



House of Commons
Welsh Affairs Committee

Globalisation and its impact on Wales

Second Report of Session 2008–09

Volume I



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The Welsh Affairs Committee

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Summary

In the twenty-first century, the economy of Wales cannot be considered in isolation, but must be seen in the context of global opportunities and threats. Today, national economies are no longer independent entities operating separately, but are interdependent. Much of the evidence we took in the course of this inquiry was informed by the particular economic circumstances in Wales at the time. In 2007, witnesses reported rising house prices and an in-flow of migrant workers to Wales. Since that time, the challenges of globalisation have become even more starkly apparent in the light of the global economic downturn. As economies have become interlinked, so economic problems can spread more easily from one country to another.

Globalisation, however, is undoubtedly a phenomenon that is here to stay. Today, more than ever, it is important for Wales to maximise the economic return that can be derived from global trade. As companies cut costs to remain viable in a worsening economic climate, Wales will need to make the most of its local strengths and the skills of its workforce in order to remain a desirable location in which to do business. This Report puts forward the fundamental elements necessary for a successful global economic strategy. We believe that our conclusions and recommendations will prove particularly valuable in the current climate if they receive careful consideration by all parties, including central and local government and the Welsh Assembly Government.

In Wales, globalisation has often been viewed as a wholly negative phenomenon, endangering jobs and triggering the decline in the industries which have traditionally sustained the Welsh economy, such as coal mining and heavy manufacturing. It is certain that, for Wales, globalisation means change and a transition to new forms of economic activity. It is no longer feasible to build an economy based on the production of mass market commodities which can be carried out more cheaply elsewhere. Instead, Welsh companies must move up the value chain, making use of higher level and specialist skills to offer premium goods and services which cannot be sourced abroad. This process is challenging and governments in both London and Cardiff have a responsibility to ensure the Welsh population is as prepared as it can be for the demands of the global marketplace. In the longer term, the rise in global trade holds out the prospect of increased prosperity as the economy recovers and markets expand. For those countries able to negotiate the transition successfully, the result should ultimately be a rise in standards of living.

To make the most of globalisation, Wales must exploit its strong local identity and values. Our inquiry has convinced us that adaptation to globalisation should not involve adopting a 'neutral' brand identity. On the contrary, it is the power of localism that will provide a foundation from which to approach the world. Wales has many strengths on which it can build, including expertise in high technology sectors, food and drink, hospitality, tourism, broadcasting and the creative industries. Wales has already moved a long way from its industrial roots in coal mining and textiles. Today, small businesses make up the vast majority of the business stock. These are often at the forefront of innovation, but place great value on their local origins and character. This is a powerful combination of assets, which can be harnessed to the benefit of the Welsh economy. Small businesses may find the prospect of entering the global marketplace daunting, but with the right support and by

joining forces and working collaboratively, the sector has the potential to add significantly to Wales's prosperity.

Globalisation poses economic risks, but there are a number of critical areas in which action can be taken with the aim of minimising the effects of the global economic downturn. Chief among these is the skills levels of the population. Our inquiry convinced us that the most important way in which Wales can address the challenges of globalisation is by constantly re-evaluating and increasing the skills of the population at every level. Skills will be crucial to Wales's ability to weather the economic downturn as well as to prospects for long term growth. More work needs to be done to ensure that the Welsh population has the basic numeracy, literacy and interpersonal skills to compete with countries around the world. These will also form a basis for lifelong learning, which is likely to become ever more important as the pace of globalisation increases and economic demands shift more rapidly.

In the coming years graduate-level specialist and technical skills will be the mainstay of developed economies. But the role of the university goes much further than the provision of training courses for school leavers. It is vital that Wales should recognise the economic potential of higher education institutions, particularly in these troubled economic times. Universities have the potential to lead the knowledge economy in Wales, facilitating knowledge transfer for innovation and raising skill and productivity levels in the labour force, provided it becomes a high priority for universities and for their partners in both the private and the public sectors. For this transfer to take place effectively, academia needs to work in harmony with business. The emergence of 'hub' models, where small companies cluster around a university campus in order to take advantage of academic innovation and global research networks, is one way to encourage productive and mutually beneficial contacts between business and higher education. Support for universities will now be more vital than ever and we are very concerned at the apparent funding gap that is emerging between Welsh institutions and those in the rest of the UK and Europe, which should be addressed as a matter of urgency.

Increased population mobility is a feature of globalisation. The evidence we gathered during this inquiry coincided with a peak in economic migration into Wales from the A8 accession countries joining the European Union in 2004. This is the most recent example of population movement into Wales, which has a long history of inward migration, with some incomers choosing to settle in the country and others staying only for short periods. We found no evidence to suggest that the arrival of migrant workers¹ in Wales has posed a threat to local services. In fact, migration overall represents a sizeable economic boost for Wales. However, migrant workers do have particular needs which must be supported, including the provision of information about services and employment rights and the translation of documents and services into languages other than Welsh and English. Equally, in areas which have experienced high levels of inward migration in a short period, the increased demand for services can be challenging for local authorities to meet. We consider that there is a pressing need for improved methods of data collection concerning

¹ We use the term 'migrant worker' for those who come to the UK for a period of time to earn money with the intention of returning to their home country. The term 'immigrant' is applied to those who arrive with the intention of remaining in the UK on a permanent basis.

the numbers of migrants in particular areas and their likely period of residence in order to inform decision-making and planning for additional pressure on local services. This will be of continued importance in future years as the ongoing integration of national economies into the global market encourages even greater population mobility.

Globalisation's impact on Wales means that business needs to move up the value chain, making use of the higher level skills available in the nation as well as the products and services that are unique to Wales. This is equally true in traditional industries such as farming, where low cost products are now available from high volume producers around the world, and in young industries such as broadcasting, where new media have transformed the transmission of concepts and products around the world. In the course of this inquiry, we have collected numerous examples of innovative practice in Wales, spanning the full range of economic sectors. These examples demonstrate that, despite the present difficulties, Wales does have the essential ingredients necessary to face the challenges of globalisation.

Introduction

Globalisation today

1. In the twenty-first century, the economy of Wales cannot be considered in isolation, but must be seen in the context of global opportunities and threats. The process of globalisation has come about over many years, but the speed of modern communications has quickened its pace. Today, national economies are no longer independent entities operating separately, but are interdependent. Our decision to undertake an inquiry into globalisation and its impact on Wales was motivated by this increasing interdependence. We set out to examine the ways in which Wales can prepare itself for global challenges and maximise its potential on a world stage.

2. Globalisation is an extensive topic and this inquiry has gathered evidence over a significant period of time. Our first oral evidence session was held early in 2007 and we continued our sessions well into 2008. We examined aspects of globalisation as diverse as skills levels, employment rates, population movement, food production and supply and broadcasting and the creative industries. We are grateful to all those who took the time to participate in our inquiry.

3. Much of the evidence we took was marked by the particular economic circumstances in Wales at the time. In 2007, witnesses reported rising house prices and an in-flow of migrant workers to Wales. Since that time, the challenges of globalisation have become apparent in the global economic downturn. As economies have become more interlinked, so economic problems can spread more easily from one country to another. In 2008, a credit crisis which started in the United States spread quickly across the globe, causing financial troubles in countries worldwide, with little warning. This is a sobering demonstration of the interdependence of modern economies. In retrospect, therefore, our inquiry was timely.

4. Today, more than ever, it is important for Wales to maximise the economic return that can be derived from global trade. As companies cut costs to remain viable in a worsening economic climate, Wales will need to make the most of its local strengths and the skills of its workforce in order to remain a desirable location in which to do business. In the course of our inquiry, we learnt about the fundamental elements necessary for a successful global economic strategy. We hope that these lessons will prove particularly valuable in the current challenging economic climate.

Defining globalisation

5. An early submission to our inquiry from the former Department of Trade and Industry quoted the IMF's definition of globalisation as "the process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of economies and societies". It goes on to note that waves of globalisation can be traced back to at least the 1870s and that, historically, "globalisation and the accompanying increase in

international trade and investment have been key drivers of world growth and prosperity”.² In his evidence, Andrew Davies AM, then Minister for Enterprise, Innovation and Networks in the Welsh Assembly Government, commented that, “While the world has seen various cycles of globalisation, the twenty-first century sees Wales and the UK experiencing a shift in the world economy on a scale not previously experienced and one which is likely to continue to develop”.³

6. Globalisation may not be a new phenomenon, but the speed of global communications and the arrival of an internationalised economy have accelerated its pace. As Professor David Reynolds told us, “Historically, societies such as the United Kingdom, and Wales within it, were able to operate with less than optimal efficiency and with considerable unreliability, confident that any original productive ideas would stay within their boundaries”.⁴ This is no longer the case. As the Welsh Local Government Association argued:

Globalisation is a phenomenon that is affecting all parts of the world today: with the movement of people to live, work and study; easier travel and faster communication; and huge economic and trade opportunities from a global market, it is likely that the changes that have already occurred as a result of globalisation will continue. The question for Wales is how the country and its institutions respond, ensuring we are maximising the opportunities and responding effectively to change and the challenges these bring.⁵

7. During this inquiry, members of the Committee visited China, Spain and Eastern Europe in order to learn from the experience of globalisation in other countries. In the Basque Country, there was a preference to speak not of globalisation, but of internationalisation, which was a recognition of the need for an open and internationalised environment, building through external networks a commitment to social cohesion, solidarity with the world and respect for the environment.

The challenge for Wales

8. In its memorandum, the Department of Trade and Industry identified three key features of the current pattern of globalisation: first, developing countries such as China and India are taking a growing share of world output and trade in goods, and in manufactured goods in particular; second, the current wave has been accompanied by a marked rise in intra-industry trade (trade in products in the same industry, with the same types of goods and services being both imported and exported); and third, foreign direct investment is central, particularly in the service sector.⁶ The then Minister for Trade, Investment and Foreign Affairs, Rt Hon Ian McCartney MP, told the Committee that, “over the next 20 years or so,

² Ev 400. Since this evidence was submitted, the DTI has been replaced by the Department for Business, Enterprise and Regulatory Reform.

³ Ev 424

⁴ Ev 480

⁵ Ev 589

⁶ Ev 400

30% of the world's manufacturing capacity will come out of two countries, India and China, and almost 50% of the world's trading capacity will come out of Asia as a whole".⁷

9. A century or so ago, Wales was central to the global economy with its production of coal, slate, tinplate, flint and copper, along with the shipping associated with these goods.⁸ Globalisation, in its most recent form, has brought increased competition from developing countries. Andrew Davies AM, then Minister for Enterprise, Innovation and Networks in the Welsh Assembly Government, told us that "The most significant new element of the current cycle of globalisation is the rapid development of the economies of India and China and of other Asian countries".⁹ The former North East Wales Institute of Higher Education agreed, and suggested that this trend would continue:

It is expected that by 2050 the Chinese economy will be the largest in the world, followed by upcoming growth areas such as Brazil, India and Russia, Thailand, Vietnam and Turkey... There are estimated to be around 200 million affluent under 30 year olds in China, and whilst the Silicon Valley employs around 130,000 IT workers, there are 150,000 in Bangalore alone.¹⁰

10. As part of this inquiry, the Committee was able to visit China and see the pace of change in that country at first hand. Our experience in China has greatly informed the conclusions and recommendations of this Report. The Committee was not able to visit India, although we received evidence as to the pace of growth in that country. However, one member of the Committee recently visited the country independently, as part of another delegation. The importance and potential of India for the Welsh economy is huge. English is the second, or even first language in many parts of the country and there is a positive attitude towards doing business with the UK. Wales could usefully learn from high-technology developments in both services and infrastructure in India, demonstrating how approaches developed in another country as the global economy develops can be applied effectively at home.

11. Our witnesses supported the view that China and India were the key drivers of modern globalisation, fuelling world growth in manufacturing and services.¹¹ This interpretation is not universally accepted, however, and some have argued that technology, investment and trade flows are still very much dominated by the United States, European Union countries and Japan. Nevertheless, China has developed from a competitive threat to a vast new market for many companies and its share of the global economy is forecast to reach 20% by 2020. Both China and India have large populations and huge workforces which often work at low cost, although it is likely that their workforce will demand a greater reward as their economies expand.¹²

⁷ Q 76

⁸ Q 1705

⁹ Ev 424

¹⁰ Ev 634. NEWI has since become Prifysgol Glyndŵr/Glyndŵr University.

¹¹ For example, Ev 422 from the GMB.

¹² Ev 395 and 422 and Q 98

12. In its memorandum to the Committee, CBI Wales noted that while globalisation offers significant new markets, it also greatly increases sources of competition and companies which fail to innovate constantly will suffer.¹³ The GMB welcomed the number of foreign companies which have chosen to locate and invest in Wales and the UK. However, it also expressed a number of concerns arising out of globalisation, where UK companies were taken over or merged with foreign companies. These concerns included the loss of intellectual property, the loss of jobs from company headquarters where they moved overseas, and the transfer of production to other plants and companies.¹⁴ These threats are particularly pronounced in the current economic climate, where foreign investment may be the first target of any cutbacks.

Responding to the challenge

Raising the skills base

13. Our inquiry convinced us that the most important way in which Wales can address the challenges of globalisation is by improving the skills of the whole population at every level. Skills will be crucial to Wales's ability to weather the economic downturn as well as to prospects for long term growth. In its evidence, the former Department of Trade and Industry argued that Government must ensure that the UK has the correct skills mix, "to maximise economic growth, productivity and social justice in a globalised economy".¹⁵ Rt Hon Caroline Flint MP, the then Minister of State for Employment and Welfare Reform, told us, "we live in a world economy and a low wage response is not the answer because it cannot work. We have to look for other alternatives, and that is where it is skills, investment, adaptability and flexibility to changing markets".¹⁶ The then Welsh Assembly Government Minister for Enterprise, Innovation and Networks, Andrew Davies AM, agreed that high levels of education and competitive skills are prerequisites if Wales is to compete effectively for high value-added service sector and manufacturing sector jobs.¹⁷

14. Representatives of industry supported this view. Mr David Rosser, Director of CBI Wales, said that Welsh companies no longer operated in just the UK market but "have the whole world in which to compete":

Welsh companies will be driven away from low value added, low margin production and employment and will be driven more towards high value added production, employing more skilled people who are earning more.¹⁸

And Mr Philippe Varin, Chief Executive of Corus, told the Committee:

If you take the cost of employment in the UK compared to the cost of employment in India, the gap is very significant, it is one to six or seven, so you cannot compete

¹³ Ev 395

¹⁴ Ev 420, Q 359

¹⁵ Ev 403

¹⁶ Q 1246

¹⁷ Ev 427

¹⁸ Q 10

on the cost of manpower. It is absolutely essential, therefore, that we compete on productivity and the value added of our products, which is the reason why the skill element is essential.¹⁹

Innovation

15. In addition to up-skilling, Mr Rosser pointed to the need for companies to enhance productivity and to innovate.²⁰ The memorandum we received from the former North East Wales Institute of Higher Education emphasised the importance of innovation in confronting the challenges posed by globalisation:

The importance of innovation, creative thinking and problem solving to the economy of Wales is no longer just a means of business maintaining a competitive advantage. It can make the difference between survival and extinction. The demands of a changing world, increased globalisation, environmental pressures, and the changing base of economic power drive businesses to constantly innovate.²¹

The Federation of Small Businesses (FSB) Wales agreed:

...Wales's ability to compete will depend heavily on the ability of Welsh companies to innovate and exploit that innovation...Nurturing a culture of innovation is important as is the need to increase levels of research and development in Wales... more attention needs to be paid to product development and the need to create more effective links between business and higher education to stimulate the development and commercialisation of technology.²²

