways from external effects within that. My house in Manchester would be worth nothing if it were in the north, above the Lake District. It is worth money in Manchester, because I am 400 yards from a tram, there is a bus service, there are other houses and there are primary schools. That, it seems to me, is a basis for taxation.

[114] **Rhun ap Iorwerth:** Un cwestiwn **Rhun ap Iorwerth:** I have one final

olaf sydd gennyf. Beth ydych yn ei feddwl wrth ail-ddosbarthu gwybodaeth arbenigol neu *redistribution of expert knowledge* a pham bod hynny'n bwysig?

[115] **Professor Williams:** This comes back to the idea of trade narrative. One of the fundamental points is that the privatised system has created an assortment of corporate vested interests who are well able to pay for public relations and consultants and there is very little public interest counterweight to that. Most academics are concerned with publishing their next article for the research assessment exercise. I think that one of the things that we will leave with you this morning is a collection of financials from Arriva Trains Wales, so that you can look at the figures for yourself. I think that organisations such as the Assembly and the democratic process in general need much more factual information and much more social reporting and it also needs public interest work, which, in many cases, I think will challenge the trade narratives and the PR stories that are put around by privatised operators.

[116] **Nick Ramsay:** Rhun, would you like to ask your final question as well at this point so that we can—

[117] **Rhun ap Iorwerth:** Rydym, yn amlwg, yn edrych ar ddyfodol y rheilffyrdd yng Nghymru ar ôl 2018. Sut byddech chi'n crynhoi'r gwersi a ddylai gael eu dysgu yma yng Nghymru o'r hyn yr ydych wedi bod yn ei drafod y bore yma ar gyfer penderfyniadau ar y ffordd ymlaen ar ôl 2018 a'r *franchise* nesaf?

**Rhun ap Iorwerth:** Clearly, we are looking at the future of the railways in Wales post 2018. How would you summarise the lessons that should be learned here in Wales from what you have been discussing here this morning for decisions on the way forward post 2018 and the next franchise?

[118] **Professor Williams:** That is a large question, because one of the big issues, as we know, is what Wales will be allowed to do. If you look at the Scottish situation, you will see that the Scots asked for a derogation of the Railways Act 1993 and Justine Greening flatly said 'no'. So, it partly depends on who wins the next election. If somebody who would not say 'no' were elected, then the National Assembly for Wales should think very seriously about a strategy for regionalised transport that actually integrated a variety of, at present, disintegrated things and began to think about the tax basis for running a system that connected Wales. That, in a sense, is the real goal. If you ask what distinguishes Wales from England, one of the things that should distinguish it is a proper transport system that ties it together. It seems to me that that is a proper cross-party objective for a regional Government.

[119] **Rhun ap Iorwerth:** Mae meysydd eraill, nid yn unig pwy sy'n cael y *franchise* ond beth sy'n digwydd o ran prynu'r trenau ac ati—nid oes rhaid cael y trenau gan y ROSCOs, er enghraifft. Beth sydd wedi cael ei ddysgu ers preifateiddio a allai ddylanwadu ar benderfyniadau Llywodraeth Cymru o ran pwy ddylai fod yn berchnogion ar y trenau, er enghraifft?

**Rhun ap Iorwerth:** There are other areas, not only who is awarded the franchise, but what happens with regard to procuring trains and so on—you do not have to procure the trains from the ROSCOs, for example. What lessons have been learned since privatisation that could influence the decisions of the Welsh Government on who should own the trains, for example?

[120] **Professor Williams:** The leasing companies have been repeatedly criticised for 10 years for excessive profits by various select committees and others. The trains, basically, should be publicly purchased and publicly owned. The problem with the franchise system, of course, is that it is quite hard to avoid that, because if you get the projections wrong, as you almost certainly do in any long-term franchise arrangement, as in Wales, you discover that the Government is responsible for extra services and for extra rolling stock. I would cut the



leasing companies out entirely.

[121] **Joyce Watson:** I want to talk a little bit about sectoral fixes, which we have touched upon in places. I want to explore the question: if we had an abolition of franchise train operating companies when those contracts expire, would it have a damaging effect on services in the short term if we abolished those train operating companies?

[122] **Dr Bowman:** I do not think that it would have to have a damaging effect, because the most sensible course would not be to abolish them in the short term, but simply to move to a non-profit system when the Arriva franchise runs out in 2018. If there is a new franchising process and a new private operator, they will have to learn the ropes as well, and there is a risk inherent in that.

[123] **Professor Williams:** One of the fundamental points that we would make is that franchising cannot be fixed; you need to get rid of franchising, because it is a guess about the future. To get the companies to bid, there has to be a limit to the downside risk that they are taking. So, in effect, you pass the franchise and the profit option to the private sector; the state covers the downside risk, as we have seen in these walkaways from English franchises. Whatever else you do, franchising is not the way to do it. That is one of our arguments.

[124] **Dr Bowman:** You have this very peculiar situation with franchising at the moment in which the train companies will say, 'If you want investment, you need long-term franchises'. Arriva says that it is thanks to the 15-year franchise that we have long-term investment, et cetera. However, the longer the franchise, the more speculative and unrealistic the bets you are making when you create the franchise document. The more short-term the franchise, the less willing the train companies are to invest. So, it is stuck in this very difficult contradiction at the moment.

10:30

[125] Even in terms of investment, what you are getting from the train operating companies is not that much. Arriva says that it is £30 million; we found that very hard to reconcile with its accounts. In any case, it is taking out three times that over the first 10 years of the franchise, and that £90 million in dividends could be put to good use in other areas, we feel.

[126] **Joyce Watson:** That leads me on quite nicely, and probably explains the next question that I would like answered on the record. You have talked at length this morning about the profits that are made in the private sector and how they are underwritten in reality by the taxpayer through off-book accounting—there is no question about that. The question that I would like you to answer on the record is this: why do you think it appropriate to protect a public sector rail operator from GDP risk, but not that private sector rail operators should be protected from GDP risk?

