



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

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

Dydd Mercher, 25 Ionawr 2012
Wednesday, 25 January 2012

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Julie James	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour

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

Sarah Bartlett	Dirprwy Glerc Deputy Clerk
Gwyn Griffiths	Uwch-Gynghorydd Cyfreithiol Senior Legal Adviser
Gregg Jones	Pennaeth Swyddfa UE Cymru Head of Wales EU Office
Siân Phipps	Clerc Clerk

Dechreuodd y cyfarfod am 9.03 a.m.
The meeting began at 9.03 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** I welcome Members, witnesses and members of the public to today's meeting of the Enterprise and Business Committee. This meeting will be held bilingually. Headphones can be used to access the 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 published. I remind Members to turn off their mobile phones, BlackBerrys and other electronic equipment. I also remind Members and witnesses that there is no need to touch the microphones, as they should operate automatically. In the event of a fire alarm, please follow directions from the ushers. We have two apologies today, from David Rees and Leanne Wood, and we have no substitutions.

9.04 a.m.

Y Wybodaeth Ddiweddaraf am Faterion Ewropeaidd
Update on European Issues

[2] **Nick Ramsay:** We continue with our inquiry on structural funds and here to give us an update on European issues is Gregg Jones, the head of the National Assembly for Wales's European office; welcome to the meeting, Gregg. So, it is for Gregg to update us on how he

sees the situation as it stands at the moment and for Members to ask any relevant questions. Gregg, would you like to make an opening statement?

[3] **Mr Jones:** Thank you, Chair. Good morning to Members. It is nice to be here in person for a change rather than via video-conference. I have written two papers, which you will have received as background information. I thought that it might be useful to use this as an opportunity to talk through some of the relevant issues in the European Commission's work programme. Each year, usually in November, the European Commission publishes its intentions for the forthcoming year, a list of planned legislation and non-legislative acts. We have been going through that list, looking at potential areas of interest for Wales and this committee. I have copies of the document here. They are a bit stained. It is not a huge document, but it has a lot of information. The first paper gives a summary of what is in there. It is fair to say that everything that is dominating the agenda at the moment focuses on the eurozone crisis, trying to address economic instability and moving away from economic recession towards the EU economy, and individual economies, getting back on track. That is reflected in the broad priorities of the European Commission programme, which are stated on page 3 and are about building a Europe of stability and responsibility, sustainable growth and solidarity and so forth.

[4] Turning to potential areas of interest for the committee on page 4, with regard to specific proposals, it is relatively thin compared with previous years. You will see that there are a few on state aid, which is the framework within which the EU determines what local, national and regional authorities can provide as incentives or support to economic actors in order to encourage certain types of economic activity in certain areas. There will be two of particular relevance to Wales. One area is the guidelines on national regional aid, which are the ones that set the framework on how much investment and other types of aid you can give businesses. That will be linked to the mapping for the future structural funds. Therefore, west Wales and the Valleys, which qualify as this less developed region or convergence, as it is currently called, would have the highest level of intensity of aid, and the rest of Wales or east Wales may, or may not, qualify for certain levels of regional investment aid or categories of state aid, depending on the outcome of the mapping for the UK.

[5] The second area of potential interest is broadband. The Commission published guidelines in 2009. It is keen to drive forward the digital agenda, as it calls it. The state aid guidelines on broadband provide a framework within which, again, public funding can be used to stimulate that and address market failures or stimulate new and emerging technologies.

[6] There are a couple of other areas that might be of interest. The fourth one in that first section, 'Blue growth', could potentially fall into the Environment and Sustainability Committee's area and I will be bringing it to its attention. It all depends on the focus, I suppose. That might be something that could be looked at between you, with both committees perhaps talking to each other. Moving slightly down the list to 'Connecting Europe Facility to improve Europe's transport, energy and digital networks', that came up yesterday. There was quite a lot of discussion. There was an article on connecting Europe in the *Western Mail* as well. So, it is hitting the headlines for a number of reasons. It is separate funding to the structural funds. There are parts of Wales that are linked to two networks that they are trying to develop. One is a core network, which has priority until 2030. That is where the funding for the next 2014 to 2020 period will be focused. Then there is a more comprehensive network, at which future funding will be aimed, with a target of 2050. So, the Swansea to London line is within that core target priority list. That has been one of the main focuses of attention.

[7] There are a couple of other areas as well. Again, 'Maritime policy: new strategy for growth and jobs in the Atlantic Ocean Area', which was published in November, has

relevance, but maybe that is also one for the other committee that I mentioned. So, that is just a quick run through those.