16. Many of our witnesses thought that the types of innovation required would entail fundamental changes in the Welsh economy. The then Minister for Enterprise, Innovation and Networks in the Welsh Assembly Government, Andrew Davies AM, said in evidence to the Committee, "I see innovation as key in continuing the transformation of the Welsh economy away from a heavy industry base, based on industries such as coal, steel, agriculture, mining and quarrying, to one which is increasingly knowledge based".²³ Sir Digby Jones, then United Kingdom Skills Envoy and former Director-General of the CBI, wrote to us in May 2007 and suggested that:

The developed world is having to move away from making goods and providing services which sell only on price—commodities—and instead move their economies up the value-added scale where innovation, quality and brand enable sales to be made around the world and at home on the basis of more than cost...added value...This change is a constant dynamic...If the developed world is to win in a 21st century that belongs to Asia, it must innovate constantly.²⁴

¹⁹ Q 557

²⁰ Q 9

²¹ Ev 634

²² Ev 435

²³ Q 400

²⁴ Ev 481

17. The then Minister for Trade, Investment and Foreign Affairs, Rt Hon Ian McCartney MP, noted in evidence in February 2007 that Wales has made good progress in restructuring its economy “from one dependent upon a narrow range of industries, to one more diverse and robust with a healthy mix of manufacturing, service sector, public sector and knowledge economy higher value added activity”.²⁵ In oral evidence in May 2007, the then UK Skills Envoy, Sir Digby Jones, added:

...if you are adding value, if you are exploiting knowledge, you are fine in the developed world, but if you are not you have a real issue...the shift in our economy to the value added, innovative, branded, quality end of the game has been so much more successful than America, France, Japan, Germany, Spain, Australia or Canada.²⁶

Attracting inward investment

18. Globalisation also enables Wales to compete for inward investment from foreign companies. In his evidence, the Minister for Trade, Investment and Foreign Affairs noted that participation in global markets has resulted in substantial flows of inward investment to Wales:

Wales is now home to about 500 overseas-owned companies...Since 1983, foreign direct investment has brought investment of almost £13.4 billion to Wales...and, overall, about 80,000 people are now employed in overseas-owned companies in Wales. Investors include companies such as Airbus UK, Robert Bosch, the Ford Motor Company, GE, Toyota and Macquarie Bank and the Sony Corporation. Many of these are long term serial investors in Wales; the Sony Corporation, which has been there for over thirty years, is a prime example.²⁷

The then Welsh Assembly Government Minister, Andrew Davies AM, said that Wales had achieved considerable success in attracting inward investment in recent years. He told the Committee that “Since 1983, almost 2,700 inward investment projects have been recorded with associated investment of over £16 billion and the creation of over 172,000 new jobs”.²⁸

19. In general, witnesses thought that Wales has been comparatively more successful in attracting inward investment than the UK as a whole. The UK Government Minister for Trade, Investment and Foreign Affairs told the Committee:

Wales has seized the opportunity of globalisation in the last 10 or 15 years quite dramatically and it still out-performs much of the rest of the United Kingdom in its ability to gain access to inward investment at one level and break into new and emerging markets at the other.²⁹

²⁵ Ev 399

²⁶ Q 753

²⁷ Ev 399

²⁸ Ev 427. A supplementary note from the Welsh Assembly Government states: “It is important to note that these statistics represent companies’ intentions at the time of the decision and that they do not take account of subsequent developments.”

²⁹ Q 77

The ability of Wales to exploit its position as a ‘gateway to Europe’ may account for some of this success. Andrew Davies AM, noted that investors “have consistently chosen Wales as a platform from which to serve the European market”.³⁰

20. For Wales to recover and sustain its former levels of inward investment, it will need to be successful in both raising skills and business innovation. In his evidence, the Minister for Trade, Investment and Foreign Affairs outlined what companies considering Wales as a location for business looked for:

...the first thing they look at is your infrastructure, your skill mix, your co-operation between your public and private sector, your macroeconomic capacity and the skill level and ability of the workers to deliver in a flexible way. If you have got all those things right, they will invest in Wales and that is what they are doing.³¹

Promoting and exporting Welsh products and services

21. Localism is one practical reaction to globalisation. Although much of the economic debate focuses on the ways in which companies can compete on the world stage, an effective strategy for tackling globalisation is to focus on the exploitation of local products and services, which cannot be provided elsewhere. Mr David Rosser, Director of CBI Wales, highlighted the shift in employment from industries which were producing goods or services which could be produced anywhere in the world (citing textiles and consumer electronics as examples) to employment in sectors which were inherently more local in their nature and therefore less easily traded and imported, such as hospitality, tourism and personal and local services.³²

22. Here too, witnesses argued that Wales could build on its current strengths, rather than attempting to compete in low wage sectors with developing economies such as China and India. The former Department of Trade and Industry argued in its memorandum to the Committee in January 2007 that the rapid growth of emerging economies such as China and India provides substantial opportunities for the UK, with new markets for the UK’s exporters and investors. Within the services sector, the Department noted the UK’s specialism particularly in finance and insurance, but also in many other business services such as legal advice, consultancy, research and development, royalties, licence fees and information.³³ By contrast, “the broad sectors where China and India have most products where they have a comparative advantage include labour intensive areas such as clothing and textiles or commodity products such as metals”.³⁴

23. The Minister for Trade, Investment and Foreign Affairs noted in evidence that the Welsh economy has been a particular beneficiary of globalisation, with the value of Welsh exports growing by half between 1998 and 2005, almost twice the rate for the UK as a whole. The Minister cited specialised electronics, technology, aerospace and the service

³⁰ Ev 428

³¹ Q 85

³² Q 2

³³ Ev 400-01

³⁴ Ev 402

sector as areas in which Wales had a comparative advantage to the rest of the UK.³⁵ We were given examples of companies in Wales exploiting local specialist skills, including “Sony’s move to the manufacture of high definition professional broadcast cameras and Sharp’s move to the production of photovoltaic panels”.³⁶

24. Commenting on the shift in production by Sharp Manufacturing, Mr Allan Garley, South Western Regional Officer for the GMB, said that Wales had a particular local advantage in this field of expertise:

The investment by...Sharp, in a solar module manufacturing plant in Wrexham is a good example where inward investment is based on the Government’s renewable energy and microgeneration target in conjunction with assistance from the Welsh Assembly Government.³⁷

Mr Ian Williams, Director of International Business Wales agreed that Wales had a unique opportunity to be at the forefront of development in low carbon renewable energies, as well as in bioscience.³⁸

Sony in Bridgend

Both Sony and Sharp have altered their production in Wales over the past few years, moving up the value chain and taking advantage of local, specialist skills. As part of our inquiry we visited Sony’s factory in Bridgend and saw for ourselves how its work had been transformed from essentially an assembly line production of television sets to a highly skilled, technical operation. The site in Bridgend demonstrates the way in which the four themes described in this section interact: by raising skills, Wales has been able to support a new and innovative business sector. It has attracted global inward investment due to the specific skills and specialisms available locally. Nevertheless, the current global economic downturn will present challenges for the site as domestic demand for high value consumer goods begins to decline. It will be important for companies such as Sony to continue to have access to a skilled, specialist workforce if it is to sustain its presence in Wales.

This is not the first time that Sony’s operation in Bridgend has come under threat. The company avoided major job losses a few years ago, and managed to turn the situation into a success story for Wales. The plant had been earmarked for closure, because the move to LCD televisions came earlier than expected. Management recognised the need to diversify from the high volume low premium production of LCD television sets, where they were in competition with a number of sites in Europe. The Bridgend site developed one of only two global sites specialising in standard definition and high definition outside broadcast cameras (the other company is in Japan). Standard definition cameras are exported worldwide, and high definition cameras mainly to Europe. This is a high value product which is also sold directly to customers such as the BBC, ITV, NBC, and CBS. The site also provides all repairs for all Sony products for Europe.

³⁵ Ev 400

³⁶ Ev 429 (Andrew Davies AM, former Welsh Assembly Government Minister for Enterprise, Innovation and Networks)

³⁷ Q 359

³⁸ Q 1705

Sony also set up a Digital Technium, a large area on the site in Pencoed, which had attracted 29 high technology companies at the time of our visit, who benefit from Sony's support in product design, testing and manufacture. Sony told us that these new developments had guaranteed the sustainability of the site for 5-10 years.

Structure of our inquiry

25. Our decision to conduct an inquiry into *Globalisation and its Impact on Wales* was motivated by an awareness that the prosperity of the people of Wales now depends on global movements of trade. In an increasingly inter-dependent world economy, it will be vital for Wales to raise skills, foster innovation and sustain foreign investment and exports. In the long term, we agree with the assessment of the Welsh Assembly Government Minister, Andrew Davies AM that:

In partnership with business, the trade unions, local authorities, higher education establishments and others, Wales can be a significant beneficiary of globalisation and provide the right economic base for innovative companies, overseas investors and exporters. Key to this endeavour is...fundamentally, the skills and ambition of the people of Wales.³⁹

26. Within the last six months, the dangers and risks inherent in the process of globalisation have been starkly demonstrated. This has been an extensive and in depth inquiry and the Committee has gathered evidence over a period of more than two years. In this time, the state of the global economy has shifted significantly. When we began this inquiry, many of those who gave evidence were concerned about rising house prices, exacerbated by the movements of an increasingly mobile, international population. In contrast, at the time of writing, the UK is suffering the effects of a financial crisis that is undeniably global in nature, and which has caused the decline in value of many homes. Personal prosperity is now inextricably linked to the fluctuations of the global economy and the Government's response to them.

27. Globalisation is an extensive topic and its impact is felt in a wide range of economic and social contexts. Equally, as the introduction to this Report has illustrated, many of the factors that will determine the future success of the Welsh economy are complex and interrelated. We have gathered a significant quantity of evidence in the course of our inquiry and our Report is therefore divided into a number of sections. Firstly, we consider the types of employment and skills that will sustain the Welsh economy in the context of globalisation. Education and training are the foundations of a modern economy and will be vital to ensure that Wales can sustain levels of economic activity and emerge from the present downturn with a solid foundation for future growth. This section is followed by specific case studies of two sectors with a particular link to the challenges of globalisation and its impact on Wales. The first is food production, a traditional Welsh industry that has been transformed by globalisation. The second is broadcasting and the creative industries: a growing sector that owes its existence to modern communications. Finally, we comment on the increasing mobility of the world's population as a result of globalisation. Some witnesses who gave evidence during our inquiry referred to the recent arrival in Wales of

³⁹ Ev 432

workers from the 2004 European Union Accession countries. This is only the most recent example of worldwide migration trends. As national economies become ever more integrated, populations become more mobile and the labour force will increasingly come to be regarded as a global resource, with consequences for Wales.

28. In the course of this inquiry, we received over eighty written submissions and held 29 oral evidence sessions. Written evidence and transcripts of oral evidence are published in a separate volume. We are grateful to all those who gave us their views, as well as to those who gave up their time to meet with us during the visits we conducted as part of this inquiry. We would also like to thank our specialist advisers, Professor Kevin Morgan, Cardiff School of City and Regional Planning, Professor Max Munday, Director, Welsh Economy Research Unit, and Professor Kevin Williams, Head of the School of Arts at Swansea University, whose assistance was invaluable in the compilation of this Report.⁴⁰

1 Employment and skills

The Welsh economy

29. In the last part of the twentieth century, the Welsh economy underwent a significant shift. In oral evidence in May 2007, Sir Digby Jones, then United Kingdom Skills Envoy and former Director-General of the CBI, summarised the main changes:

...between 1985 and 2005...employment in agriculture and rural activities in Wales dropped by 46%; in mining and utilities it dropped by 82%...In construction the drop was 14%...in manufacturing it was 13% less than in 1985; but in all the public sector side of life—community and personal services up 30%; health care up 72%; education up 43%; public administration up 27%, so the shift in the Welsh economy in employment terms into using knowledge...to add value has been enormous.⁴¹

Decline of manufacturing

30. Over the last twenty years, there has been a general decline in the manufacturing sector in the UK as a whole. This has had a proportionately greater impact on Wales because manufacturing made up a larger proportion of Wales's economy at the beginning of the period.⁴² The decline in manufacturing can be attributed in part to globalisation. Amicus (now a part of Unite) told us that globalisation has created a “culture of uncertainty” in manufacturing: “as global companies chase increased profits they are moving their production facilities to China, Eastern Europe and India where labour is so much cheaper”.⁴³ The GMB said that labour costs in developing countries can be anything

⁴⁰ Professor Morgan is Professor of Governance and Development at Cardiff School of City and Regional Planning, Cardiff University and a member of the Food Ethics Council. Professor Munday is Director of the Welsh Economy Research Unit, Member of ESRC Centre for Business Relationships, Accountability, Sustainability and Society (BRASS), Cardiff University. Professor Williams is Professor of Media and Communication Studies and is Head of the School of Arts at Swansea University.

⁴¹ Q 754

⁴² Q 43

⁴³ Ev 417. In 2007, Amicus merged with the Transport and General Workers Union to form Unite.

between 20% and 80% lower than UK labour costs depending on the country or the type of product.⁴⁴

31. Many companies moving out of Wales are allied to the electronics and transport industries, but with employment being lost across the majority of manufacturing sectors.⁴⁵ Wales TUC noted that globalisation was not the only factor in the decline: “loss of manufacturing jobs is also down to the need for higher skills to keep up with technological change.”⁴⁶ Mr Andy Richards, Executive Committee Member of the Wales TUC told us that the decline was likely to continue. He said that research conducted by the T&G “predicted that 2038 will be ‘year zero’ for Welsh manufacturing; in other words...there will be nothing left”.⁴⁷

32. Mr Derek Walker, Head of Policy and Campaigns at the Wales TUC thought that recent shifts in the Welsh economy, including manufacturing decline, had a disproportionate impact on less qualified workers, saying “it is going to be those with the lowest level of skills and older workers who particularly suffer from globalisation, who cannot then transfer to other areas of work”.⁴⁸ But Wales TUC also noted that the loss of jobs could affect the workforce as a whole: “Many workers, including those with high skill levels, pay the costs of globalisation through unemployment or lower wages or poor health”.⁴⁹

Growth of the service sector

33. In the decade since 1997, the number of manufacturing jobs in Wales declined by 45,000, although total employment increased by 138,000 over the same period. The submission provided by the Department for Work and Pensions in May 2007 noted that the increase in the number of jobs in Wales had occurred in almost all sectors, but most notably in public administration, health and education, distribution, hotels and restaurants, banking and finance, and construction.⁵⁰

34. Rt Hon Caroline Flint MP, then Minister of State for Employment and Welfare Reform told us that, in terms of its ability to access inward investment and to break into some of the new sectors where the jobs are, Wales had out-performed the UK as a whole. The service sector accounts for almost 80% of employment in Wales, but in order to sustain employment levels there is a need to ensure that people are equipped with skills to compete in the high skill service areas such as information technology, finance, energy and telecommunications. The Minister said, “where our strengths lie is in developing the knowledge of our workforce, the skills of our workforce”.⁵¹

⁴⁴ Ev 421

⁴⁵ Ev 417

⁴⁶ Ev 397

⁴⁷ Q 43

⁴⁸ Q 48

⁴⁹ Ev 396

⁵⁰ Ev 487

⁵¹ Q 1217

35. Although the service sector has been a growth area in recent years, it has not been immune to the negative effects of globalisation. For example, Admiral Group plc specialises in insurance and other associated products and is Wales's highest valued public company, employing over 2,000 staff in its two main offices in Cardiff and Swansea. In 2001 the Group started outsourcing its call centre operations to India, employing around 180 staff there. The Group's memorandum to us explained that this move was motivated not by cost savings but in an attempt to remove unsocial working hours in South Wales, and so to reduce staff turnover.⁵²