[127] **Professor Williams:** I am agnostic on what private sector operators should and should not be protected from. I think that we have made the point that a franchise is a bet on the future. It is the franchising system per se, rather than the detail of how it is operated, that is the issue. If you look at the 'The Conceit of Enterprise', and at the other stuff that we have done, it is very clear that, as the rail companies admit elsewhere, GDP is a major driver of numbers on the railway. Therefore, it seems to me that, if you are going to look at efficiency and at subsidy requirement, it would be sensible to take that into account in terms of measuring performance.

[128] **Dr Bowman:** I think that this is not just an economic problem; it is a political problem. You have train operators in a political context saying, 'We are taking great amounts of risk, and we are putting in a lot of investment', but that does not tally with a system that

removes the risk for them and in which they have very little investment.

[129] **Nick Ramsay:** We are in the last minute or so now, Joyce.

[130] **Joyce Watson:** Indeed. I want to explore whether you think that a precept proposed on business rates, as well as a land-value tax, is reasonable. What effect might that have on the local economy and employment?

[131] **Dr Bowman:** The effect of a land-value tax on the local economy and employment—

[132] **Joyce Watson:** Business rates.

[133] **Professor Williams:** The short answer is that it depends on how far you go down this road and how quickly. At present, 30% plus of the cost of the railway system is met in one way or another out of the public purse. It is also the case that private, but publicly guaranteed, debt is being clocked up. So, I do not think that you can envisage that any move towards land-value tax or business rate precepts that are realistic would conjure all of that away. It is a long-standing mess, but I do not see how it is soluble without some form of taxation that tackles the central issue. The farebox is inadequate and recovering costs from users is inadequate, because there are large social benefits that people get from the railways, including through property prices, which are not being tapped at all. How far you go down that road and how quickly is a matter of pragmatism. I think that it would be sensible to go a bit of the way down that road fairly quickly.

[134] **Joyce Watson:** So, what you are really saying is that it is time that we came clean about the lie that is currently in existence about profit and loss. The greatest loss of all is accounted off-book, not seen, not visible. That is the real issue that we need to tackle.

[135] **Nick Ramsay:** We have to allow 10 minutes to establish the video link with Brussels, so I have to close this session now. I thank Professor Karel Williams and Dr Andrew Bowman for agreeing to be with us today. This has been a really interesting session. Thank you for helping the committee.

[136] **Professor Williams:** Thank you for a very serious set of questions. I have previously appeared at Westminster in connection with train construction, and I must say that this morning's questions were more structured and more pointed than those asked by Westminster MPs.

[137] **Nick Ramsay:** We like to set the pace here. [*Laughter.*]

[138] **Professor Williams:** I thought that you would like to hear that. Thank you very much.

[139] **Nick Ramsay:** We will now break for 10 minutes. We will be back at 10.45 a.m., to allow for the connection with Brussels to be established on the video link.

*Gohiriwyd y cyfarfod rhwng 10:35 a 10:46.  
The meeting adjourned between 10:35 and 10:46.*

**TEN-T a Rheoliadau CEF (Cynhadledd Fideo)  
TEN-T and CEF Regulations (Videoconference)**

[140] **Nick Ramsay:** I welcome Members back to this morning's Enterprise and Business Committee meeting. I also welcome our witnesses, who are on the video link from Brussels.

Thank you for agreeing to give evidence to us today. May I ask our witnesses in Brussels to give their names and titles for our Record of Proceedings, please?

[141] **Mr Ruijters:** Thank you for this opportunity to speak to you. I am Herald Ruijters, I am the head of unit for the trans-European transport networks in the Directorate-General for Mobility and Transport, MOVE, in the European Commission.

[142] **Mr Chantraine:** My name is Philippe Chantraine. I am a desk officer in Herald's team.

[143] **Mr Ferreira:** My name is Joao Ferreira, and I work in the unit of DG MOVE responsible for investment strategies and the connecting Europe facility. I am also a policy contact in DG MOVE for the UK.

[144] **Mr Jones:** I am Gregg Jones, I am head of the Assembly's European Union Office here in Brussels.

[145] **Nick Ramsay:** Thanks, witnesses, and thanks, Gregg. We have a number of questions for you, so I propose that we go straight into those. The first is from Rhun ap Iorwerth.

[146] **Rhun ap Iorwerth:** Diolch yn fawr iawn i chi, a bore da. Rwy'n hapus i bwy bynnag ateb y cwestiynau, fel rydych chi yna ym Mrwsel yn teimlo sy'n addas. Yn gyntaf, a gaf i ofyn sut a pham y bydd y dull o ddatblygu ac ariannu TEN-T yn newid o 2014 ymlaen?

**Rhun ap Iorwerth:** Thank you very much, and good morning. I am happy for any of you to answer the questions, as you, over in Brussels, see fit. First, may I ask why and how the approach to developing and funding TEN-T will change post-2014?

[147] **Mr Ruijters:** Thank you for your question. As an introductory, short word, I would say that, two days ago in Strasbourg, the European Parliament voted through both proposals for TEN-T and the connecting Europe facility. It is foreseen that, after a passage in Council on 5 December, the texts will enter into force by the end of this year. What does that imply? It means that, as of 1 January 2014, we have a new trans-European network for transport and a new infrastructure fund—the connecting Europe facility, which will make means available to the member states that are normally deployed by calls for proposals in the form of grants and partly, also, in the form of innovative financial instruments. The description of the network in the TEN-T regulation clearly lays down everything that can be put forward in these calls for proposals—everything that is eligible. This is done, of course, through a number of articles that describe the comprehensive network as well as the core network and that find themselves back in the maps that are, in fact, the evidence of these eligible parts on your territory.