[8] In section 3, I have picked up on ongoing issues and things that relate back to the work that the committee is doing on structural funds, which may or may not merit attention, depending on whether or not you consider it a priority. The eurozone crisis is the headline topic. There is the European Union fiscal pact or fiscal union treaty, which is being discussed at the highest levels—the Prime Minister/President level—and the intention is for EU 26, or however many agree to it, to agree the text at the end of January. There is a European Council meeting on 30 January. They may sign it in March, but that remains to be seen. It is obviously a very topical issue and quite a controversial one. I have seen it covered in the Welsh media and there have been comments from the Welsh Government about looking at the impact of this and its relevance to the Welsh economy and Welsh businesses. This committee seems the most appropriate within the Assembly to raise the question of whether you would want to look at that in more detail.

[9] Europe 2020, which is the headline EU strategy for smart, sustainable and inclusive growth, features strongly as the headline strategy that affects all of the future funding potentials, including structural funds, and featured in the briefings for the structural funds inquiry. I focused on this national reform programme, which the UK Government produces each year as part of its way of saying how it is going to deliver on Europe 2020 in the UK.

[10] **Alun Ffred Jones:** Can you explain what ‘smart growth’ is? I know that it is not your phrase, but do you know what the definition is? You can understand the sustainable and inclusive bits, but what do they mean by ‘smart’?

[11] **Mr Jones:** I think that it means ‘innovative’—developing new emerging markets. They are trying to find a term for that. It is referring to growth driven by research and innovation. That is reflected in the structural fund priorities, where the thematic concentration is on research and innovation, small and medium-sized enterprise competitiveness and the low-carbon economy.

[12] The question is whether the committee is happy that it is covering that sufficiently within the structural funds inquiry or whether you think that it merits a separate piece of work.

[13] One thing that I have not mentioned is Horizon 2020. That is because there is a separate briefing on that. This is one that jumped out at me, and again it is being referenced in the structural funds inquiry. Horizon 2020 is the new framework for research and innovation, so it would be supporting the smart growth dimension. It includes a couple of elements, but, in particular, the framework 7 research programme, which is the current research programme, morphs into this, so there will be a strong research element in this. There are also some other programmes at the moment that focus on trying to support innovation in businesses, and particularly in SMEs. They are captured in this new framework programme as well. The briefing outlines the main features of it. It is of particular interest to the Welsh higher education sector and Welsh universities that have already given evidence to the structural funds inquiry and made their point about the linkages that they think should be made between structural funds and research. So, that is captured in here, as is Welsh business, obviously, because research is not just about universities but getting things into the market and, from the Welsh interest perspective, getting things into the market in Wales—developing the supply chains and connectivity with the global market and European markets.

[14] There is some more information on the UK perspective on this. An explanatory memorandum on the proposals has been published. The proposals came out in November and the explanatory memorandum came out just before Christmas. The Scottish Parliament is also

doing an inquiry—it has just launched a call for some written evidence. It has not really defined the inquiry yet; it has kept it quite broad.

[15] Within Wales, quite a bit of work has already been done on this, in the third Assembly. I have referenced two inquiries. One was done by the Enterprise and Learning Committee, which was the closest committee to this one. It did an inquiry into the subjects of science, technology, engineering and mathematics. The Welsh Government also did a review of higher education. The Committee on European and External Affairs undertook an inquiry into Welsh participation in EU research, innovation and lifelong learning programmes. It was focused very much on the framework 7 research programme. It is common knowledge that Wales is considered to underperform in this context. It performs well in certain areas and there are some excellent examples of internationally esteemed research and research centres in Wales, particularly Cardiff University in terms of FP7. However, in terms of crude population measures, it does not hit 5%—it comes in at around 2.5% to 3%.

9.15 a.m.

[16] There is a clear alignment between performance in national research and performance in EU research. The former Committee on European and External Affairs inquiry looked at these sorts of issues. I allude to some parallel examples, such as Catalonia and Spain, where they do extremely well in national research and in EU research in the Spanish context. The issue comes down to the extent to which higher education and Welsh business can up their game to address the shortfall.

[17] **Keith Davies:** At the bottom of page 11, under the heading ‘UK Government view’, I do not understand the sentence that says that, although the UK Government supports

[18] ‘a greater share of the overall EU budget going to research and innovation, the UK Government does not support the proposed increase in spending for Horizon 2020’.