Tourism

36. Tourism in Wales can be said to have begun in 1857, when the first purpose-built hotel was opened in Llandudno.⁵³ The industry has enjoyed mixed fortunes since that time, but is now the biggest contributor to the Welsh economy with a total annual turnover of some £3 billion, increasing every year.⁵⁴ For example Cardiff, which had no tourism at all thirty years ago, now depends on tourism, including conferences and general hospitality, as one of its major industries. Dr Shyam Patiar, Director of the Hospitality Skills Academy, Llandrillo College, told us that the tourism sector was made up of a large and diverse range of different industries. The restaurant sector is the largest, representing nearly 31% of the industry, followed by pubs (38%), hotels (9%), contract catering (7%), and other sectors such as travel and tourism services, gambling and self catering, which together account for 15%.⁵⁵

37. The impact of globalisation on the tourism industry has been mixed. Tourism is immune to some of its effects, because it is clearly inseparable from the local environment. As the Wales Tourism Alliance stated in evidence to us, tourism "provides a vital, reliable, long-term economic force that is locally based and locally owned...unique in its pan-Wales economic impact, its commitment to Wales, its ability to plan long-term and its ability to deliver local jobs for local people in all localities".⁵⁶ The Chairman of the Alliance, Mr Julian Burrell, said that "one of the biggest contributions tourism has made has been rural regeneration, especially after foot and mouth...tourism has helped to maintain the fabric of rural life, it has sustained farms".⁵⁷ The tourist industry can also take advantage of major sporting and cultural events to promote Wales and Welsh products. For example, Mr Burrell, said that the Ryder Cup in 2010 would be very important to Wales "because of the profile it will produce for us on the world stage".⁵⁸

38. Because of its local nature, the former Welsh Assembly Government Minister for Enterprise, Innovation and Networks, Andrew Davies AM, thought that tourism offered Wales "an opportunity to develop and market its uniqueness" on the international stage, providing a platform from which to pursue the economic objectives of trade and

⁵² Ev 415-16

⁵³ Ev 440

⁵⁴ Ev 546 and Qq 1436 and 1445

⁵⁵ Ev 549

⁵⁶ Ev 438

⁵⁷ Q 461

⁵⁸ Q 502

investment.⁵⁹ In addition, Dr Shyam Patiar, Director of the Hospitality Skills Academy, Llandrillo College, noted that Britain as a whole was ranked sixth internationally in terms of tourism earning, but only sixteenth for its customer service.⁶⁰ Wales Tourism Alliance is developing a Skills Action Plan for Tourism, an industry-led training scheme which aims to raise the status of the tourism service industries.⁶¹ It said that European Union funding had been highly successful in helping tourism operators to upgrade facilities, attractions and premises, but added that “the relationship between the industry, local authorities, the Welsh Assembly Government, Westminster and Europe must be at its best if we are to maximise the gains possible for local people that...tourism can effectively create”.⁶²

39. Although tourism is inextricably linked to the geography of a particular locality, globalisation has still had some influence on the industry. Wales Tourist Alliance told us that globalisation had increased competition, imposing “a day-to-day gauge of worldwide quality of product and delivery, providing standards that must be matched and mastered”.⁶³ The Alliance also made reference to the number of migrant workers who were employed in the industry at the time of giving evidence.⁶⁴ Dr Patiar told us that 10% of employers across all sectors report hard-to-fill vacancies, but that this rose to 17% in hospitality, leisure, travel and tourism establishments. He attributed this to “an acute recruitment problem” and “a lack of suitably skilled applicants”.⁶⁵

Small businesses

40. Sir Digby Jones, then UK Skills Envoy, told us in May 2007 that “One of the great successes of the Welsh economy over the last ten years has been the creation of small businesses and the wealth, the drive and the employment that that has created in Wales.”⁶⁶ Small and Medium-Sized Enterprises (SMEs) now make up over 90% of the business stock of Wales, employing over half the private sector workforce,⁶⁷ and representing 54% of Wales’s GDP.⁶⁸

41. Small businesses may face greater challenges from globalisation than larger companies. However, small businesses do represent potential for future growth. In oral evidence, the Federation of Small Businesses (FSB) Wales argued, “If we can get to the situation where we are growing businesses to a medium size then that will have a very positive impact on gross value added, as those businesses become more dynamic and as they start to seek export markets”.⁶⁹ Current success, however, is limited. FSB Wales said that only 3.4% of

⁵⁹ Ev 431

⁶⁰ Q 1445

⁶¹ Ev 438

⁶² Ev 438

⁶³ Ev 438

⁶⁴ Ev 438. We consider the issue of economic migration in more depth in the final section of this Report, on population movement.

⁶⁵ Ev 550 (figures taken from *Future Skills Wales, 2005*)

⁶⁶ Q 767

⁶⁷ Ev 434

⁶⁸ Q 438 (FSB)

⁶⁹ Q 441

their members intended to start exporting in the next two years and of those businesses which already export, fewer than 5% intended to increase their export volume. Its view was that business support, advice and grants for small businesses all needed to be improved in order to expand access to international markets for small businesses,⁷⁰ but in the context of the current economic downturn, it seems likely that many small businesses will face pressures that prevent them from expanding in this way.

42. The then Welsh Assembly Government Minister for Enterprise, Innovation and Networks, Andrew Davies AM, noted that globalisation should allow indigenous Welsh companies to develop a presence on the international stage. However, most of his examples were of large companies such as Graig Shipping, a company based in Cardiff Bay with a considerable presence in Asia, and the establishment by Admiral Insurance of an operation in Spain.⁷¹ Mr David Rosser, Director of CBI Wales, told us that, in general, companies which were indigenous to Wales were less likely to move their operations elsewhere, compared to global companies with operations in many parts of the world.⁷²

Internationalisation of the union movement

As companies increasingly operate on a worldwide basis as a result of globalisation, unions have responded by developing international links and structures. When we visited Poland in connection with this inquiry, we met representatives of Solidarność and learned of the links it has at national and international level, for example with the GMB and TGWU (now part of Unite).

Trade unions in Poland have a unique status among social organisations and associations, due to the role played by the Solidarność trade union during the social and political changes after 1980. More recently, the union has had to deal with the decline of heavy manufacturing, in common with Wales, as well as significant population movement after Poland's accession to the European Union. In September 2008, the TUC and the two Polish trade union confederations, Solidarność and OPZZ signed a co-operation agreement to support Polish workers in the UK and committing them to encouraging the nationals of both countries to join a trade union of the country in which they are working.

Unions active in Wales have recognised that their members are increasingly affected by globalisation and that, to represent them fully, they need to operate at national, European and international level. In 1993, GMB opened an office in Brussels.⁷³ The union has an active European Parliamentary group, is affiliated to eight European or international industry federations, and has approximately 165 members on the European Works Councils of some 90 multinational companies.⁷⁴ In addition, Amicus (now a part of Unite)

⁷⁰ Q 446

⁷¹ Ev 429

⁷² Q 27

⁷³ Q 379

⁷⁴ Ev 424

has actively developed links with European trade unions, such as the Industrial Union of Metalworkers, IG Metall,⁷⁵ and Community has engaged with the Chinese steel industry and its trade unions.⁷⁶

Globalisation and the Welsh economy: the examples of Burberry and Corus

43. The different challenges and opportunities presented by globalisation in recent years can be illustrated by the contrasting experiences of two companies in Wales: Burberry the international luxury clothing brand, and Corus, Europe's second largest steel producer with 5,300 employees in South Wales.

44. From the Middle Ages to the nineteenth century, textile manufacturing was one of the most important Welsh industries. Burberry has its global headquarters in London and in 1989 took over a factory in Treorchy, South Wales, which had been producing clothes since 1939. Following a year-long review of Burberry's supply chain and manufacturing process, in September 2006 the company decided to end its operations at Treorchy. Burberry was the largest employer in the Rhondda Valley for many years, employing over 300 people.⁷⁷ Burberry's review had concluded that Treorchy was not commercially viable and that it was "possible to source certain products of greater quality overseas at significantly lower cost".⁷⁸ Burberry noted in its memorandum to the Committee:

Globalisation has meant that to remain internationally competitive, it is important to operate at the most appropriate and efficient locations ... a combination of relatively high standard of education and lower wage levels present in central and Eastern Europe will pose a challenge to lower value manufacturing operations in Wales and the rest of the UK.⁷⁹

45. The closure of the Treorchy factory posed a major challenge in re-skilling the former textiles workers. Burberry told us that it had extended the period of closure of the factory in order to provide training for its employees, including in computing, tiling, plastering, the care sector and in food hygiene.⁸⁰ Mr Burnett, Senior Officer, GMB told us that most of those who found further employment moved into the care or retail sectors, not into manufacturing.⁸¹ In its memorandum to the Committee, Burberry noted:

The Treorchy experience is an obvious example where Wales has found it very challenging to compete against some other economies in manufacturing operations. Our own experience demonstrates that whilst globalisation can significantly impact upon lower value-added production in the UK, it has allowed global companies such as Burberry to grow our business around the world and has resulted in higher-skill,

⁷⁵ Q 233

⁷⁶ Q 601

⁷⁷ Q 328

⁷⁸ Ev 418

⁷⁹ Ev 418-419

⁸⁰ Q 268

⁸¹ Q 332

higher value-added jobs in the UK in design and marketing of our higher value garments.⁸²

46. A contrasting example is provided by the steel industry. By 2010, more than half of global steel production is expected to be located in Brazil, Russia, India or China (the so-called 'BRIC' countries). China continues to underpin steel demand growth with year-on-year growth in demand at 14% during 2006,⁸³ and has moved in a very short period from being the largest importer of steel to being the largest exporter.⁸⁴ Demand for steel in India is expected to grow at above 10% for the foreseeable future.⁸⁵ Evidence we received suggested that consolidation had been a major feature of the industry in recent years.⁸⁶

China: The Global Challenge for Wales

The pace and scale of development in China pose some major challenges for Wales. As part of this inquiry, the Committee visited China, specifically to examine how the growth of the Chinese economy is impacting on Welsh employment patterns and prospects as well as to study how China is reacting to the skills challenge and dealing with legal and illegal migration patterns.⁸⁷

The most striking part of our visit was becoming aware of the extraordinary speed and extent of change in China. For example, there are now one hundred Chinese cities of over one million people, including twenty of the thirty most populated cities in the world. GDP has grown by 9-10% every year for the last three decades.

The key for foreign investment into China is not 'cheap labour' but the size and proximity to the market and the labour force, the support of the Chinese Government and the nature of the workforce: skilled, flexible, adaptable and hard-working. As part of the visit, the Committee met with the President of Baosteel Group Corporation. The group produces 22.53 million tons of steel per annum, following a strategy of producing premium steel products from automotive steel to special, high-grade construction steel, and has a Research and Development base for new processes, technologies and materials. The company was proud of China's transition from a rural to an industrial and then to a knowledge economy.

It was evident from our short visit that China represents a massive and permanent challenge to the global economy, which extends beyond manufacturing towards higher level skills. Understanding the complexity of this challenge will be crucial to Wales's response.

⁸² Ev 419

⁸³ Ev 453 (Corus)

⁸⁴ Ev 463; Q 572

⁸⁵ Ev 464

⁸⁶ Ev 455, Qq 575 and 580

⁸⁷ A more detailed account of the Committee's visit to China can be found in 'China: The Global Challenge for Wales', by the Chairman, *Bevan Foundation Review*, Issue 10, Spring 2008, pp.36-37.

47. Wales accounts for nearly half of British steel output.⁸⁸ According to Community trade union, since mid-2003 there have been “dramatic positive changes” in the conditions under which steel is produced in Wales, coinciding with an improvement in the profitability of the international steel industry as a whole and an increase in domestic demand for steel. Community said that the most significant change was investment in modern plant and equipment which was “the basic requirement for retaining a profitable steel industry in Wales”:

Steel production in Wales will have the substantial price advantage—about £35 per tonne—of proximity to its major customers in the British construction and manufacturing sectors...The sustained and massive increase in sea freight costs has also worked in favour of British production.⁸⁹

48. In late 2006, Corus was purchased by Tata Steel Group. Mr Michael Leahy, General Secretary of Community, welcomed this acquisition as a great opportunity which would open up the worldwide market to Corus.⁹⁰ Rt Hon Ian McCartney MP, Minister of State for Trade, Investment and Foreign Affairs Minister for Trade, Investment and Foreign Affairs told us in February 2007 that Tata’s decision was strongly influenced by the specialist products and skills available in Wales: “One of the reasons Tata has purchased Corus is because of the specialist types of products it produces...Secondly, there is its skill base and its investment base”.⁹¹ In February 2008, Corus announced a £60 million investment into energy management technology at Port Talbot steelworks.

49. Since that time, the global economy has undergone a sharp downturn. In October 2008, Corus announced that it would be cutting production by around 30% at its European plants, although no change in Tata’s steel production outside Europe is expected. The more damaging effects of globalisation have therefore made their influence felt in Wales. Nevertheless, in the same month Corus opened two new production facilities at its Shotton site in North Wales, focusing on high value-added employment, innovation and the renewable energy sector. Although job losses are expected in the company’s distribution business, Corus has announced that it will be taking on 150 new recruits in South Wales, including 65 graduates and 74 apprentices who will be trained in mechanical and engineering skills. This follows the announcement early in 2008 of over £60 million of investment at the Port Talbot steelworks, which the then Acting Managing Director, of Corus, Robert Bizzell, described as “a significant vote of confidence by the Corus Board and also by our new owners [which] will play a significant part in creating a sustainable steel industry here in Wales”.⁹²

50. On 26 January 2009, Corus announced 1,100 redundancies in the Welsh steel industry: nevertheless the universal view within the company, steel unions and government was to emphasise the importance of reskilling and upskilling the workforce in preparation for an upturn in the economy.

⁸⁸ Ev 465

⁸⁹ Ev 465

⁹⁰ Q 581

⁹¹ Q 87

⁹² http://www.corusgroup.com/en/news/news/2008_60million_investment_Port_Talbot

The Business environment

51. To face the challenges of globalisation, Wales needs to attract employers to Wales and to promote the country as an attractive location in which to do business. Mr David Rosser, Director of CBI Wales, told the Committee “if we try and make Wales the best location, a location that is attractive to business in general, then it will be equally attractive to international businesses as well as a good location for Welsh companies to grow and prosper”.⁹³ CBI Wales emphasised the importance of a competitive tax system and a legal and fiscal environment that encourages free trade and ease of administration.⁹⁴ These are responsibilities of UK Ministers, rather than the Welsh Assembly Government. Our witnesses also thought that a sound infrastructure was a prerequisite, as well as good support for businesses wishing to expand overseas and efforts to attract inward investment.