[148] Just to highlight that, for Wales, as part of the United Kingdom, there are a number of ports that are in the first map, which highlights the ports and inland waterways. In particular, I would cite Milford Haven, Newport and Cardiff, which are part of the core network, and then we have a map that highlights rail—rail freight and rail passengers—where we also have the link from Newport to Cardiff to Swansea, all the way to Milford Haven, in the core network. In the north, there is the link to Holyhead in the core network. Finally, on the road map, similarly, the roads go to Milford and to Holyhead. Why is this important? Just as a conclusion from my side, this is important because 80% to 85% of the core funding available will be put into elements or nodes or lines of the core network, and they are described in some detail in the annexes.

[149] **Rhun ap Iorwerth:** A allwch chi ddweud ychydig yn fwy am y gwahaniaeth

**Rhun ap Iorwerth:** Could you tell us a little more about the distinction in the status of the

yn statws y rhwydwaith cynhwysfawr, y rhwydwaith craidd a choridorau'r rhwydwaith craidd? I ba raddau y mae rhannu elfennau gwahanol y rhwydwaith trafniadaeth i'r categorïau hynny yn effeithio ar y gallu i ddenu arian Ewropeaidd i mewn ar gyfer eu datblygu?

comprehensive network, the core network and the core network corridors? To what extent does differentiating between the different elements of the network into those various categories impact on the ability to attract European funding for their development?

[150] **Mr Ruijters:** Yes. In fact, a distinction should be made between two levels: between the comprehensive network and the core network. The core network has a clear priority because the regulations foresee that it shall be implemented and be fully functional by 2030. Therefore, within the 2014-20 financial perspectives that are covered by the connecting Europe facility, it is foreseen that 80% to 85% of the connecting Europe facility, which is a fund of €26 billion, will be concentrated mainly on this core network, as well as a number of horizontal priorities that are also linked to the core network. The corridors are only an implementation instrument. They are not a priority, as such, in the connecting Europe facility. The corridors regroup projects together that are in the core network, but they do not form a third layer of prioritisation. So, there is only a distinction made between comprehensive and core. So far, the projects that I cited previously for the territory of Wales are, I think, within the highest level of prioritisation that is foreseen.

[151] **Rhun ap Iorwerth:** Rwy'n ymddiheuro os wyf yn gofyn i chi ailadrodd rhywbeth, mewn ffordd, ond y bwriad gwreiddiol oedd cynnwys Cymru yn y coridorau craidd. Pam nad yw Cymru bellach wedi cael ei chynnwys yn y cynllun hwnnw, a beth yw'r goblygiadau o ran cael mynediad i gyllid cyfleuster cysylltu Ewrop, achos mae hynny'n hanfodol?

**Rhun ap Iorwerth:** I apologise if I am asking you to repeat yourself, in a way, but there was originally an intention to include Wales in the core network corridors. Why is Wales now excluded from that particular proposal, and what are the implications in terms of access to the connecting Europe facility funding, because that is crucial?

[152] **Mr Ruijters:** Thank you for asking for further clarification on this subject. As I indicated before, there is no distinction on eligibility. The distinction lies in the fact that the corridors are a tool for implementing the core network. They will bring together member states and stakeholders along such a corridor. If you are in a corridor, you will, of course, have access to information from other member states from other regions across a corridor, whereas not being included in such a corridor, of course, prevents you from having this tool, though it does not prevent you from applying in any call for proposals for any of the projects that would situate themselves in the core network. So, there is no distinction in financing terms. There is a distinction in terms of implementation, insofar as you will not be included in one of the nine core network corridors that have been set up. I have to be very transparent here: in the negotiations in the Council, the United Kingdom has been very clear that the instrument of the core network corridors was not a priority for the United Kingdom. Therefore, the corridor, as such, was clearly seen by the United Kingdom—by London—to be as limited or reduced in its impact as possible. It was up to the negotiators within the Council to find the compromise that was finally reached. As you know, the Commission, in its initial proposal, was foreseeing the inclusion of links across Wales towards Ireland and the motorways that were linking the United Kingdom and the island of Ireland, and towards the continent—France, Spain and Benelux.

[153] **Rhun ap Iorwerth:** Rwy'n meddwl fy mod yn deall yr hyn yr ydych yn ei ddweud o ran goblygiadau ariannol, ond mae'n bryder, gan sôn am fy etholaeth i, er enghraifft, nad yw porthladd Caergybi o fewn

**Rhun ap Iorwerth:** I think that I have understood your answer in terms of the financial implications, but it is a cause of concern, in my constituency, for example, that the port of Holyhead is not within a

corridor. Oni fyddai manteision clir i gael y porthladd pwysig hwnnw o fewn corridor?

corridor. There would be clear benefits to have that important port within the corridor structure, would there not?

[154] **Mr Ruijters:** Indeed; I approve your analysis. It would have been beneficial to have Holyhead in the corridor. In that way, we would have been, I would say, capable of analysing the investments that are needed alongside that rail and road line in conjunction with the developments that will take place in Dublin, for instance, with the Dublin Area Rapid Transport project that it is developing or, also, even to see beyond Ireland and the United Kingdom towards the links to the continent. You are absolutely correct that inclusion would, of course, have provided this information and would, thereby, also have enhanced, for the benefit of all of the member states, the EU added value that is available when doing such an exercise.

[155] **Rhun ap Iorwerth:** A allwch chi gadarnhau bod y Comisiwn, yn wreiddiol, wedi cynnig y byddai Caergybi yn rhan o goridor, ond bod Llywodraeth Prydain wedi penderfynu nad felly y dylai hi fod?

**Rhun ap Iorwerth:** Can you confirm that the Commission had originally proposed that Holyhead would be part of a corridor, but that the UK Government decided that that would not be the case?