[19] **Mr Jones:** I cannot argue on behalf of the UK Government, but I think that its line is that it wants a small overall EU budget. The argument that it uses is that austerity at national level should be reflected at EU level. However, within a smaller budget, it thinks that there should be stronger emphasis on Horizon 2020 than on CAP pillar 1. It has talked in the past about structural funds being reduced; it is in its memorandum on the structural funds proposals that it wants to see that element reduced.

[20] One issue is about how to increase the Welsh performance, and that is an issue for the universities and businesses. One thing that the European Commission is pushing, which is also being pushed by the European Parliament, is the concept of stairways to excellence—how you develop research capacity through structural funds, and use it as a stepping stone towards improving future performance. Phil Gummatt from the Higher Education Funding Council for Wales said in the evidence session here that mass is an essential point; that would be the argument behind that.

[21] I have flagged that up for your attention. It could be turned into an inquiry; we could turn it into a scoping paper if the committee thinks that it merits attention, or you may take the view that it has already been covered sufficiently within the structural funds inquiry. I will leave it at that point.

[22] **Julie James:** I just wanted to back that up. We were both at a cross-party group last night, Chair, talking about this very point. Given the report on Welsh cities and the lack of skills training, the knowledge economy and so on, it fits beautifully with the Horizon 2020 agenda, the stairways to excellence and so on. Probably, the most important thing for Wales at the moment is to increase the research capability. My understanding is that Cardiff and

Swansea universities are still at level 2—Cardiff being higher up level 2 than Swansea—which really is not good enough. I would very much back doing that as a main focus.

[23] If you indulge me, Chair, as I am a total geek, I would also like to do something on the state aid provisions for broadband. The roll out of broadband is really important for Wales and, frankly, we need to understand the state aid parameters. I do not know how many of you have managed to see the map of where it is considered to be commercial and not, but a very large number of areas, quite surprising in some cases, are considered to be non-commercial. So, the state aid rules around what the Government can and cannot do to stimulate the non-economic part will be very important for the whole agenda. They would be my two pitches for what we want to look at.

[24] **Nick Ramsay:** Are there any other questions or comments for Gregg?

[25] **Byron Davies:** Gregg, can you expand a little on the Connecting Europe facility, please?

[26] **Mr Jones:** The Connecting Europe Facility is a new concept, but what lies behind it, namely trans-European networks, is not new. It all comes down to supporting a single market across the EU, overcoming barriers to movement of people, services and goods. Supporting transport infrastructure and energy infrastructure, as well as digital infrastructure, is seen as being key to that.

[27] The original trans-European network concepts remain, but the Commission has brought them together within the Connecting Europe Facility. I have mentioned already the idea of the core and comprehensive network with a 2030 and 2050 timelines. Essentially, the EU is proposing funding of €50 billion, I think, over the 2014-20 period to support the development of that network. However, its contribution is only part of it—there is also the national contribution, and other layers: regional, local and private contributions. There are some incentives there to build in financial engineering tools, which we have also seen in the structural funds within the Connecting Europe Facility. That would also lever in, through the European Investment Bank, private investment into developing the network.

[28] There has been a lot of focus on this €10 billion for the cohesion fund. It is useful to clarify that the cohesion fund is for countries that qualify—that is, countries with GDP of less than 90% of the EU average. So, it would be places like Greece and Portugal and the central and eastern European countries—the new member states, as they are sometimes still called, from the 2004 enlargement. The UK's GDP is obviously above 90%, so the UK would not qualify for cohesion funds. That €10 billion ring fence is, therefore, not relevant to us. If Wales was an independent state, I suspect that our GDP would be below 90%, so it would apply then—although, obviously, there would be other factors then, such as our national funding coming from the Welsh budget rather than the UK, but I will not go into that, because it is a different issue. The bit that is relevant to us is the €40 billion, which is pan-EU, to encourage and support that core network. That is available through competitive bidding, managed through an executive agency based in Brussels.

[29] **Alun Ffred Jones:** That is very relevant, and I would like to find out more about that, whether we do an inquiry or not. I would like some information on that.

[30] **Eluned Parrott:** There are some really exciting opportunities through that particular fund, looking at the identified corridors, which of course take in the route from Brussels to Dublin, along the south Wales coast.

[31] **Nick Ramsay:** I should point out that Members received a written briefing on this for the meeting last week, so there is some interesting stuff in there that might be of some use.