Infrastructure

52. In its evidence, CBI Wales underlined the importance of a sound business infrastructure, noting the increasing importance of connectivity to markets as globalisation develops, both in terms of physical road, rail and air connections from Wales, and a modern communications network enabling the rapid transfer of information across the globe.⁹⁵ Mr Rosser said that “the fact that the whole transport infrastructure of the UK appears to many people to be slowly grinding to a halt impacts on the UK’s attraction as a place to do business”.⁹⁶ Factors specific to Wales include the lack of suitably reliable routes between North and South Wales, which FSB Wales believed remained a barrier to business growth and to trade within the country.⁹⁷ In contrast, the CBI thought that the economic benefit of cross-border links was of greater value. Mr Rosser argued that the market in South Wales was quite small for a company based in North Wales, compared to the North West of England (the North West Region has a population of around 7 million, compared to less than 2 million in the South Wales area).⁹⁸

53. Telecommunications infrastructure is also vital if Wales is to remain competitive. BT currently employs almost 1% of the Welsh workforce (around 4,800 people), although in November 2008, it announced that it would be cutting 10,000 jobs worldwide. It is not yet clear how these cuts will affect the Welsh workforce, but BT have said the aim is to reduce its dependence on consultants and contractors. In evidence to the Committee, BT said that it was planning a £460 million investment programme in Wales’s core network for telecommunications, which would give Wales a comparative advantage against many of the English regions outside London and the South East.⁹⁹ FSB Wales argued that businesses needed to be more alert to the possibilities provided by new technologies, saying “Good

⁹³ Q 5

⁹⁴ Ev 395

⁹⁵ Ev 395 and Q 140

⁹⁶ Q 12

⁹⁷ Ev 435-36; Q 450

⁹⁸ Q 13

⁹⁹ Q 140

progress has been made on rolling out broadband in Wales but businesses need to be better aware of the benefits of establishing even a basic online presence.”¹⁰⁰

54. Reliable and modernised infrastructure is the foundation of economic success. This includes conventional transport links by road and by rail as well as the digital infrastructure that underlies today’s global telecommunications networks. Whilst improvements have been made in recent years, we are concerned that difficulties in some areas may be holding back business growth and investment in Wales. We are currently undertaking a separate inquiry into cross-border transport services, in which we are examining the adequacy of transport links to and from Wales, ensuring that Welsh interests are fully taken into account in the Department for Transport’s UK-wide strategies. This will be followed by a new inquiry into digital inclusion. For Wales to prosper from globalisation, the whole Welsh population must have access to the new commercial and personal opportunities afforded by increasingly rapid and innovative forms of global communications.

International Business Wales

55. International Business Wales is the Welsh Assembly Government department responsible for attracting new inward investment into Wales and for promoting trade from Wales.¹⁰¹ It has a team of about 170 people, including trade, marketing and sector specialists, a headquarters in Cardiff and teams in North Wales as well as overseas in Europe, the United States, Asia, the Middle East and Africa. It aims to achieve “more and better jobs”, and to assist Welsh companies to take up the opportunities afforded by overseas markets.¹⁰²

56. Arguing that Welsh companies were well placed to take advantage of the global economy, Mr David Rosser, Director of CBI Wales, gave the Committee the example of a company based in Mid Wales called Control Techniques Ltd, which supplies electronic products for the commercial and industrial sector and employs over 350 people at its headquarters in Newtown.¹⁰³ Mr Rosser explained how the company had opened a factory in China to where it was gradually moving the manufacture of its lower end products:

At the same time its product development function in Wales is bringing on-stream newer products of higher value which it is continuing to manufacture in Wales. It will probably employ similar numbers of people in future in Wales as it has done, but they will be more highly skilled, hopefully therefore more highly paid and more highly trained.¹⁰⁴

57. Mr Ian Williams, Director of International Business Wales, told us that in addition to exports, inward investment was of vital importance to the Welsh economy. There are around 500 foreign-owned companies in Wales, employing about 133,000 people, which

¹⁰⁰ Ev 435

¹⁰¹ Ev 587

¹⁰² Ev 395 and 588, Q 1677

¹⁰³ Q 7 and http://www.controltechniques.com/CTcom/about_us/global_manufacturing.aspx Control Techniques Ltd is a part of Emerson Industrial Automation

¹⁰⁴ Q 7

equates to 16% of the working population.¹⁰⁵ Mr Williams said that International Business Wales had the target of a 25% year-on-year increase in exports out of each region of Wales.¹⁰⁶ In its memorandum to the Committee it noted that it had exceeded its target output in 2006-07 by a significant margin: the target was £90 million and the output was £147 million.¹⁰⁷

58. International Business Wales targets five sectors in particular: financial and business services; life sciences; low carbon renewables and sustainable technologies; the automotive sector; and information technology.¹⁰⁸ Giving evidence in March 2007, the then Welsh Assembly Government Minister for Enterprise, Innovation and Networks, Andrew Davies AM, told the Committee “we have to take a very focused approach in terms of developing those international links. We cannot afford to spread our investment and our efforts too thinly”.¹⁰⁹ Mr Williams said that his approach was based on providing examples of companies which had made the transition successfully: “real companies being truly successful abroad...that is the most compelling evidence that people should be doing business...with Welsh companies”.¹¹⁰

59. When we visited China as part of our inquiry we met with representatives of International Business Wales in Shanghai. We were surprised at the relatively small size of the team in China. Mr Williams told the Committee that International Business Wales constantly reviewed the number of staff it has in every market, and the number of projects each country generated. At that time, the United States was the biggest generator of projects into the UK, with around 540 such projects. In contrast, China generated around 52.¹¹¹ In terms of inward investment into the UK, India was also around 20% higher than China. Mr Williams said “in terms of more staff I would want to wait maybe two years to see whether the opportunity develops and work with UKTI until that happens. I am not getting a sense from my team in China that they desperately want more staff”,¹¹² but he cautioned “if the opportunity starts to grow...then we will have to meet that opportunity with resources”.¹¹³

60. Although the level of export business generated in China by International Business Wales is not huge (around £7.7 million), Mr Williams emphasised the importance of building contacts for the future:

A lot of the companies that we work with are, by nature, not the ones who are going to give us the £25 million, £30 million, £40 million export numbers right now, but

¹⁰⁵ Q 1694

¹⁰⁶ Q 1677

¹⁰⁷ Ev 588

¹⁰⁸ Q 303; see also Q 427 (Andrew Davies AM, former Welsh Assembly Government Minister for Enterprise, Innovation and Networks)

¹⁰⁹ Q 426

¹¹⁰ Q 1698

¹¹¹ Q 1710

¹¹² Q 1711

¹¹³ Q 1710

those companies with the right development and with the right growth may give us those sorts of numbers in the future.¹¹⁴

Effectively, ‘up-front’ investment in developing links and opportunities is needed if Wales is to achieve significant business growth through international markets in the coming decade.

61. In order for the Welsh economy to be sustained in the years to come, Welsh companies must be supported to access markets overseas. Equally, Wales needs to continue to attract the foreign investment that has provided such a significant contribution to its economy. International Business Wales should play an important part in facilitating both these processes, but we were frankly disappointed by its very modest achievements in China. International Business Wales should have sufficient resources and the professionalism and commercial judgment to carry out its functions effectively. We hope, therefore, that it will closely monitor the quality, competence and level of its staffing in targeted countries to ensure that it is making the most of the opportunities available and that support is available where it is needed.

Employment

62. In evidence to the Committee, the Department for Work and Pensions noted that although Wales has an employment rate slightly below the UK rate—71.1% and 74.3% respectively at the time of giving evidence in May 2007—it is higher than most other countries in the world including Japan, Germany, France and Italy.¹¹⁵ In recent years, however, the gap has been closing and the employment rate has risen faster in Wales than in the UK as a whole.¹¹⁶ Nevertheless, Wales still has the highest number of 19-24 year olds who are neither in education or training in the UK (the UK average is 16.8%, compared to a rate in Wales of 19.8%).¹¹⁷ Despite this, in its evidence the Department for Work and Pensions expressed the view that an employment rate of 80% overall could be achieved for Wales, although it is highly likely that these forecasts will be adversely affected by the current economic downturn.

63. Structural changes to coal mining, steel and other heavy industries in Wales in the 1980s and 1990s have had a particular impact on male employment in areas in which whole communities were largely entirely dependent on one industry.¹¹⁸ The percentage of men employed in Wales aged 55 or over is the lowest in the UK: 71% of men aged 50–54 are employed in Wales, but this falls to 46% of 55–59 year olds, compared to 70% in the South West of England. Nevertheless, the former Minister of State for Employment and Welfare Reform, Rt Hon Caroline Flint MP, giving evidence in July 2007, indicated that the rate of improvement in some of the poorer areas had been faster than some of the more affluent parts of Wales, which “does not indicate that globalisation in itself is having a

¹¹⁴ Q 1715

¹¹⁵ Ev 487 and 516

¹¹⁶ Ev 516

¹¹⁷ Q 1437

¹¹⁸ Qq 1246 and 1248

disproportionate effect on those communities”.¹¹⁹ The Minister also told us that the number of those in receipt of Incapacity Benefit was far higher in Wales than in other parts of the United Kingdom, and that “all the research evidence shows that the longer someone is on Incapacity Benefit their chance of actually coming off that benefit into work reduces enormously”.¹²⁰ Again, former coal mining areas are disproportionately affected.¹²¹

The importance of skills

64. Many of our witnesses said that raising skills levels was one of the most important steps towards getting unemployed Welsh people back into the workplace.¹²² For individuals with qualifications, employment rates are high in Wales; however, they are low for those with no qualifications.¹²³ Sir Adrian Webb, who chaired the Independent Review of the Mission and Purpose of Further Education in Wales, thought that increased investment in education and skills could have a positive impact on equality and social inclusion, saying “Additional years of education and training are positively related to healthier life styles, lower levels of criminal behaviour and greater social cohesion”.¹²⁴

65. Higher skills are particularly important in the context of the current economic downturn, allowing Wales to sustain employment levels overall and maintain the specialist sectors it needs to compete in the world economy. Professor Merfyn Jones, former Chairman of Higher Education Wales, said:

...the way you generate economic activity is through generating the business potential at the higher level. So the more people you have operating at the higher level, the more opportunity there is to employ those who do not have those levels but who do have the basic and intermediate skills.¹²⁵

This was supported by Sir Adrian Webb, who thought that the aim should be “to stimulate the economy and take it up the value added chain to give Wales more jobs which are high-skilled jobs” allowing it to compete successfully in the context of globalisation.¹²⁶

66. For these reasons, governments throughout the developed world have recognised the importance of skills policy. In the UK, the Leitch Report on skills, commissioned by the Chancellor of the Exchequer in 2004, highlighted the pivotal role that skills will play in responding to the challenges of globalisation, and recommended a series of policies that would raise skills levels across the board. In Wales, the Independent Review of the Mission and Purpose of Further Education in Wales reported in December 2007. Its Chair, Sir Adrian Webb, noted in his evidence that, although much of the skills agenda was a devolved matter, it was intimately related to non-devolved issues which influence the

¹¹⁹ Q 1248

¹²⁰ Qq 1223-24 and 1227

¹²¹ Q 1222

¹²² Q 41 (CBI), Q 63 (TUC) and Ev 481; see also Q 774 (Sir Digby Jones)

¹²³ Ev 488, 518

¹²⁴ Ev 482; Q 876; see also Q 910

¹²⁵ Q 617

¹²⁶ Q 883 (Sir Adrian Webb)

performance of Wales as an economic entity.¹²⁷ He concluded that there were two major aspects to addressing the question of skills: first, how to up-skill the existing workforce; and, second, how to ensure the further development of high skills in the workforce through education and training of young people.¹²⁸

67. As the pace of globalisation accelerates, it becomes more difficult to anticipate future economic needs, but increasingly important to ensure that Wales has an adequate skills mix so that it is not left behind. In his Review, Sir Adrian emphasised the utility of spatial planning analysis in predicting future skills needs in a rapidly changing global situation, arguing that the work businesses already undertake in this area could be put to use in public policy decisions. He also argued that a good, broad, basic education for young people would provide the foundation for them to go on learning through life.¹²⁹ These recommendations imply that action is needed across the board, in schools, in further and higher education and by encouraging in-work training. We now consider the ways in which each of these sectors can play its part in raising the skills base in Wales.

Higher Education

The need for graduate-level skills

68. The Leitch Report made a strong case for the further expansion of participation in higher education by calling for the proportion of the UK adult population with level 4 skills (higher education qualifications) to be raised to 40% by 2020. This was supported by survey evidence from Welsh employers showing that the analytical and communications skills possessed by graduates are valued increasingly by employers.¹³⁰ Those who gave evidence to our inquiry agreed that higher-level skills were increasingly in demand. Mr Adam Jackson, Public Policy Officer for Tesco, said:

As well as the 13 countries we operate in as a retailer we have a service centre in Bangalore in India. An observation from our Chief Executive...was that when he went to see the service centre in Bangalore nearly everyone was a graduate, so quite a contrast to maybe the UK.¹³¹

Mr Jackson concluded that “the UK has to keep on investing in skills and certainly if we do not raise our game we will fall behind...that is the clear message”.¹³²

69. Some of those who gave evidence to our inquiry reported an existing skills gap at graduate level. The Department of Work and Pensions noted in its written evidence that the 2005 Sector Skills Survey had found that 10% of establishments in Wales reported hard-to-fill vacancies, and within this 4% reported skill shortage vacancies.¹³³ Sir Adrian

¹²⁷ Ev 481

¹²⁸ Q 872

¹²⁹ Q 874

¹³⁰ Ev 468

¹³¹ Q 1409

¹³² Q 1416

¹³³ Ev 488

Webb observed in his memorandum that “the Welsh economy shows signs of ‘low skill equilibrium’”. This is a situation where an economy becomes trapped in a vicious circle of low value added, low skills and low wages. Relatively low wages can be a driver of high employment, but may not be sustainable in the longer term. Without effective intervention, there is a danger that a low skill equilibrium will persist. Sir Adrian concluded that the Welsh economy “will only need and be driven forward by better intermediate and high level skills in so far as it moves decisively beyond this plateau”.¹³⁴

70. In evidence to the Committee, Higher Education Wales emphasised the importance of planning for future skills needs, as well as plugging the current gap. Professor Merfyn Jones said that planning for future skills levels needed to be long term, urging “we need to be thinking what skills will we need in 10, 15, 20 years’ time”.¹³⁵ The decline in manufacturing, clerical, and manual employment is predicted to continue and even accelerate. In contrast, projections show that the Welsh economy will depend on managerial, professional and technical occupations where high skills levels are the norm. Professor Jones concluded:

This means that the availability of high level skills will be the key driver of net employment growth in Wales and the UK—and certainly the dynamo for employment growth in well paid employment where graduate skills are valued. Universities will therefore play an absolutely central role in the developing skills agenda.¹³⁶

71. The particular importance of specialist scientific and technical skills was highlighted during our inquiry. Higher Education Wales argued that this lay at the heart of Wales’s competitive advantage in the global economy.¹³⁷ Wales’s strengths arise from the cultural diversity of the student body, a strong science base within a multidisciplinary approach, and the fact that the Higher Education system has problem-based learning at its core.¹³⁸ According to Professor David Reynolds, this contrasts with the “conventional” educational systems of the Pacific Rim, which have not generally taught direct work-related skills or related their educational systems to the needs of their economies:

The lack of this tagging of education to the needs of the economy is argued to be restricting of their societies’ ability to differentiate themselves from the ‘mass production’ economies...low end of the production chain in evidence in the Chinese, Malaysian, Indonesian and Indian industrialisations.¹³⁹

72. However, according to a survey of UK businesses conducted by the Federation of Small Businesses in 2006, a higher proportion of employers in Wales than in the UK as a whole report a shortage of technical skills. FSB argue that this “will invariably pose a problem as Wales seeks to gain in competition with emerging markets in Eastern Europe and in Asia”.¹⁴⁰ There has been some concern in this context that the number of science graduates

¹³⁴ Ev 483

¹³⁵ Q 633

¹³⁶ Ev 468

¹³⁷ Ev 469

¹³⁸ Ev 469

¹³⁹ Ev 480

¹⁴⁰ Ev 434

in Wales and across the UK is declining. When asked about the adequacy of science departments within Welsh universities, Mr Rosser, CBI Wales, replied, “it is starting to become an impediment, particularly for those companies that we might hope would lead our charge into globalisation.”¹⁴¹

73. Skills are the key to maintaining levels of employment in Wales. An increase in higher level skills amongst the Welsh population is the only way in which the nation can compete successfully for jobs against other countries, where lower wages are the norm. During this inquiry, we have found evidence of existing skills gaps. Constantly re-evaluating and increasing skills at every level becomes even more important during an economic downturn. Wales must avoid the trap of a ‘low skill equilibrium’ and dependence on low skilled, low paid jobs, which are vulnerable to relocation worldwide. In order to do this, the UK and Welsh Assembly Governments must work with the higher education sector to raise the skills base, stimulating the local economy and enabling Wales to compete in a world where high volume, low value production increasingly takes place overseas.