[156] **Mr Ruijters:** I do confirm that.

[157] **Rhun ap Iorwerth:** Diolch yn fawr. Un cwestiwn olaf sydd gen i: a oes cyfle, er bod hyn wedi cael ei basio ddeuddydd yn ôl, fel y dywedoch chi, i adolygu'r sefyllfa hon, o bosibl drwy ryw fath o broses o adolygu yn y dyfodol? Yn amlwg, yng Nghaergybi ac mewn rhannau eraill o Gymru—achos mae'n bwysig agor hyn allan—mae cyfleoedd mawr wedi cael eu colli yma. A fydd hi'n bosibl adolygu hyn?

**Rhun ap Iorwerth:** Thank you very much. I have one final question: is there any opportunity, although this has been passed two days ago, as you mentioned, to review this situation through some sort of review process in future? Clearly, in Holyhead and in other parts of Wales—because it is important that we should open this out—there are major opportunities that have been lost here. Can this be reviewed?

[158] **Mr Ruijters:** At the moment, a review is not foreseen for the layout of the corridors. A review will be undertaken towards the end of the period, which is 2020, when the new financial period, from 2020-27, will be prepared, but not before.

[159] **Rhun ap Iorwerth:** Diolch yn fawr iawn i chi.

**Rhun ap Iorwerth:** Thank you very much.

[160] **Nick Ramsay:** Thank you for your clarification and transparency with Rhun ap Iorwerth's question. May I ask for some clarification on what you have said? I think that you said that 80% to 85% of the connecting Europe facility is for core networks, but the regulation says that 80% to 85% is for pre-identified projects within corridors. Are both of those correct?

[161] **Mr Ruijters:** Let me be very precise. The 80% to 85% refers to the annex of the connecting Europe facility in which the three priorities are identified. First of all, there are a number of horizontal priorities, just like interoperability schemes and so on; then there are the identified projects on the corridors; finally, there are the identified projects that are not on a corridor but are in a core network. Basically, altogether, these form projects on the entire core network.

[162] **Nick Ramsay:** Thank you for that; that is really helpful. The committee is just trying to get its head around the importance of the corridor system. The next question is from Mick Antoniw.

[163] **Mick Antoniw:** I would like to follow on from the questioning about the changes to the plans and the exclusion, effectively, of Wales from that core network. You have indicated that this is, effectively, at the specific request of the member state—that is, the United Kingdom. Are these plans now completely settled? That is, are they set in stone, or is there any ongoing process that may result in amendment or adjustment to the plans that are before us?

11:00

[164] **Mr Ruijters:** Thank you for your question. There are two parts to my reply. First of all, the maps are set in stone until 2023, as far as the lines on the maps are concerned. As far as the nodes on the maps are concerned, there is a possibility for change in view of ports and airports that would attain the minimal level and thereby be inserted into the maps. On that part, I would like to stress that, due to the actions of the United Kingdom, and of London, Milford Haven has been added to the map during the negotiations. It was not in the Commission's proposal originally, in the core network; it was only in the comprehensive network, and it has been included because of the negotiations, thereby also providing for the rail and road links to be included in the core network. So, on that side of the picture, I would clearly like to stress that London has been very attentive to the position of Wales.

[165] As to the second part of my reply, regarding the financing, and referring back to the previous question from the Chair, indeed, it is possible to amend mid-term, in 2017, the list of projects summed up in the annex. At this moment, we find in the annex two lines that refer to projects in Wales, but these can be updated mid-term.

[166] **Mick Antoniw:** One of the issues arising from the plans is that the south Wales rail link to Milford Haven is identified as 'completed'. Can you clarify what 'completed' actually means?

[167] **Mr Ruijters:** The status of the lines on the map is an issue that has not been harmonised throughout the 28 member states. Some member states consider 'completed' really as 'no works' and 'nothing to be done', whereas other member states have been interpreting this more flexibly—and this is also the common shared knowledge. The status of the lines on the map does not influence at all any possibilities for requests. A line can be signalled or shown as 'completed', but, for instance, there is no interoperability or European rail traffic management system on the line. A line can be shown as 'completed' but still be unsuitable for 750m-long trains. All these situations occur across the 28 member states, and they do not prevent the filing of any requests for grants.

[168] **Mick Antoniw:** Thank you for that. I would like to ask one final question that relates to a point that I am not sure I completely understood. It is about the implications of not being part of the core network. You made reference to access to information and the involvement of the development of strategies and projects. Could you just clarify that point?

[169] **Nick Ramsay:** May I just clarify something? Mick, when you say 'not part of the core network', do you mean 'not part of the core network corridor'?

[170] **Mick Antoniw:** Yes, I do. Apologies.

[171] **Mr Ruijters:** Indeed, when in a corridor, information would be available on the precise details of the corridor. For instance, for the number of passengers and the amount of freight transported along the corridor, the input comes from the figureheads of these corridors, which are ports, and the capacities that are available along such a corridor. At the same time, the corridors will make available to all the participants the investments that are done by the

various member states, regions, Länder, or whatever; therefore, there is a possibility that we will be better able to synchronise investments and capacities and interoperability schemes along a corridor, which all increase the value of the advancements. Within Wales, you are not included in a corridor, and I repeat that it does not prevent you from asking for a grant from the connecting Europe facility. We are at your disposal to work with Wales to see that possible requests on those lines or nodes can be filed and honoured properly.

[172] **Mick Antoniw:** I have one point following on from that: the position of regional Government is weakened through not having that immediate and direct access to those data and information and being part of that crucial process that enables one to access, apply for and secure funding. Is that a reasonable inference?

[173] **Mr Ruijters:** I confirm what you are saying. Of course, the information on the nine corridors will be made available transparently to all member states and the European Parliament. For those parts of the network that are not included in a corridor we will remain, as the European Commission and also the executive agency, available—as though they were included—and we will be happy to assist, wherever assistance was needed.