[32] **Julie James:** I agree entirely with that, and obviously we are all interested in it, but I feel that that is very linked to the structural funds issue. I do not know what Gregg thinks about that. What we are talking about here is whether we want to look at something slightly different for an inquiry, but I would want to just make that a bigger part of the structural funding inquiry, and to be honest, the argument, as we all see it, between the UK level and the regional level about who is responsible for the bidding, who is leveraging in what and so on. That is part of the whole structural funds conversation, it seems to me, between the Welsh Government and the UK Government.

[33] **Nick Ramsay:** We have elements of that in the draft report.

[34] **Julie James:** Very much so, but my view is that that is part of the structural funds conversation as opposed to what I thought that we were talking about here—trying to look at something complementary to it. While I wholly agree with looking at it, I think that it is better in the context of the overall European structural funds inquiry. It is to do with how you split the cake that is available in terms of Government funding.

[35] **Alun Ffred Jones:** Gregg, did you say that this is outside the structural funds?

[36] **Mr Jones:** There is a €10 billion element that is from the cohesion funds, which is part of the EU cohesion proposals, but there is a €40 billion element to develop the network, and that is available across the EU as a whole through competitive bidding.

[37] **Alun Ffred Jones:** I would like to understand that a bit better.

[38] **Nick Ramsay:** You are not alone.

[39] **Keith Davies:** Is it not just for transport?

[40] **Mr Jones:** It is for transport, energy and digital networks. The biggest element is transport.

[41] **Nick Ramsay:** Could I get Members' opinions on Gregg's suggestion in terms of the eurozone crisis? There is an inquiry going on in the House of Lords, is there not, as well as the House of Commons? How would Members feel about looking at that? Is that beyond our remit? I can see a grimace from Alun Ffred.

[42] **Alun Ffred Jones:** If it is going to happen, it is going to happen. Having an inquiry will not help.

[43] **Julie James:** I agree entirely.

[44] **Eluned Parrott:** There is very little that we can do to influence that, so I do not see that it is necessarily a good use of our time, unfortunately.

[45] **Nick Ramsay:** That is clear.

[46] **Alun Ffred Jones:** I am quite happy with the two proposals put forward by Julie.

[47] **Nick Ramsay:** Are there any other questions or comments for Gregg?

[48] **Alun Ffred Jones:** I would like to go back to this issue of the €40 billion, or whatever it was, that was floating around somewhere. Are we happy that we have had enough information in another paper, which, obviously, I have not read closely enough?

[49] **Nick Ramsay:** I would never have said that.

[50] **Alun Fred Jones:** Do we need more information?

[51] **Nick Ramsay:** Have any Members seen that information? Julie will have seen it. Do you think that it is adequate, or would you like more information?

[52] **Julie James:** I thought that it was a very good briefing and a basis for, perhaps, taking some evidence as part of the EU structural funds inquiry as to the way in which our Government and, possibly, the UK Government have slightly different views of it. That is how it seems to me; I do not know what you would say, Gregg. Part of that will include how the bidding process will work and how we will engage in it.

[53] **Mr Jones:** Clarity on that point would be very useful, and it would be helpful to get it from the people who are involved in pushing that on the UK side, rather than our interpretation.

[54] **Julie James:** There is an argument going on about it and I would like to know more about that argument because I do not understand it.

[55] **Eluned Parrott:** I would definitely value bringing it into the scope of either that inquiry or another form so that we have an opportunity to make recommendations. This is an important opportunity for us and it would be a shame for it to be missed in the context of the rest of the European discussions that we have had.

[56] **Nick Ramsay:** I suggest that we ask the Government to respond, because time is moving on. We have quite a full schedule and it was hoped that some questions might be raised last week with the Minister, but we can ask the Government to respond without coming to committee. Is that okay as the way ahead? I see that it is. Are there any final questions for Gregg? I see that there are not. It is nice to see you in person, Gregg, and not just hear your voice floating around in the upper reaches of the room. *[Interruption.]* No, unfortunately, we cannot switch you off today, but we would not want to do so anyway. Thank you for coming today and providing your usual thorough and knowledgeable assessment of what is going on, which many of us find confusing a lot of the time, but it is always helpful to hear what you have to say.

9.27 a.m.

Cynnig Gweithdrefnol Procedural Motion

[57] **Nick Ramsay:** We need to bring the public part of the meeting to an end. I ask a Member to move the appropriate motion.

[58] **Joyce Watson:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[59] **Nick Ramsay:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

Daeth rhan gyhoeddus y cyfarfod i ben am 9.27 a.m.
The public part of the meeting ended at 9.27 a.m.