Universities and the local economy

74. Universities play a vital role in equipping the workforce of Wales with the skills it will need to compete in the twenty-first century global economy, but they also make a significant direct contribution to the economy of their local region as large employers in their own right. Amanda Wilkinson, Director of Higher Education Wales, told us that “They are major drivers of that local economy in terms of the development and sustainability of a range of smaller businesses which depend on the institutions’ activities for their very survival” and Professor Noel Lloyd, Vice Chancellor of Aberystwyth University, estimated that the input of Aberystwyth University to the local economy was around £200 million a year.¹⁴²

75. Beyond their direct role as employers, universities also act as centres of business innovation. Higher Education Wales highlighted the importance of ‘spin off’ companies to the Welsh economy:

In 2003-04 Welsh universities created 24 new “spin out” and “staff start up” businesses earning £25 million a year—proportionately outperforming most English regions...Welsh universities also provide a crucial consultancy resource for private and external bodies from which they earned £24 million in 2003-04 and in the same year Welsh universities gained well over £100 million in export earnings for Wales from tourism and international student income. Overall, without taking into account the added value to the Welsh economy in higher skills and innovation, the Higher Education sector contributed over £1.6 billion to the Welsh economy in 2004-05.¹⁴³

Universities thus play a vital role in promoting the ‘knowledge economy’, working with leading edge companies in product development and manufacture, technology transfers

¹⁴¹ Q 26

¹⁴² Q 122 and Ev 575

¹⁴³ Ev 469

and licensing, and making the most of the opportunities of globalisation for Wales.¹⁴⁴ Mr Ian Williams, Director of International Business Wales, gave the example of the company Wockhardt in North Wales and its collaboration with Cardiff University, saying “The fact that they can do that with Welsh universities...is a bigger selling point...than a grant would ever be”.¹⁴⁵

Universities as ‘hubs’

The way in which universities support and develop their local economy has been described as a ‘hub’ model. The Committee’s visit to China as part of this inquiry allowed us to examine a culture in which the university ‘hub’ function is embedded. Our time at Xiamen University allowed us to appreciate the vital economic role played by higher education and the crucial importance of its links with regional industry—links which Xiamen University takes great care to develop and encourage. Historically, China has long recognised the significance of education and is now using it as an essential tool in harnessing the positive features of globalisation. In recent years, Xiamen University has focused on areas of scientific and technological research of high demand to the country. University policies aim to facilitate the industrialisation and commercialisation of this research.

The Chinese economy has developed from a mainly manufacturing base towards high-end service provision. This trend is supported by an impressive network of innovation centres (techniums) with the aim of attracting and supporting new and innovative businesses. The Committee also visited the Fudan University Science Park in Shanghai, which has close links with the Swansea Technium, and the Hi-Tech Innovation Centre in Xiamen.

Our witnesses in Wales agreed that a hub model was emerging in Wales and should be encouraged. Higher Education Wales noted that “in the medieval era traders gathered around the Abbey or Cathedral and that during the industrial revolution commerce clustered around the factory, but that in the knowledge economy of the twenty first century growth industries will cluster around universities”.¹⁴⁶ Its then Chairman, Professor Merfyn Jones, argued that such hubs could become a principal driver of economic growth across a national economy, pointing to the Life Sciences Institute in Swansea, the Centre for Advanced Software Technology in Bangor and Opto-electronics in St Asaph as examples of high level clustering around research and development, linked to the local university and to other public and private sector partners.¹⁴⁷

Bangor, St Asaph and Swansea are amongst the nine Technium Innovation Centres in Wales, established by the Welsh Assembly Government as incubators for high value research and development, bringing together higher education and knowledge-based start-up and spin-out companies supported by a team of business and technical support staff.¹⁴⁸

We commend the work of higher education institutions in developing research and development hubs in partnership with the Welsh Assembly Government and with

¹⁴⁴ Q 1705 and Ev 486 (Cardiff University)

¹⁴⁵ Q 1707

¹⁴⁶ Ev 470; see also Q 615

¹⁴⁷ Q 618 and Ev 470

¹⁴⁸ <http://www.wda.co.uk/index.cfm/technium/en4414?TechniumFlush=1>

business. We consider that this model is likely to contribute significantly to business growth and innovation in Wales, helping the country to face the challenges of globalisation and take advantage of its opportunities. We would also commend the local and global perspectives of Mondragón University in the Basque Country and Xiamen University in China, which we had the opportunity of visiting during the inquiry.

76. Not only do universities contribute economically to their region, they also act as drivers for social and cultural change.¹⁴⁹ Higher Education Wales regarded access to a university education as an important way to foster social inclusion, arguing that “This will be crucial as a countervailing force against the negative effects of globalisation which can lead to unemployment or employment in low paid, low prospect jobs”.¹⁵⁰ Its then Chairman, Professor Merfyn Jones, acknowledged that in order to fulfil this mission, universities would need to work actively in local schools in order to convince parents and children who had not previously considered higher education of its benefits.¹⁵¹

77. In the twenty-first century global economy, universities are the drivers of sustainable employment. As providers of higher level skills, they enable a country to up-skill its population and compete against low wage economies abroad. Links with local businesses allow for the commercialisation of innovative research developments. In addition, universities make a significant direct economic contribution to their locality. In the course of our inquiry, we saw how other countries have harnessed the power of universities for local benefit by employing a ‘hub’ model. This model is beginning to be adopted in Wales, but this is very late in the day and we are concerned to see that the full economic potential of higher education institutions has not yet been recognised by industry or by the Welsh Assembly Government and its bodies or indeed by universities themselves. It is vital that the UK and Welsh Assembly Governments should fully integrate the commercial potential of higher education into their policies in order to avoid being overtaken by other countries, both elsewhere in Europe and beyond.

Global partnerships

78. As well as playing a vital economic role in their local communities, the higher education sector can take advantage of the opportunities provided by globalisation to forge valuable worldwide partnerships. Professor Noel Lloyd, Vice Chancellor of Aberystwyth University explained:

At the same time as having this essential local role, universities operate on an international stage...we have to be in a position to be able to compete in research and in our academic provision with the best in the world. This is why...research collaborations are being established...to create an “effective mass” of researchers,

¹⁴⁹ Ev 575 (Professor Noel Lloyd)

¹⁵⁰ Ev 469

¹⁵¹ Q 628

with a wide range of expertise, to enhance competitiveness and straddle traditional disciplinary boundaries.¹⁵²

79. Professor Merfyn Jones summed up the economic contribution to the Welsh economy provided by the international presence of universities:

International (i.e. non-European Union) students pay some £54 million worth of fees in Wales. They probably spend another £50 million, and if you round that up we are looking at well over £100 million pounds coming into the Welsh economy...just for students. Then...there are international research contracts and collaborative links with universities in China and India, and the Gulf and so on, which are increasingly becoming important.¹⁵³

80. Wales attracts over 14,000 international students from across the globe.¹⁵⁴ About a third of Aberystwyth University's students come from outside the UK,¹⁵⁵ and Cardiff University has recruited approximately 2,500 students from over 80 countries outside the European Union.¹⁵⁶ Despite increasing competition from English language medium institutions around the world, international students see the UK as a world leader in the provision of higher and further education and in the teaching of English.¹⁵⁷ International students frequently continue their links with Wales when they return home and serve as 'ambassadors' for the country. Written evidence from Cardiff University noted that these links "can bear fruit in future years for the local economy in business partnerships and alumni suggesting or locating businesses in Wales or choosing to trade with Welsh partners".¹⁵⁸

81. Both Professor Lloyd and Professor Robert Pearce, former Vice Chancellor of the University of Wales, Lampeter, agreed that the key to attracting more overseas students was to develop an international strategy focusing on individual areas, which was likely to be more effective than a general marketing campaign. The establishment of 'Confucius Institutes' at Cardiff and Lampeter, amongst other such projects across the UK, provides for the training of students and the local community in Chinese language and culture and attracts funding from the Chinese Government. The scheme has enabled Universities to develop partnerships with institutions in China, acting as a focus for those involved in China-related research and teaching.¹⁵⁹

82. Welsh universities are now competing for staff as well as students at a global level. Professor Pearce commented on the growth in Indian higher education sector, arguing that "the rate of growth in universities in India is so fast that it is going to be very hard for them to sustain that growth using their own graduate population".¹⁶⁰ He thought that there

¹⁵² Ev 575

¹⁵³ Q 606

¹⁵⁴ Ev 469

¹⁵⁵ Q 1645

¹⁵⁶ Ev 485

¹⁵⁷ Ev 497; Qq 1639 and 1649

¹⁵⁸ Ev 485; see also Q 613 (Professor Merfyn Jones, Higher Education Wales)

¹⁵⁹ Ev 485 and 577

¹⁶⁰ Q 1652

would be an increasing demand for university staff in India in the coming years, but acknowledged that links with Indian universities were currently less developed than those with China. Professor Jones told us that “the competition for students is intense and it is a genuinely global market. The competition for staff is also global...there will be huge demand for academics, and they will come from all over the world”.¹⁶¹ In written evidence, Cardiff University stated:

Staff and students are increasingly mobile and discerning and will follow quality and excellence wherever it is to be found. For Welsh Higher Education Institutions to be successful players in this global market they must be aware of and responsive to the challenges it presents and guard against becoming an insular sector looking only at challenges within Wales.¹⁶²

83. Identifying the difficulties in attracting overseas students, Professor Pearce highlighted the difficulty of obtaining visas,¹⁶³ but also said that one of the biggest challenges was the level of funding per full-time student the University received, about 15% below that in England and substantially below the levels in Scotland. He thought that this made institutions in Wales less competitive: “It means fewer staff and a poorer quality campus; and those are important factors in recruiting international students”.¹⁶⁴

Funding

84. Levels of funding for higher education were a key concern for our witnesses.¹⁶⁵ CBI Wales told us that the funding gap for Welsh universities compared to those in England was around £40 million per year, a figure that grew to £61 million in 2005-06.¹⁶⁶ Evidence we received from Higher Education Wales notes that “Levels of overall public investment in Higher Education in Wales lag well behind England, Scotland and some of our key international competitors”.¹⁶⁷ It continues:

The funding gap between Welsh and other British universities is compounded by international differences in levels of public investment in higher education...The “small, clever countries” of the EU (Scandinavia and the Baltic states) have prioritised investment in Higher Education to advance the development of their knowledge economies in the face of globalisation. Wales and the UK must aspire to the same goal.¹⁶⁸

85. Higher Education Wales went on to note that the European Commission has proposed a target of total private and public investment in higher education of 2% of GDP. It suggests that:

¹⁶¹ Q 605

¹⁶² Ev 484

¹⁶³ Ev 577; see also Q 1649 (Professor Noel Lloyd)

¹⁶⁴ Q 1649

¹⁶⁵ Ev 638, para 3.2

¹⁶⁶ For example, Ev 395; see also Ev 636 (The Language Technologies Unit, Bangor University)

¹⁶⁷ Ev 470; see also Ev 486 (Cardiff University) and Q 610

¹⁶⁸ Ev 470

This target could be partly met with a commitment from the UK Government and the Assembly Government to work towards the Leitch Report goal of 40% all age higher learning participation. Reaching this target would help the social inclusion agenda in Wales and allow us to be ahead of the curve in adapting to globalisation.¹⁶⁹

86. Not only are general levels of funding a concern, some witnesses argued that support for specific projects, such as links between business and research, was unevenly distributed, to the disadvantage of Welsh universities. Mr Andy Richards, Wales TUC, told the Committee:

... we should be looking at spreading Government support for science and industry collaboration beyond the existing concentration at Oxbridge, the south east and the home counties. Aside from encouraging existing employers to invest in research and development there is a need for universities to become far more involved in the delivery of R&D to manufacturers. Our Higher Education establishments are an invaluable source of knowledge and expertise and, unlike multinationals, are indigenous to Wales and rooted within their communities. R&D does anchor companies and plants to the locality.¹⁷⁰

87. We agree with Sir Digby Jones, who gave evidence to during his time as UK Skills Envoy, saying that:

The universities' role in our society in the twenty-first century will be like it has never been before...they are an enormous exporter, they are greater earners of foreign currency because of the quality of their product; it is the ultimate in value added and innovation...we should not under-estimate how important to the British economy universities are.¹⁷¹

We have been impressed by the range of innovative projects that are taking place in Welsh universities to develop specialist skills and apply them for economic benefit, including forging global partnerships. But we are deeply concerned by the evidence we have received suggesting that Welsh universities are under-funded in relation to higher education institutes in England and Scotland, as well as internationally. We considered this issue in detail in our recent Report on the cross-border provision of higher and further education for Wales. We concluded that policy decisions since devolution have resulted in different priorities in Wales compared to the rest of the UK. Whilst such differences are sometimes a consequence of devolution, we found that higher education institutions in Wales are being disadvantaged at this crucial time. We also found that the higher education sector in Wales receives a smaller share of UK research funding than would be expected from its relative size. We recommended that the Welsh Assembly Government and the Wales Office should make efforts to address this shortfall in funding, including research funding, and to do so as a matter of urgency.¹⁷²

¹⁶⁹ Ev 470

¹⁷⁰ Q 64

¹⁷¹ Q 796

¹⁷² *Cross-border provision of public services for Wales: Further and Higher education*, HC 57 (2008-09), paragraphs 86-88.

Basic Skills

88. Although globalisation has increased the demand for graduate level qualifications, employers have also reported that the level of basic skills within the Welsh population needs to be raised. In a survey conducted by the Federation of Small Businesses in 2006, a quarter of businesses said they had experienced skills shortages when trying to recruit new staff and just under a third reported shortages among existing staff, with basic literacy and numeracy skills being key concerns. Although the situation was found to be more favourable in Wales than in England, the difference was marginal.¹⁷³ Mr Rob Halford, Principal Policy Analyst, Welsh Assembly Government, told the Committee that there was “a long tail of low skills”¹⁷⁴ in Wales and Sir Adrian Webb said that this was “the most fundamental issue raised by employers...Their concern is backed up by research evidence that demonstrates a correlation between the improvement in basic skills—literacy and numeracy—and increasing GDP”.¹⁷⁵

89. When we asked Mr Andrew Probert, International Director of the Admiral Group, what particular shortages he had experienced, he said:

It is writing letters to customers...We have to do a lot of work teaching people to write basic letters that are easily understandable by the customer and just make common sense. You would expect the education system to turn out people who could write a letter, yet we do a lot of training on it.¹⁷⁶

90. In addition to basic literacy and numeracy, employers place importance on so-called ‘soft’ skills such as good communication and attitude.¹⁷⁷ In his memorandum to the Committee, Dr Shyam Patiar, Director of the Hospitality Skills Academy, Landrillo College noted, “most importantly, schools need to produce well motivated individuals, who are enthusiastic to exploit their full potential. This is an absolute must if the UK has to compete with new emerging economies such as India and China”.¹⁷⁸ Professor David Reynolds, University of Plymouth, agreed:

...we have tended to think of skilling and education as just producing...work-related skills defined in a narrow sense, but most employers would say that the key problem is actually the social outcomes of the education system, it is the worker’s capacity to collaborate with other workers in a team.¹⁷⁹

91. Although basic skills are often thought to be the responsibility of the schooling system, other organisations can play a part in raising competencies amongst the adult population. For example, the Chair of Community Housing Cymru, Mrs Chris O’Meara, told the

¹⁷³ Ev 434

¹⁷⁴ Q 416; see also Q 417 (Andrew Davies AM)

¹⁷⁵ Ev 482

¹⁷⁶ Q 170

¹⁷⁷ Basic skills are defined by the Welsh Assembly Government as: “the ability to read, write, or speak in English or Welsh and to use mathematics at a level necessary to function and progress both in work and in society”. (Report by Sir Adrian Webb, *Promise and Performance*, December 2007 p. 16)

¹⁷⁸ Ev 547

¹⁷⁹ Q 780

Committee of the role of housing associations in providing education and training to tenants:

In my own association, for example, we have a training room for tenants and we provide IT training and skills training along with a range of other things, parenting, health and safety...we decided a long time ago that if we just provided housing we would put roofs over people's heads but we would not do much for the community and many of the people we house have lots of other needs...if we work with the residents involved and use what resources we have to increase capacity and training and get people involved...we can make a difference.¹⁸⁰

92. As skills levels rise in developing countries, it will become increasingly important for Wales to ensure that its population is adequately prepared for the workplace. In addition to degree-level qualifications, literacy, numeracy and interpersonal skills are vital to the Welsh economy, particularly where businesses are trying to provide services in competition with other countries in the international marketplace. We are concerned that there is a shortage of such basic skills in Wales, in common with the rest of the UK. Not only are these directly relevant to the workplace, they also provide the foundation for lifelong learning. Education policy in Wales is the responsibility of the Welsh Assembly Government, but the evidence we have collected in the course of this inquiry suggests that there is a demand for a specific service-related qualification from employers. This could be offered in Welsh schools, or form part of a UK-wide industrial programme such as Investors in People.