[174] **Rhun ap Iorwerth:** In addition to that, and going back over some of what we were talking about earlier with regard to the influence of regions within Europe, could you explain to us what role the Welsh Government was able to play in the initial drawing up of those core corridor maps and, ultimately, that decision by the UK Government to not give us the maps that would have helped our economy in the way that we would like?

[175] **Mr Ruijters:** As regards the drawing up of the maps, experts from Wales were included. We travelled to London several times ourselves. I was in three of those meetings, and experts from Wales, Northern Ireland and Scotland were invited by the Department for Transport to two of those meetings. We had quite a number of meetings here in Brussels where the representatives of the Department for Transport were defending the case of Wales too, based on the information that had been exchanged with the Welsh experts. As I reported before, Milford Haven was thereby lifted to the core network as well as the links that tie up Milford Haven with Swansea, Cardiff, Newport and into England. On that side, the negotiation process and the inclusion of expertise from Wales was done correctly. The fact that the United Kingdom then decided to restrict the corridors as much as possible in the territory of the United Kingdom was a position taken by the United Kingdom alone. From our side, we have been trying strongly to convince the United Kingdom to participate in the corridor and we regret that this has not been done.

[176] The second part of my reply relates to the consequence of that. The Welsh Government will therefore not participate in a corridor and, as I said before, we would welcome any co-operation. The report and analysis on the nine corridors will be made available in all transparency.

[177] **Mike Hedges:** Looking at the maps, Holyhead is by far the closest point to Dublin. I have looked across the rest of Europe and for most of it—in fact, everywhere I can see—they seem to have taken the closest point in order to reduce the journey time. Once again, and please correct me if I am wrong, people tend to travel a lot slower over the sea than they do overland, either by train or by car. So, can you explain why Holyhead, which, from looking at the map, appears to be the ideal location, has been left out?

[178] **Mr Ruijters:** Holyhead is included as a port of the comprehensive network, so I would not consider Holyhead as being left out. We could co-fund from all sides any activities, just like on the southern Wales line, which will need to be upgraded in terms of the rail links, for instance. I agree that Holyhead is the shortest link towards Dublin and here, also, we are in contact with the Irish authorities to see whether any motorways of the sea projects could be

developed between Ireland and Wales in order to increase and improve the links that are already there. We have suggested to the Irish experts that they could certainly apply already in relation to the call that will be open as of December, for instance, for liquefied natural gas installations in the Irish sea, which would make the maritime traffic cleaner with regard to the carbon dioxide, nitrogen oxides and sulphur oxides emissions.

[179] **Mike Hedges:** I am sorry, I did not make myself quite clear. With regard to the map I have here, which says, ‘Trans-European transport network’, Holyhead is not on it. It seems to be the Liverpool-Dublin link that has been identified. The question that I did ask, though, is this: where else in Europe have they not chosen the nearest port?

[180] **Nick Ramsay:** You are talking about the corridor, Mike.

[181] **Mike Hedges:** Yes, on the corridor, where else in Europe—

[182] **Nick Ramsay:** Not the core network.

[183] **Mike Hedges:** The trans-European transport network core network corridors.

[184] **Mr Ruijters:** Okay; thank you for that clarification. Indeed, Holyhead is on the core network and, as I explained before, all investments are therefore possible. It is not on the corridor—I fully agree—and, indeed, as I explained before, there is not this co-operation mechanism nor is the implementation tool available. So, that distinction has to be very clearly made. The projects will be fully possible and eligible, and can be put forward in a call for proposals, but there is no implementation mechanism in the corridor.

[185] **Mike Hedges:** On the corridor, once again, where else in Europe have they not chosen the nearest point?

[186] **Mr Ruijters:** I would simply affirm positively that there is no such other point on the map. In fact, all member states have seen the need to co-operate with such an implementation mechanism and have, in many instances, also negotiated successfully the inclusion of additional ports into the core network corridors in comparison with the Commission proposal. So, there has been, indeed, a move from all member states to take up the proposal of the Commission and even to widen it further, whereas the UK has been doing the opposite.

[187] **Mick Antoniw:** I would like to ask one short further question on that particular point. Are you able to tell me what was the specific reason given by the UK Government for the change?

[188] **Mr Ruijters:** The UK Government clearly indicated in the various meetings that it saw no added value and would consider it to be an administrative burden should it have to participate in a corridor that would not directly tie it, as other member states, across the border to other member states. The United Kingdom argued that, nevertheless, it does have a great economy in Europe, exporting through its ports, and that it would also be of benefit for the inland links of the ports to be included in order to mirror the investments that are done on the other side, on the continent.

[189] **Nick Ramsay:** Joyce Watson, do you have a very brief question?

11:15

[190] **Joyce Watson:** Yes, it is very brief. You mentioned LNG developments between Dublin and I think that you said Holyhead. When you are looking at routes and at the fact that Milford Haven already has LNG, how would you work, knowing that there is LNG capacity



in Milford Haven, when you are considering a request for a possible LNG route between Dublin and Holyhead? What might the impact of that be?

[191] **Mr Ruijters:** Motorways of the sea is keen to develop LNG across Europe. Nowadays, we have some 15 LNG projects, mainly in the Baltic sea, but also in the North sea. There is also a first initiative now in the Mediterranean. We see that the low sulphur zones, which are foreseen to enter into force in 2015 in the Baltic sea and shortly thereafter, I think, in the North sea, will be expanding across the world through the International Maritime Organization's work. Motorways of the sea offers several solutions for being able to respect the legislation that is set up in that international framework by the IMO.

[192] In discussions that we have with experts in Dublin, we have been trying to cite a number of examples that could be taken on board by Dublin port. We have been talking about the possibilities for LNG, but also about other available techniques, such as scrubbers, or cold ironing, or whatever is available today. We have a first project on methanol and, of course, given the frequent links between Dublin and Holyhead, there is, I would say, an opportunity for such a project to be submitted within the programme.