93. Many different agencies and partners can be involved in raising basic skills levels among the existing workforce and those seeking work. During this inquiry, we heard of the valuable work of housing associations and other voluntary bodies in this area, which we commend. Adult and community education in Wales are also of great importance. We note that the Welsh Assembly Government has been consulting on a new policy for adult community education and we look forward to seeing the results of this consultation.¹⁸¹

Vocational Education

94. The Welsh economy will also require strong vocational skills, provided by further education colleges, as well as in schools between the ages of 14 and 19. Sir Adrian Webb was keen to ensure that the vocational route should not be seen as inferior to more traditional, academic qualifications:

...how do you get high quality vocational education which is not seen to be in some way subordinate to the traditional academic route to GCSE and A-level?...It is no good arguing for parity of esteem, what we have to do is make those vocational and

¹⁸⁰ Q 1379-80

¹⁸¹ *Delivering Skills that Work for Wales: A new approach to Adult Community Learning*, Welsh Assembly Government, 29 September 2008.

pre-vocational activities so damn good and so valued by the employer that they become valued by parents.¹⁸²

95. Andrew Davies AM, then Welsh Assembly Government Minister for Enterprise, Innovation and Networks, told us in March 2007 that the Welsh Bacculaureate's mix between the vocational and the academic was one way in which the education system was ensuring that it was providing courses which business wanted: "it is quite a fundamental change in the education system to one where there is an increasing emphasis on the vocational element and one...which is tuned into the needs of the local economy".¹⁸³ In oral evidence, Sir Adrian Webb supported this view, saying "What we have here is potentially a vehicle which can give us a highly flexible mix of vocational-style learning...and of the more traditional academic type of learning".¹⁸⁴

Employers

96. In order to be truly successful, Sir Adrian thought that education providers needed to be "closely integrated with their local employers".¹⁸⁵ He noted that investment in skills "is not necessarily a route to growth in and of itself...attention needs to be paid to ensuring that there is a reasonable 'fit' between the levels and types of skills supplied and those utilised".¹⁸⁶ Evidence from business supported this view. Mr John Peace, Chairman of Burberry, told the Committee "it is very important that the courses that our Higher Education and secondary education schools offer are joined up with what the business strategy in a particular region...is attempting to do".¹⁸⁷

Skills planning

97. Despite the importance of fitting skills to economic needs, businesses do not always feel that they have an input into education planning. Following one of the main recommendations contained in Lord Leitch's Report, the UK Commission for Employment and Skills was established in April 2008, with a remit to "strengthen the employer voice and provide greater employer influence over the employment and skills systems".¹⁸⁸ Chaired by Sir Michael Rake, the Commission will report annually on progress towards making the UK a world-class leader in employment and skills by 2020.

98. Our inquiry found evidence of some productive links between business and higher education. For example, Ann Beynon, Director, BT Wales, told the Committee that much of her company's research and development "happens at our labs at Martlesham but we do try and ensure that we bridge between our research and development and the universities

¹⁸² Qq 886 and 933

¹⁸³ Q 416

¹⁸⁴ Q 898

¹⁸⁵ Q 889

¹⁸⁶ Ev 483

¹⁸⁷ Q 259

¹⁸⁸ *Prosperity for all in the global economy—World Class Skills*, Leitch Review of Skills final report, December 2006. See <http://www.ukces.org.uk/Default.aspx?page=1>

in Wales”.¹⁸⁹ In contrast, other witnesses thought the way in which graduates were prepared for the job market was unsatisfactory. Mr Siôn Hughes, Director of Art, Design and Humanities at the former North East Wales Institute of Higher Education, told us that further and higher education did not adequately prepare graduates to operate effectively in entrepreneurial markets, arguing that there was a lack of “graduates who are ready to go to work and have business acumen”.¹⁹⁰ Mr Ron Jones, Executive Chairman of independent producer Tinopolis Plc, said that his company had chosen to train its own staff internally, because “There is a disconnect really between the educational system and the people we need in our industry...There is something about the media education industry which perhaps has lost contact slightly with the real world of the creative industries”.¹⁹¹ We return to the issue of skills training for the creative industries later in this Report.

99. In its evidence, FSB Wales welcomed the recommendation of the Leitch Report that employers should have a more significant say in the structure and delivery of skills regimes.¹⁹² Mr Ben Cottam, Welsh Policy Adviser to the FSB, identified a ‘culture clash’ between higher education and businesses:

I think there is very little understanding within academia as to how businesses have to operate. Similarly, there is very little understanding within the world of business as to how academic institutions operate and how to engage with academia...there is no lack of scientific talent within academia in Wales, but it is marrying it with the entrepreneurial talent of our business.¹⁹³

100. Mr David Rosser, Director of CBI Wales, agreed that collaboration between businesses and Higher Education was important, but noted that the Director-General of the CBI’s Review of this issue had identified a lack of demand for this by businesses as much as a lack of willingness by universities, saying “The biggest single challenge to encouraging the growth of successful business-university collaboration lies in boosting the demand from business, rather than in increasing the supply of products and services from universities”.¹⁹⁴ He thought that this was a particular challenge for Wales because “the company base is not strong in the kinds of large, research-intensive companies that will have the capacity and interest to go and work closely with universities”¹⁹⁵

101. In its evidence, Higher Education Wales, agreed that there was a need for a planning mechanism to match student demand for courses with the needs of the economy.¹⁹⁶ Its Director, Amanda Wilkinson, told the Committee that Higher Education Wales had recently set up a joint forum with the CBI in order to try to address these issues. She said “There is obviously quite a concern amongst some of the larger employers in Wales regarding certain skills and I think there are things that we can do together to try and

¹⁸⁹ Q 188

¹⁹⁰ Ev 377; Q 2096

¹⁹¹ Ev 379; Qs 2104-5

¹⁹² Ev 435

¹⁹³ Q 443

¹⁹⁴ *Lambert Review of Business-University Collaboration*, December 2003, paragraph 1.12.

¹⁹⁵ Q 24

¹⁹⁶ Q 631

promote the value of those areas through Higher Education and into employment”.¹⁹⁷ Written evidence from the former North East Wales Institute of Higher Education also explored how higher education institutes in Wales could work together with other agencies in a ‘joined up’ way to form partnerships to support future wealth creation through the retention of graduates and the harnessing of talent.¹⁹⁸

102. One way in which to measure the success of such initiatives was suggested to us in evidence given by Sir Adrian Webb. He told us that the Beecham Review of public sector delivery in Wales had concluded that Wales needed to benchmark its success against other countries of a similar size and economic power.¹⁹⁹ He also thought that Wales could “look at other countries that have had a low skill equilibrium but have changed that, so we need role models...of countries which have significantly changed the level at which their economies perform”.²⁰⁰ **We agree that the Welsh skills strategy should be informed by international comparisons so as to ensure that Wales is not slipping behind its key competitors in the global economy.**

Workplace training

103. Planning for the future skills demands of the Welsh economy is vital, but our evidence suggests that raising the skills level of the existing workforce is of equal importance. CBI Wales told us that for Wales to take full advantage of the opportunities offered by globalisation, the skills levels necessary to participate in the higher value end of the economy will be essential:

It is concerning that basic skills levels within the existing workforce and school leavers are still not high enough, when the prospects for low-skilled employment will diminish... the focus must be on helping individuals left behind by this process to re-train, and businesses to invest in productivity and innovation.²⁰¹

104. In a competitive economic environment, investment by a business in up-skilling its workforce will increasingly become, according to the submission from FSB Wales in February 2007, “the most crucial investment which can be made”.²⁰² Sir Digby Jones, the then UK Skills Envoy, agreed in May 2007 that “this is an absolute constant dynamic change, this does not stop...this will be a constant up-skilling and it needs constant investment in better kit and it needs constant investment in people”.²⁰³ Despite this, Mr David Rosser, Director of CBI Wales, thought that “businesses generally do not see it as something they ought to have to do”, seeing training as largely the responsibility of education providers.²⁰⁴

¹⁹⁷ Q 626-27

¹⁹⁸ Ev 634

¹⁹⁹ *Beyond the Boundaries*, Review by Sir Jeremy Beecham, July 2006, see Q 879

²⁰⁰ Q 887; see also Q 897

²⁰¹ Ev 395

²⁰² Ev 435

²⁰³ Q 755

²⁰⁴ Q 19

105. The Wales TUC argued that the Government should make it a priority to help those workers who lose out from globalisation by providing training and job search support. Mr Andy Richards said, “we would prefer to have workers up-skilled and trained as highly as they can be while they are in work so that they can contribute to the competitiveness of the company [otherwise] you are simply up-skilling the jobless”.²⁰⁵ Mr Jeff Evans, of the Public and Commercial Services union, told the Committee that “Our ambition is to make our workplaces into places of learning. If we are going to meet the challenges of the future in terms of globalisation, up-skilling the workforce is essential for that.”²⁰⁶

106. Many of the trade unions have established workplace learning schemes, often funded by the Welsh Assembly Government’s Wales Union Learning Fund.²⁰⁷ Catherine Speight, Regional Secretary of Amicus (now a part of Unite), told the Committee that Amicus had been allocated approximately £1 million over the last four years from this fund, which had been used to develop learning centres and recruit union learning reps.²⁰⁸ She thought that the fund was important “because some people would not go down that path unless they had been through the process of a gradual re-entry into education through those sorts of schemes”.²⁰⁹ Mr Jeff Evans said that the PCS wanted to see:

“[a] union learning rep in each workplace...to encourage learning amongst the workforce, to provide a gateway to universities, colleges and so on, and it is the sort of issue where management, the union and government are all singing from the same hymn sheet. It is the sort of issue where we can build bridges in terms of delivering the skilled workforce that we are all seeking.”²¹⁰

107. A significant challenge to the success of workplace training in Wales is the prevalence of small to medium-sized businesses in the country.²¹¹ Small firms can often only afford to provide informal training, rather than structured courses leading to recognised qualifications.²¹² Training may also be cut during difficult economic times. To some extent, this could be remedied if Wales succeeds in growing SMEs into larger businesses. Professor David Reynolds stated that, as a business grows it is able to employ training specialists and develop its HR functions beyond the capabilities of small businesses, thereby raising the skills of its workforce.²¹³

108. Our inquiry has demonstrated that, for the Welsh economy to grow in the twenty-first century, skills levels must be matched to the needs of business. In order for this to happen, educators and companies need to work in partnership. Training by colleges and other providers is only effective when it is owned at least partially by the employer and seen as a priority. Equally, the provider needs to be sensitive and responsive to the

²⁰⁵ Q 62

²⁰⁶ Q 109

²⁰⁷ The Welsh Assembly Government policy of funding union learning in the workplace.

²⁰⁸ Q 210

²⁰⁹ Q 214

²¹⁰ Q 118

²¹¹ Ev 434

²¹² Ev 435

²¹³ Q 770

needs of employers. We welcome efforts to give employers a voice in skills planning, but would also urge them to recognise their responsibility for their existing employees and the benefits of engaging directly in training their own workforce. Umbrella organisations such as the CBI and FSB can play a part in this process. In return, governments on both sides of the border as well as higher and further education institutions have a duty to ensure that they offer a product that is tailored to the needs of the economy.

2 Food production and supply

Background

109. The second section of this Report examines food production and supply—a traditional Welsh industry that has been transformed by globalisation. The food processing sector has been presented with many of the challenges and opportunities described so far in this Report, and is also one of the chief Welsh industries in which migrant workers found employment after the accession of the A8 states to the European Union. As such, it provides a key illustration of the way in which changes in the global economy have impacted on Wales.

Food production in Wales

110. Wales has a vibrant food and drink industry, the value of which has grown considerably since 2001. In 2004, the total output of the food and drink manufacturing industry was £2.7 billion, accounting for some 3.7% of the total turnover in Wales.²¹⁴ 57,100 people are employed in primary production and 30,000 in food and drink manufacturing. The Farmers' Union of Wales stated that, taking into account the 'multiplier effect', the agricultural sector supports over 10% of full time equivalent employees in many parts of rural Wales.²¹⁵ The numbers directly and indirectly employed in farming make a crucial contribution towards sustaining rural communities.

111. The food and drink industry, described to us in evidence as “brutally competitive”, has long been global. Across the world, there has been substantial structural rationalisation in the industry, resulting in fewer farmers, manufacturers and retailers.²¹⁶ But globalisation presents opportunities as well as challenges. Populations in developing markets such as China and India are demanding more variety as their incomes increase. The growth of multicultural societies in Wales has led to greater diversity in domestic demand for foods.²¹⁷ In addition, greater affluence creates a more substantial market for premium foods, such as organic and locally farmed produce.

112. The recent economic downturn has resulted in a discernible shift to cheaper and more basic food products as consumers turn to 'value' product ranges within all the major supermarkets and to the low-price retailers among the supermarkets. Nevertheless, the low-price segment of the grocery market remains very small. Among the low-price supermarkets, the German-owned Aldi has recorded the fastest growth, where total UK sales grew by 22% in December 2008. However, this trend can be overstated because Aldi's market share remains low, just 3% in 2008, and the low-price segment as a whole is only 6% of the UK grocery market. While low prices can benefit consumers, they can also

²¹⁴ Ev 557

²¹⁵ Ev 572

²¹⁶ Ev 569 (Dr David Hughes, Emeritus Professor of Food Marketing, Imperial College London)

²¹⁷ Ev 557 (Wales Agri-Food Partnership); see also Ev 587 (Meat Promotion Wales)

exacerbate the plight of the primary producer. For example, dairy farmers in Wales have already been hit by a new round of price cuts from milk processors. Primary producers in Wales are in the forefront of the campaign to create a fairer, more transparent food chain to ensure that large retailers and processors do not force farmers to bear the brunt of the ‘credit crunch’.