[193] **Nick Ramsay:** Okay, we need to move on now and go to Rhun ap Iorwerth, very briefly.

[194] **Rhun ap Iorwerth:** I have a very brief question. To what extent were you in the European Commission aware that the UK Government's objection to playing along with the corridors plan may have been in relation, in some way, to proposals for the HS2 rail line in England?

[195] **Mr Ruijters:** Thank you for your question. The United Kingdom argued that this link was not made.

[196] **Byron Davies:** Good afternoon, or good morning—where are we? Good morning. The preamble to the regulations states that it is necessary to identify projects of common interest. Could you perhaps expand on this and the meaning of the term 'projects of common interest'?

[197] **Mr Ruijters:** Everything on these four maps is eligible and is a possible project of common interest.

[198] **Byron Davies:** So, what can we do in Wales, and what should the UK Government be doing to develop these projects of common interest?

[199] **Mr Ruijters:** The projects that can be developed in Wales are manifold. I do not have up-to-date knowledge of all of the situations on your territory, but as far as I remember, we had discussions with your experts on the electrification of certain rail lines. We are having discussions on the installation of ERTMS and we have been having discussions on the rail links into the ports and certain last mile issues. We have also been discussing some intelligent transport systems and other core roads. We have been discussing ports and related projects, some of which I quoted before for motorways of the sea. I would say that there is quite a wealth of projects that could be coming forward. What is happening in most member states is that member states have a portfolio of projects that they share with us and that we jointly discuss and slowly develop for submission in calls for proposals. Regularly, what is happening is that we have exchanges once or twice a year in order to see that the portfolio that is available is mature for submission in a call for proposals. What you can expect from MOVE's side is that calls for proposals will be launched from probably April to June 2014 for a first call, and then thereafter they will be at regular intervals, as we have been doing now, possibly at yearly intervals.

[200] **Byron Davies:** Okay, thank you.

[201] **Keith Davies:** Fe wnaf ofyn yn Gymraeg, a bore da i chi. Wrth edrych ar fapiau'r rheilffyrdd, rwy'n gweld bod gennyh chi yn y fan honno 'mynd i Aberdaugleddau i gludo nwyddau'. Ar y map sy'n mynd â theithwyr, gwelaf eich bod yn mynd i Gaergybi. Mae fy nghwestiwn i am drydaneiddio. A yw'r ffaith bod y ddau borthladd hynny ar y mapiau yn golygu ein bod yn mynd i gael trydaneiddio'r rheilffyrdd i'r ddau le erbyn 2030? Y cynlluniau sydd gennym yn awr yng Nghymru yw na fyddwn ond yn trydaneiddio o Lundain i Abertawe i deithwyr; ni fyddwn yn trydaneiddio i gludo nwyddau i Abertawe. O ddarllen eich cynlluniau chi, a allwch chi gadarnhau y byddwch yn trydaneiddio i deithwyr ac i gludo nwyddau yr holl ffordd o Lundain i Gaergybi, a'r holl ffordd o Lundain i Aberdaugleddau erbyn 2030?

**Keith Davies:** I will ask my question in Welsh, and good morning to you. In looking at the railway maps, I see that it goes to Milford Haven to carry freight. On the map carrying travellers, I see that you go to Holyhead. The question that I have is about electrification. Does the fact that those two ports are on the maps mean that we are going to have electrification of the railways to those two ports by 2030? The plans that we have at the moment in Wales are that we are electrifying from London to Swansea for passengers only; we are not electrifying for freight to Swansea. From reading your plans, can you confirm that you will be electrifying for passengers and for freight all the way from London to Holyhead, and all the way from London to Milford Haven by 2030?

[202] **Mr Ruijters:** Thank you for your question, which is very to the point. I confirm that there is an obligation to electrify the two lines all the way before 2030.

[203] **Keith Davies:** Diolch yn fawr.

**Keith Davies:** Thank you very much.

[204] **Nick Ramsay:** Thank you, Keith. Mike Hedges is next.

[205] **Mike Hedges:** That brings me nicely on to my question. Is there a clear list of projects that the Commission expects to be delivered to implement the network? You mentioned rail electrification, but are there other items on that list that need to be developed? For example, you talked about freight terminals, but it does not make clear how many are expected and at what locations.

[206] **Mr Ruijters:** Thank you for the question. Indeed, it is not only electrification. The regulation prescribes a number of standards that have to be complied with by 2030. I can cite them; they are, of course, in the legislation directly. We have to have full electrification, including the port links and the sidings that are necessary, with the possibility of exemptions for those port links or last miles, because they could pose a problem. We also have the prescription of 22.5 tonnes per axle for the axle load. We have a line speed of 100 km per hour, and a possibility to run trains of 750m, which again requires that you have sidings that provide for that capacity. We then have a full deployment of the European rail traffic management system along the railway lines. The other obligation does not apply to your territory—it is rather for Spain, Portugal and the Baltic states. Those are the criteria for rail. We also have certain criteria for the other transport modes, but I was focusing on the rail mode.

[207] **Mike Hedges:** Okay, thank you. How will the TEN-T policy reflect the role of regional Governments, as well as local authorities and other entities, such as private companies, responsible for delivering transport networks? Will the Commission engage directly with these entities, especially regional Governments, or will this be the responsibility of the member states to engage with the regional Governments and local authorities?

[208] **Mr Ruijters:** Thank you for that question. I can be very clear: we also engage with regional Governments, because regional Governments have responsibilities and budgets that contribute equally to the completion of the network. What is happening in practice is that the proposals for projects come to us via the member states, but do not prevent us from commissioning decisions directly to a regional Government, a port authority or a private undertaking. So, even if there is a connection via the member states for the submission of a proposal, we do so. We also want to stress that the two new Acts that will be enforced at the end of the year are regulations, so they directly address all the subjects and not just the member states.

[209] **Nick Ramsay:** I wish to ask you about the basis on which exemptions from the infrastructure requirements on the core network will be granted.

[210] **Mr Ruijters:** Thank you for that question. There is a procedure foreseen in the new regulations that clearly identifies that it is the Commission that will grant such exemptions.

[211] **Nick Ramsay:** On what basis would they be granted? Would it be on a value-for-money basis or some other parameters?

[212] **Mr Ruijters:** No, in fact, we have a directive for interoperability and we would take that as the basis. Then, there would be a justified case to be established for establishing such an exemption.

[213] **Nick Ramsay:** Thank you. The next question is from Joyce Watson.

[214] **Joyce Watson:** Good morning. I want to ask about the management of the connecting Europe facility and how the transport element of that will be managed and delivered, particularly the priorities and criteria by which projects will be assessed, and the mechanism by which they will be delivered.

[215] **Mr Ruijters:** I apologise. I do not fully grasp your question.

[216] **Joyce Watson:** There has to be a system about managing the connecting Europe facility. There has to be a system that manages and delivers the priorities and the criteria of those projects. What I am asking is how those priorities come about. What is a priority, and what are the criteria that actually decide that it is a priority?

[217] **Mr Ruijters:** I am sorry for asking you twice. Thank you for the question. In fact, we are very close, as I said, to it coming into force. The first thing that will happen as of now is that a delegated Act will be adopted that will further detail the priorities as foreseen by the legislation. From the moment that delegated Act will be adopted, which will not substantially alter what is in the regulation, we will start, as in the previous or present period, to publish work programmes. These work programmes will be adopted following a Commission proposal which will then be voted on by a committee of representatives of the member states and also seen by the European Parliament. These work programmes will detail the priorities that are foreseen in the connecting Europe facility. This will probably work in a way where we will have a number of work programmes per year that will be devoted to the different priorities: for instance, two on interoperability, two motorways of the sea, and two for the core network. This way of working is in centralised management where member states thereafter will apply for funding, which will then be evaluated afterwards and put into the budget that is foreseen.

[218] **Joyce Watson:** Thank you. I want to know whether projects that provide access to the TEN-T network that are not on the network are eligible. I am thinking here about the

metro proposal.

[219] **Mr Ruijters:** To be very clear, they are not eligible for TEN-T or for CEF, but there may be other forms of EU core funding that can be made available for that kind of project. I am now thinking of the regional funds that might be available.

[220] **Joyce Watson:** Finally, from me, how will the connecting Europe facility fund be used for projects on the comprehensive network? Which other EU funding sources can be used to fund that section of that network?

11:30

[221] **Mr Ruijters:** The comprehensive network projects could be co-funded. There is a small budget foreseen for projects on the comprehensive network, which goes up to 5% of the €26 billion. At the same time, there is a second possibility, which is the innovative financial instruments. These instruments that, for a start, go up to 10% of the budget and can go up to 20% due to the take-up of those funds, will also be available for projects on the comprehensive network—I am notably thinking, for instance, of projects that are on the comprehensive road network that could be co-funded through one of these sources, notably the innovative financial instruments.

[222] **Keith Davies:** I would like to follow that up about funding. Looking at the TEN-T core network corridors, I see that Oslo is in it. Of course, Norway is not part of your responsibility, so will there be funding for that TEN-T network corridor to Oslo?

[223] **Mr Ruijters:** This is a very good question. Of course, for Norway, Switzerland and Iceland, being part of the European Economic Area—or, in Switzerland's case, for the transport agreement—this legislation will be transposed into the national legislation. As regards the possibility for funding, these countries can, to a limited extent, benefit insofar as they would then also contribute. So, normally, it is not foreseen that there is any co-funding available for them in the same way as for member states, but there are a few mechanisms that are foreseen. First of all, for the first time, the connecting Europe facility talks about the country funding that will be available, which is limited to cross-border and to interoperability. Secondly, there might be a possibility, also with the innovative funding available, but also these countries would have to guarantee their share into this.

[224] **Eluned Parrott:** You will have had the impression, I am sure, that the committee is not exactly delighted that Wales is not included in the core network, but—

[225] **Nick Ramsay:** The core network corridor.

[226] **Eluned Parrott:** The core network corridor—apologies. However, we are where we are, and we now need to understand how we can best move forward and make the best use of the opportunities that this programme offers to Wales. What do you think the best approach would be for the Welsh Government in order to develop proposals so that we can access funding, either via grants or via the innovative financial instruments?

[227] **Mr Ruijters:** Thank you for that question, which I consider very constructive. I will be very transparent in my reply. The best thing to do would of course be to have an exchange now perhaps between your committee and your experts, and all experts, in order to see what projects are in your pipeline at this moment in time. I have highlighted the standards that the network will have to comply with. I have cited some examples that Wales could be benefiting from. Sitting together will allow you to identify the projects that are mature and will offer a fair chance for getting co-funding from the EU. I would like to stress that, in the calls that we have been issuing in this period, the budget has been oversubscribed three to four times for

each call, so I would say that the competition that is there to obtain the budgets that are available is quite strong. The need to prepare any submission is absolutely there. If there is such an exchange, and we are ready to also travel to Wales, and we are ready to receive you here in Brussels, we would be very happy to work with you and to see which projects have the best chance of getting part of the EU co-funding.

[228] **Eluned Parrott:** That is extremely helpful and I would like to thank you very much for that answer. Clearly, looking at the priorities for the funding facilities, comprehensive network projects are eligible, as you say, under certain circumstances, and they are the ones that are bridging missing links and facilitating cross-border traffic flows and those kinds of issues. However, obviously, Wales does not have a land border with any of its European neighbours. We have a land border only with England. Do you think that that is going to present difficulty in terms of developing projects that have that kind of cross-border impact that you seem to be searching for?