Farming

113. Agriculture was described to us as “the backbone of our rural communities...economically and culturally”.²¹⁸ Farming itself supports a wide range of other rural businesses, such as contractors, salesmen, and feed merchants. In addition, we were told that, because of agriculture’s role in shaping the landscape of Wales, the agriculture and tourism sectors go hand in hand. Yet we also heard evidence that the pressures on the farm industry are such that young people are moving away from farming. The average age of farmers in Wales now stands at 58, a slight rise from 54 in 1993, before which time the median age was relatively stable.²¹⁹

114. In evidence to this inquiry, the National Farmers’ Union Cymru told us that “Globalisation has exposed Welsh farmers to competition from foreign producers with lower costs and production standards”.²²⁰ The Farmers’ Union of Wales agreed that “one of the biggest impacts is unfair competition from countries that do not meet the standards that are required of British farmers”.²²¹ Dr Nick Fenwick of the Farmers’ Union of Wales proposed that produce should not be allowed to enter the European Union if it did not meet the standards that are expected of British producers, describing the current situation as “wholly unfair”.²²²

The Future of livestock farming in Wales

In December 2007 we visited the Head Office of Meat Promotion Wales/Hybu Cig Cymru in Aberystwyth, the industry-led organisation responsible for the development, promotion and marketing of Welsh red meat. Meat Promotion Wales told us that globalisation has had a fundamental impact on food production and supply in the Welsh red meat sector and that adapting to reforms to the Common Agricultural Policy, together with growing global competition, had created substantial challenges to even the most efficient producers. Other factors including exchange rate fluctuations, disease, regulation relating to animal health and welfare, and supermarket buyer power also had an adverse impact.²²³

A number of our witnesses were pessimistic about the prospects for the red meat industry in Wales. The Farmers’ Union of Wales told us that there had been a consistent fall in livestock numbers over recent years, particularly in upland areas. Its President concluded

²¹⁸ Q 1627

²¹⁹ Q 1627 and *EU Farm Structure Survey* (Defra/Office of National Statistics)

²²⁰ Ev 571 (para 8)

²²¹ Q 1622

²²² Q 1623

²²³ Q 1825

that “we are going downhill very, very quickly and the point of no return is not so very far away”.²²⁴ The Union blamed the severe pressure on farm incomes since 1996, which raised serious questions over the economics of livestock production in hill and upland Wales and would lead to “the loss of people, the loss of landscape and the loss of critical mass in terms of future marketing of Welsh produce”.²²⁵

Food supply in Wales

Supermarkets

115. In Wales, as elsewhere in the UK, supermarkets are the dominant force in the supply chain. The President of the National Farmers’ Union Cymru estimated that Welsh farmers trade between 75% and 80% of their produce through supermarkets,²²⁶ so that “while the supermarkets cater for demand, they also dictate it to some extent”.²²⁷ The majority of farmers in Wales are not in a direct supply relationship with supermarkets.²²⁸ Neither do most farmers have direct contact with the final consumer. Their immediate customers are the main processors and manufacturers, which leaves them heavily dependent on the major retailers to promote and sell their products.²²⁹

116. We heard evidence both from representatives of Tesco and from the Competition Commission, which in April 2008 published its final Report of its two-year investigation into the supply of groceries by retailers in the UK. The Commission concluded that the strong market position of Tesco raised no particular competition concerns “over and above those that apply to other grocery retailers”. In fact, the Report noted that the buying power of grocery retailers in the UK benefited consumers because the retailers were able to pass on the lower supplier prices they were able to achieve to consumers in the form of lower prices.²³⁰

117. Although there is a consumer benefit in lower prices, our evidence suggests that food producers may be suffering from the dominant position of the supermarkets. The National Farmers’ Union Cymru thought that “supermarkets have been major beneficiaries of globalisation, which has allowed them to increase the range of their supply base and drive down prices further”.²³¹ Recent consolidation amongst retailers has strengthened the position of supermarkets and their ability to negotiate more favourable terms from suppliers: “The dominant position of retailers in the market place is such that a single retailer can determine whether a supplier (large or small) stays in business. This creates an imbalance in negotiating strength that supermarkets can and do exploit”.²³²

²²⁴ Q 1618, see also Q 1620

²²⁵ Ev 573

²²⁶ Q 1606

²²⁷ Q 1631

²²⁸ Ev 571. The main exception is in the horticulture sector.

²²⁹ Ev 585

²³⁰ *Groceries Market Investigation*, Competition Commission, 30 April 2008.

²³¹ Ev 570

²³² Ev 571 (NFU Cymru)

118. The Chief Executive of the Competition Commission agreed that the groceries market was a world market, saying “invariably this industry is affected by global trends and a lot of the issues that we identified are common in developed economies around the world”.²³³ The Commission also concluded that:

...the transfer of excessive risks or unexpected costs by grocery retailers to their suppliers is likely to lessen suppliers’ incentives to invest in new capacity, products and production processes...if unchecked, these practices would ultimately have a detrimental effect on consumers.²³⁴

The Commission found that the principal manner by which risk is transferred from the grocery retailers to suppliers was through retailers making retrospective adjustments to the terms of supply.²³⁵ In written evidence, the Federation of Small Businesses Wales reported that the key complaints made by suppliers were: being paid below the cost of production; suppliers being forced to pay rebates on formally agreed prices; delays of over 30 days for payment; being required to make packaging or transport changes without being compensated; and being forced to pay for supermarket promotions.²³⁶

119. The Competition Commission’s Report announced a tightening of the Supermarkets Code of Conduct and recommended the appointment of an Ombudsman to oversee the revised Code. It also recommended that a ‘competition test’ be applied to proposed new stores as part of the planning process, which would favour new entrants other than those retailers which already have a significant local market share.²³⁷ In evidence to us, the Federation of Small Businesses Wales supported the strengthening of the Code of Conduct.²³⁸

Farmers’ markets

120. Although demand for farmers’ markets has increased, the Deputy President of the Farmers’ Union of Wales described them as “more or less a niche market”.²³⁹ But despite their small scale, farmers’ markets do play a significant part in reconnecting producers with consumers, and rural areas with urban areas. They also encourage communities to purchase local vegetables that are in season.²⁴⁰ For these reasons, farmers’ markets have gained in popularity in recent years, but for the vast majority they will only ever function as a supplement to the convenience of a major supermarket.

²³³ Q 1749

²³⁴ *Groceries Market Investigation*, Competition Commission, 30 April 2008, paragraph 36.

²³⁵ *Ibid.*, paragraph 37.

²³⁶ Ev 437

²³⁷ *Groceries Market Investigation*, Competition Commission, 30 April 2008 paragraphs 4-5.

²³⁸ Ev 436

²³⁹ Q 1633

²⁴⁰ Q 2145

Exports

121. Evidence we received predicted a continued strong demand for meats, dairy and other food commodities from emerging markets such as India and China, where populations are demanding more variety as their incomes increase and they become exposed to products from around the world.²⁴¹ There are significant market opportunities for Welsh food and drink companies both within Europe and further afield, particularly in those countries which have a significant expatriate community such as Dubai and Hong Kong.²⁴²

122. Meat Promotion Wales told us that “The Welsh red meat sector is heavily reliant on a prosperous export market in order to underpin farm-gate prices, and developing these markets is of vital importance to the industry”.²⁴³ 35% of Welsh lamb is exported,²⁴⁴ however, competing on price alone is challenging and global competition from lower cost producers is increasing. Dr David Hughes, Emeritus Professor of Food Marketing at Imperial College London, noted that in common with other countries seeking to export “the further from the borders one goes, the greater the challenge becomes”.²⁴⁵ The current global economic downturn will pose further challenges for exporters.

Strategies for a global economy

Localisation: promoting ‘brand Wales’

123. Evidence we collected in the course of this inquiry argued that globalisation of the food supply can threaten small suppliers. One way in which Wales can counter this threat is to take an opposite, localising approach. Food and drink products are increasingly seen as powerful symbols of their place of origin, and form a central part of the marketing strategies of localities, regions and countries.²⁴⁶ By promoting food products which are distinctively Welsh, Wales can protect the interests of higher cost producers against low-cost competitors from around the world.²⁴⁷

124. The global food industry demands low price, large scale, all year products, but Dr Hughes considered that there was also a demand for food which was locally produced, “craft scale” and seasonal. He identified a clear consumer trend favouring local and traditional food.²⁴⁸ This has been strengthened in recent years by campaigns to reduce food miles and associated carbon emissions, such as that supported by the Wales Co-operative Centre.²⁴⁹

²⁴¹ Ev 570 (Dr David Hughes); Ev 587

²⁴² Q 1537; Ev 557 and 587 (Wales Agri-Food Partnership and Meat Promotion Wales)

²⁴³ Ev 587

²⁴⁴ Q 1631

²⁴⁵ Ev 570

²⁴⁶ Professor Kevin Morgan (paper prepared for the Committee (not printed)

²⁴⁷ Ev 594 (WLGA) and 568 (Dr David Hughes)

²⁴⁸ Ev 568-69

²⁴⁹ Ev 642

125. Some of our evidence questioned the ethics of the ‘food miles’ campaign, such as that from Oxfam Cymru, which cautioned that “Substituting food imports from the developing world in favour of local products reduces the ability of poor people in poor countries to trade their way out of poverty”.²⁵⁰ Oxfam Cymru also noted that local sourcing does not necessarily reduce overall carbon emissions, as it may be more energy intensive overall to grow tropical food under artificial conditions in Wales than to transport it from abroad.²⁵¹ Nevertheless a growing consumer demand for local produce is in evidence, which the Welsh food industry is well placed to fulfil.²⁵²

126. Evidence from the Wales Agri-Food Partnership was optimistic that Wales was a marketable brand, noting that:

Wales is rapidly gaining a credible, national and international reputation for its innovative, quality food and drink and its hospitality sector...Welsh producers, manufacturers and hospitality providers are evidently well placed to gain greater shares of the premium markets within Wales, the United Kingdom and internationally.²⁵³

We were also encouraged by the fact that a number of major supermarkets have begun to promote locally-sourced produce. For example, in the last year Tesco has established a local sourcing office in Cardiff with a team dedicated to identifying Welsh produce and marketing it in Wales.²⁵⁴ In evidence to us Mr Adam Jackson, Public Policy Director of Tesco saw this move as a consequence of globalisation: “That is a trend to watch and is relevant in terms of globalisation: as the planet becomes smaller and we have more global markets then equally everything becomes more local as well”.²⁵⁵

127. The Director of the Competition Commission’s inquiry into the groceries sector told us that supermarkets had made more efforts in terms of local purchasing.²⁵⁶ Mr Adam Jackson, the Public Policy Director of Tesco, noted that Tesco has 600 Welsh products available in Welsh stores, including companies such as Peter’s Pies, based in Caerphilly, the Authentic Curry Company (specialising in Welsh Beef curry and Welsh Lamb curry), Tregroes Waffles, Penderyn whisky, and Rachel’s Organics products.²⁵⁷ Mr Jackson told us that South Caernarvon Creameries have supplied Tesco with cheese for over 10 years, and that Tesco now has direct contracts with dedicated farmers so that all its Tesco own brand milk in store is Welsh, with most of its suppliers in Monmouthshire.²⁵⁸ The company has also introduced ‘local choice’ milk which is from smaller, often family-run farms which

²⁵⁰ Ev 648

²⁵¹ Ev 648

²⁵² Ev 568

²⁵³ Ev 557

²⁵⁴ Q 1398

²⁵⁵ Q 1400

²⁵⁶ Q 1751

²⁵⁷ Q 1399

²⁵⁸ Qq 1400 and 1403

often would not have a contract with a big superstore.²⁵⁹ We are aware of similar initiatives in the other main supermarkets.

128. Mr Jackson acknowledged that, in common with other large retailers, Tesco was constrained by what is operationally possible in developing a localised sourcing policy.²⁶⁰ In fact, acknowledging that Tesco now sells only Welsh milk in its supermarkets in Wales, and that Sainsburys is to source all its flour from contracted farms, the President of NFU Cymru said that this was largely due to a shortage in the supply chain leading the supermarkets to contract with local suppliers.²⁶¹

129. With the move towards local sourcing, however, comes the opportunity to develop wider markets for the product. Mr Jackson said that for Tesco this meant:

...if we find a really great product, actually exposing it to as big a market as possible and giving it the opportunity to be sold across the whole of Wales or Britain or globally...we have to look at what is the right market for each product [but] they may start local but may end up selling in Japan.²⁶²

Supermarkets have also acted as a springboard for companies' own export schemes. Mr Jackson cited the example of Penderyn whisky:

...they have a big export drive and are looking at a new market practically every month...they said for them the thing that has enabled them to export is the fact that in the UK—specifically in Wales—they have a contract with Tesco which guaranteed 11,000 bottles a year and that gives them the foundation to then go and look at maybe slightly riskier enterprises overseas. They know they have a really safe contract and can use it as a springboard for exports.²⁶³

130. In an increasingly global economy, the promotion of 'brand Wales', both abroad and at home, can ensure that Welsh food products find a sustainable market. In Wales itself, supermarkets are the major part of the retail market. As such, they have an important part to play in ensuring that local products are the basis of their offering to local people. Access to the local market is an important first step for small businesses who may later grow and develop the ability to export. We are encouraged by the initiatives by retailers we have heard of in this area, but agree with the Competition Commission that more should be done to encourage small Welsh businesses to enter the market. In this context, we broadly support calls for a supermarkets Ombudsman to be appointed to ensure that big retailers treat small suppliers fairly.

Labelling and Protected Geographical Indication

131. Food labelling serves the dual purpose of identifying local produce for local markets and providing a 'brand identity' for export. In their evidence, the National Farmers' Union

²⁵⁹ Q 1399

²⁶⁰ Q 1400

²⁶¹ Q 1607

²⁶² Q 1401

²⁶³ Q 1428

Cymru and the Farmers' Union of Wales said that current labelling practices could be misleading: "food that is processed in Wales but produced elsewhere can be labelled as Welsh. Labelling in supermarkets can be confusing for consumers, often with little or no clear distinction between domestically produced and imported produce".²⁶⁴ The unions also advanced the high welfare standards that applied to meat produced in Wales as an argument for better labelling,²⁶⁵ a principle which Meat Promotion Wales thought could be extended to food on restaurant menus.²⁶⁶

132. In his evidence, Mr Adam Jackson, said that he had not identified a significant demand from consumers to know the country of origin of processed food, although he noted that Tesco "had probably gone further than any other retailer" in applying the red tractor logo onto its own brand of processed foods, signifying that the produce was reared or grown and processed in Britain.²⁶⁷

133. One way of supporting and developing 'locality produce' is via Protected Geographical Indication (PGI), a status awarded by the European Commission which adds value to food and drinks products by recognising a particular regional identity and quality.²⁶⁸ This means that the intellectual property associated with a product can be captured, a process which can pose a challenge in the food industry, and provides one reason why margins are so low.²⁶⁹ Meat Promotion Wales, in evidence to the Committee, noted PGI as an important way of adding value to produce and one which was attracting growing consumer interest:²⁷⁰

PGI provides consumer assurances that only lamb and cattle, born and reared in Wales, which are fully traceable and have been slaughtered in an [Hybu Cig Cymru/Meat Promotion Wales] approved abattoir, can be branded as Welsh.²⁷¹

134. Both Welsh lamb and Welsh beef, born and reared in Wales, and fully traceable, have been awarded PGI status in recognition of their quality and the geographical and traditional links to that quality.²⁷² Such designations are not as important for domestic sales, but are a significant asset when exporting.²⁷³ **We agree with the President of the National Farmers' Union Cymru that Welsh lamb is a respected brand and that its Protected Geographical Indication (PGI) status should be used to develop this quality label.**²⁷⁴ **We recommend that the UK Government should actively promote PGI for Welsh products in Brussels. We note that cattle and sheep reared in Wales are not always eligible for PGI if slaughter takes place across the border in England. Given the**

²⁶⁴ Ev 571

²⁶⁵ Ev 571 and 573-74

²⁶⁶ Meat Promotion Wales briefing paper, *The case for menu transparency* (not printed).