[229] **Mr Ruijters:** Thank you for your question. First of all, I would like to stress that, in the meetings that we had leading up to this new regulation, the Welsh experts indicated to us that there are quite a few projects that you still have and that you would like to carry out on your core network lines and nodes. I think that they already provide quite a good opportunity for co-operation between us.

[230] As regards the comprehensive network, the situation is, I would say, very similar to that of other member states. In fact, the comprehensive network possibilities are mainly focusing on innovative financial instruments for roads, where I would say that the possibilities are fair and there is no difference there between being cross-border or not. For the cross-border roads on the comprehensive network and the grant money, which is limited to 5%, I think that any such dossiers will be very difficult for any member state in the near future. We will try to emphasise the completion of the core network, first of all, and I do not expect, in short, any call that will focus on these 5% to start with. We will, first, certainly start with the core network implementation. I think that, for Wales, the innovative financial instruments could be a solution, and I would have to explore with you what kind of project there would be for Wales and see whether there was a possibility for presenting it in such a way. We would be attentive to that, because Cyprus, Malta and Ireland are also in a similar situation to you. Therefore, I think that there is no reason to doubt that there would be different treatment.

[231] **Eluned Parrott:** The possibility of using innovative financial instruments is something that must be explored, but it was my understanding that, in terms of accessing those financial instruments, any project must be representing this European value added, so, again, addressing these cross-border issues that you are concerned with. Are you concerned or should we be concerned, rather, that nations in the same situation as Wales are going to have difficulty in putting together a successful bid for the financial instrument on the basis of the way in which it has been narrowed down?

[232] **Mr Ruijters:** Thank you for your question. I want to be very clear; let me be clearer than in my previous reply: for these member states and territories where there is no such possibility, physically, to have cross-border projects, we will certainly be able to look at proposals taking that into account. From the actual financing period, you will be able to see that we have been co-funding such projects in the member states that I was citing, for instance.

[233] **Eluned Parrott:** Thank you, that is clear. Finally from me, you mentioned the engagement that you have had with Welsh officials in terms of these projects. I am wondering whether you can share with us any examples of good practice where other regional Governments have been particularly successful in accessing funding.

[234] **Mr Ruijters:** Thank you for that question. There are plenty of examples all around. I will cite a few of them. For instance, in Germany, to start with, we have a number of Länder that have successfully applied for co-funding. For instance, the studies done between Munich and Salzburg are co-funded by the land of Bavaria, which has submitted these projects via Berlin, but has had no problem whatsoever in getting them recognised, in having them found eligible, and then in having a positive evaluation and grants attributed. We have similar projects in France, where the region of Alsace in the east has been very successful in putting forward proposals in co-operation with Paris. We also have projects in Italy, where regional authorities on the inland waterway of the Po river, for instance, have been putting forward proposals for the so-called region of Emilia. So, this is certainly a very realistic and normal procedure.

[235] **Eluned Parrott:** Thank you very much. That is very helpful.

[236] **Nick Ramsay:** Are there any final questions for our witnesses?

[237] **Rhun ap Iorwerth:** I have one last question. Clearly, there are constructive ways in which the Welsh Government can work directly with the European Commission. Regarding what led us to the point of Wales's omission from the corridors map, we hear that the Catalan Government was very successful in lobbying the European Commission directly to have a corridor within Catalunya. Was there any direct lobbying of yourselves by the Welsh Government in relation to the corridors map, and could there have been?

[238] **Mr Ruijters:** Thank you for your question. Could there have been? Yes, there could have been. There was none. Have we been lobbied by other regions? Yes, we have. However, it did not alter our proposals. The proposal from the Commission side was based, first of all, on the establishment of the core network and, thereupon, on tying together the ports with the most important cross-border projects into a set of nine corridors. We were basing ourselves, in part, on existing instruments such as the priority projects or the rail freight corridors. As such, the Commission proposal was, I would say, relatively straightforward, in starting from this viewpoint. What has happened in the negotiation process is that regions have sometimes been very active towards their national Governments, towards the European Parliament and towards the Commission, which is what is happening in many co-decision procedures. As I indicated before, quite a few member states have, thereupon, been active in including certain parts of the core network in a corridor, especially ports. So, yes, I have to acknowledge what you said, and I thank you for your question.

[239] **Nick Ramsay:** I thank our witnesses—Herald Ruijters, Philippe Chantraine and Joao Ferreira—for being with us today. I also thank Gregg. This has been exceptionally helpful. I thank you for the clarity and transparency of your answers. It has been a really useful evidence session for us. I also thank you for the European mobility network document, which you sent through to us before the proceedings today. It was exceptionally helpful to our staff in helping us to formalise our approach today. You will be receiving a transcript, by the way, and you will be able to check it to see that everything is factually accurate.

[240] **Mr Ruijters:** Thank you very much. I look forward to further co-operation.

[241] **Nick Ramsay:** Thank you very much indeed. Thank you also for your offer of us seeing you at some other point to discuss these issues further.

11:44

**Papurau i'w Nodi**  
**Papers to Note**

[242] **Nick Ramsay:** Is the committee happy to note the Ministers' responses to my letters to them on the draft budget proposals for 2014-15? I see that it is.

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r**  
**Cyfarfod**  
**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the**  
**Meeting**

[243] **Nick Ramsay:** I ask a Member to propose, under Standing Order 17.42, to exclude the public from the remainder of the meeting.

[244] **Byron Davies:** I move that

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi), and from the meeting on 27 November.*

[245] **Nick Ramsay:** I see that there are no objections.

*Derbyniwyd y cynnig.*  
*Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:44.*  
*The public part of the meeting ended at 11:44.*