²⁶⁷ Q 1405

²⁶⁸ Protected Geographical Indication was established in 1992.

²⁶⁹ Q 1541

²⁷⁰ Ev 584

²⁷¹ Ev 584; Q 1631

²⁷² Ev 586. Welsh Beef was awarded PGI status in November 2002, and Welsh Lamb was awarded PGI status in July 2003.

²⁷³ Q 1564

²⁷⁴ Q 1631

recent closures of Welsh abattoirs, we urge Ministers to change the system so that the benefits of PGI can be preserved for Welsh farmers in future years.

Adding value

135. In common with other strengths of the Welsh economy, the food production sector was identified by our witnesses as an area in which Wales had to produce ‘specialist’ products and move up the value chain in order to compete on a global level against low-cost imports.²⁷⁵ Dr David Hughes identified opportunities at the expanding premium end of the market for Welsh food and drink products.²⁷⁶ Mr Bill Goldsworthy, Chair of the Wales Agri-Food Partnership, agreed that quality was Wales’s main selling point, saying “We have never sought to compete in the volume market” and citing lamb and speciality cheeses as profitable markets.²⁷⁷

136. Another aspect of the premium food market which Wales could exploit is the market for organic produce. According to evidence we received from Tesco, its latest figures showed that 98% of fresh, non-processed beef in Tesco stores in the UK is British; the 2% which is sourced outside the UK is accounted for by imported organic beef, because there is not enough organic beef available in the UK.²⁷⁸ We were told that the situation was similar in the case of organic lamb, and that in Tesco stores across the UK as a whole, 85% of the lamb stocked was British. Overall, about 30% of beef, 33% of lamb and 20% of fresh pork consumed in the UK is imported.²⁷⁹

137. Although the Wales Agri-Food Partnership described the export performance of Welsh food and drink companies as “relatively low”, it identified an opportunity for Wales “to build on the success of the past and capitalise on the opportunities which exist in what is a large market, in Wales, in the UK and globally”.²⁸⁰ The Partnership gave as examples of Welsh companies which have achieved success by adding value in this way Trioni, which makes organic dairy cow milk-based products, Kid Me Not, which makes goat milk-based fudges and cheeses, and the Knobbly Carrot Company, whose products are based on fresh, locally sourced organic ingredients. The Partnership described these companies as “exemplars in terms of diversification and innovation”.²⁸¹

138. Part of the sector’s success will depend on marketing ‘brand Wales’ as described above. Dr Hughes noted that “the challenge is to make Welsh classic exports relevant outside of Wales where there is little or no awareness of Wales as a food-producing country”.²⁸² In line with this, witnesses told us that Wales needs to promote its premium food products as an aspect of the hospitality industry. Dr Shyam Patiar, Director of the Hospitality Skills Academy, said:

²⁷⁵ Ev 557 (Wales Agri-Food Partnership); Q 1627 (National Farmers’ Union Cymru)

²⁷⁶ Ev 569

²⁷⁷ Qq 1535 and 1546

²⁷⁸ Qq 1426-27

²⁷⁹ Ev 585

²⁸⁰ Ev 557

²⁸¹ Ev 557

²⁸² Q 1539

The best lamb comes from here; the best beef comes from here. We need to try to sell those products and also to bring people in to taste our Welsh gastronomy...Once people taste that they will go back to their countries and they will want to have Welsh flavours when they go back.²⁸³

139. Dr Hughes told the Committee that in order to meet the challenges posed by globalisation, the Welsh agri-food industry needs to continue to evolve strongly in the market place, to upgrade its product, and to innovate.²⁸⁴ He warned that “Premium food producers must be confident that the non-price attributes that are wrapped up in their products are seen as good value by consumers”. Consumers will only pay more for a premium product if the product delivers more (particularly during an economic downturn, where a shift towards discount retailers is the norm), “and it needs to deliver more every time if it is to deliver the brand promise for the manufacturer and for Wales as a credible food-producing nation”.²⁸⁵

140. Dr Hughes identified as weaknesses in the industry a small-scale infrastructure and the high cost of production, although he acknowledged that these characteristics are shared with much of the rest of the industry in Europe.²⁸⁶ In addition, adding value to the final product generally occurs when the product is processed. The Chief Executive of the Wales Co-operative Centre identified the processing elsewhere of locally farmed produce as a major strategic challenge to the sector.²⁸⁷

Innovation

141. To take advantage of global opportunities, innovative approaches in developing new products, processes and technologies will be essential. Dr David Hughes noted that the food industry globally is a relatively low spender on research and development, spending less than 1% of turnover on it (in the pharmaceutical industry it is over 10%), although it is adept at applying technology developed in other industries for its own purposes.²⁸⁸

Food Centre Wales/Canolfan Bwyd Cymru

In December 2007 we visited Food Centre Wales at Horeb near Llandysul to see at first hand the work undertaken by the Centre in assisting local farmers and food businesses in exploring new ideas and business ventures in the food sector.²⁸⁹ Supported by Ceredigion County Council and funded by the Welsh Capital Challenge Scheme, Food Centre Wales was established ten years ago and was expanded in 2001 when a food processing facility was opened. The Centre is an advice and consultancy facility offering technical services to business start-ups, SMEs and existing food manufacturers. It is also a centre for research

²⁸³ Q 1460

²⁸⁴ Q 1536

²⁸⁵ Ev 570

²⁸⁶ Q 1539

²⁸⁷ Q 2145

²⁸⁸ Ev 568

²⁸⁹ Ev 595

and development for the Welsh agri-food industry, used as a ‘launch pad’ for new and innovative ideas.²⁹⁰

In addition to its research and development facility, Food Centre Wales also offers a wide range of courses such as food hygiene; meat cutting skills; yogurt, ice cream and butter making; and business start-up and branding advice. Together with the Food Industry Centre in Cardiff and the Food Technology Centre at Llangefni, Anglesey, Food Centre Wales is a part of Food Network Wales, supported by the Welsh Assembly Government with the aim of helping to develop food producers’ businesses.

Producers and suppliers

Growing small businesses

142. A central problem faced by the agriculture and food processing sector in Wales in meeting the global challenge is that of growing small, micro-businesses in a sustainable way into medium-sized businesses, to enable them to compete with larger volume producers. In common with the wider economy in Wales, Welsh farming and food production is an industry which is characterised by small businesses. As the Federation of Small Businesses Wales noted, providing the right environment for small business growth and development is key to making the Welsh economy fit for competition in a global environment.²⁹¹ Ms Norma Barry, then Director of the Food and Market Development Division of the Welsh Assembly Government, told us in November 2007 that “the issue is actually producing enough of the quality and in enough quantity to service the markets”.²⁹²

143. Small businesses face a variety of challenges in marketing their products. To deal with supermarkets, scale is needed. As Dr Hughes told us, “You need scale both from a market power perspective but also, as important, is to be able to afford to have the executives on board who have the skills and experience to deal with major players”.²⁹³ This also applies to bidding for large public sector contracts, for example with the National Health Service or the Ministry of Defence. Professor Bill Goldsworthy of the Wales Agri-Food Partnership told us that “contractors...are very concerned that you are able to supply on a continuous basis in the quantities they want at the times they want it”.²⁹⁴

144. In evidence we heard of certain disincentives which deterred smaller producers from expanding, including the burden of regulation and also of employment.²⁹⁵ In his memorandum to the Committee, Professor Goldsworthy concluded that these problems “keep the business artificially small when otherwise it could grow. Support must therefore

²⁹⁰ Food Centre Wales promotional material (not printed).

²⁹¹ Ev 436

²⁹² Q 1556

²⁹³ Q 1560

²⁹⁴ Q 1570

²⁹⁵ Q 1548

be tailored to assisting these businesses to meet their potential and grow their contribution to the economy of Wales”.²⁹⁶

Co-operatives and collaborative working

145. The ability of smaller producers to negotiate for larger contracts is considerably enhanced if they collaborate or come together as co-operatives. Ms Norma Barry, Director of the Food and Market Development Division, explained that it was the aim of the Welsh Assembly Government’s Rural Development Plan to support more collaborative working between small producers as a way of ensuring that together they would have the power to deal with the major retailers.²⁹⁷

146. In its evidence, the Wales Co-operative Centre advocated increasing the negotiating strength of suppliers by enabling a number of farmers to form co-operatives in the production of milk, lamb, beef and vegetables to win larger contracts with supermarkets.²⁹⁸ The Centre also proposed that co-operatives could forge closer links with local communities through farmers’ markets.²⁹⁹ Professor Bill Goldsworthy cited as an example Cheeses of Wales:

...there is scope for Wales to develop its industry. In the last four or five years we have established outfits like Cheeses of Wales because whilst we produce a lot of quality product in Wales, often it is from smaller units...but it is quite difficult to maintain [supply] on a consistent basis because of the volumes, so by linking together we are able to ensure that Welsh cheeses stay in certain stores on a consistent basis.³⁰⁰

147. Dr David Hughes warned that Wales has not yet developed the level of co-operation or collaboration between producers which is essential if they are to compete in an increasingly competitive and highly concentrated food industry.³⁰¹ Meat Promotion Wales suggested that Wales was no different to the rest of the UK in this respect, as agricultural co-operatives in all food production sectors have never really gained the same foothold as they have in the rest of the EU. This may be because, in general, farms in the UK are larger, which has encouraged independence. In addition, the proximity of large domestic consumer markets has traditionally meant that farmers have not had to rely on a co-operative to process products for export.³⁰²

²⁹⁶ Ev 557

²⁹⁷ Q 1556 and see *Rural Development Plan for Wales 2007-2013*, approved by the European Commission’s Rural Development Committee on 20 Feb 2008.

²⁹⁸ Q 2139

²⁹⁹ Ev 644

³⁰⁰ Q 1544

³⁰¹ Q 1560

³⁰² Meat Promotion Wales additional briefing paper to the Committee (not printed).

Mondragón Cooperative Corporation

The Committee's visit to the Basque Country enabled it to see at first hand the extraordinary success of the Mondragón Cooperative Corporation, a group of 264 businesses, with sales of 13,266 million Euros in its industrial and distribution activities, 12,332 million Euros of administered assets in its financial business (the corporation owns and administers a credit union) and a total workforce of 81,880 people at the end of 2006. Mondragón began as an educational institute and the old school was converted into the private University of Mondragón in the 1990s, now attended by some 4,000 students.

Mondragón dates from the early 1940s, but became a corporation in the 1980s, when the existing group of co-operative companies formally merged, in response to the pressures of globalisation. The Mondragón Cooperative Corporation is now the Basque Country's largest corporation and the seventh largest in Spain. It is the world's largest worker co-operative and in 2006 generated 3.8% of the total GDP of the Basque Country.

We were told that the success of Mondragón could be ascribed to the personal nature of the co-operatives, in which people are given priority over capital, an attitude which results in a high level of worker involvement in the company, through direct participation in both the capital and the management. This is in addition to a decidedly business-like approach to the co-operative phenomenon, in which company profitability and planned, rigorous and demanding management efficiency are seen as basic principles. Finally, great importance is attached to training, both through formal education such as that provided by the University, and in a commitment to lifelong learning.³⁰³

We were extremely impressed by our visit to Mondragón and consider that Wales would benefit from renewing links with the Corporation. Although many Welsh co-operatives were initially inspired by Mondragón through the Wales Co-operative Centre, contact appears to have fallen away over the past 25 years and the co-operative model is not well-established in Welsh agriculture today. Indeed, the evidence we received regrettably indicated some resistance to it within the farming community.³⁰⁴ We hope that the Mondragón's successful formula will again inspire Welsh businesses, co-operatives, trade unions and community groups to adopt innovative models of co-operation.

148. Mr Simon Harris, Chief Executive of the Wales Co-operative Centre, told us that the Centre's first priority was to build awareness, to bring about a change of culture and attitude so as to promote the concept of co-operation and the opportunities which co-operation and collaborative working offers: "our focus is supporting local businesses, recognising the local markets, the local supply chains, other local businesses that...they could share ideas with and share supply and purchase from".³⁰⁵ Working with local authorities, local health boards and trusts, the Centre attempts to identify the opportunities

³⁰³ See <http://www.mcc.es/ing/index.asp#>

³⁰⁴ Q 1560

³⁰⁵ Qq 2139 and 2143

for changing their purchase practice and to analyse the barriers to this happening regularly, “European legislation barriers being the main ones”.³⁰⁶

149. Our evidence cited the Co-operative Group itself as an obvious example of a large retailer which aimed to purchase supplies for its supermarkets locally, from co-operatives and from farming co-operative supplied food.³⁰⁷ We also heard of examples of individual farmers coming together to bid successfully for larger supply contracts such as Calon Wen organic milk (which supplies Rachel’s Organics and Tesco), and Brecknock Cheviot (a co-operative which supplies Marks & Spencer).³⁰⁸ Tesco’s evidence to the Committee also gave as an example of collaborative working the producer clubs pioneered by its lamb and beef suppliers at St Merrin, which supply 60% of all lamb and beef to Tesco in the UK.³⁰⁹

150. The food production sector in Wales is characterised by a small business model. We hope that many of these small businesses will grow over time and increase their contribution to the Welsh economy. In order to do this, they will require support not only from the Welsh Assembly Government, but also from the UK Government in terms of fiscal structures and regulatory regimes. We support the use of collaborative and co-operative working patterns as a way of enabling small suppliers to compete with large volume producers and we would encourage the Welsh Assembly Government to make use of the Wales Co-operative Centre as a centre of excellence to drive forward co-operative working. This will allow food production in Wales to exploit the opportunities made available by globalisation whilst retaining its local flavour.

Public sector procurement

151. In a global marketplace, public sector procurement, while it must be accessible, transparent and accountable, can also do much to support local food producers. The public sector in Wales spends £66 million on food each year, of which nearly £20 million is on fresh food and £119,000 on water, mainly in the education, health and social services sectors.³¹⁰ In written evidence, the Welsh Local Government Association argued that procurement activity within local communities can have a beneficial “multiplier effect” on the local economy, stimulating community regeneration.³¹¹

152. The Farmers’ Union of Wales agreed that the public procurement market has enormous potential to use more locally-produced food, but noted in its evidence that “for too long, the public sector focus on food has been to reduce costs, so budgets for ingredients are low and catering equipment infrastructure and skills have been reduced”.³¹² This was supported by the Wales Co-operative Centre, who called for a “culture shift” in the sector, so that “social and environmental impacts are important and equally as

³⁰⁶ Q 2144 (Mr Simon Harris, Chief Executive, Wales Co-operative Centre)

³⁰⁷ Q 1241

³⁰⁸ Q 2141

³⁰⁹ Qq 1395 and 1402

³¹⁰ Ev 647

³¹¹ Ev 594

³¹² Ev 576

important as cost”.³¹³ Mr Simon Harris, the Centre’s Chief Executive, told us that the Centre ran a number of training and mentoring programmes with the aim of enhancing the business and legal skills of individuals to enable them to rise to the challenges presented by public sector food supply.³¹⁴

153. The Welsh Local Government Association cited as examples of local innovative approaches to public sector food procurement in Wales Caerphilly County Borough Council’s *Local Food for Local People* project and Carmarthenshire County Council’s *Local Food Strategy* for nutritious school meals.³¹⁵ We were told by the Director of the Food and Market Development Division of the Welsh Assembly Government that the percentage of Welsh products purchased by the public sector in Wales had increased by 46% over the last two years.³¹⁶ The Welsh Assembly Government’s procurement guidance, *Food for Thought*, outlined a new approach to public sector food procurement in Wales, with the intention of raising awareness across the public sector about considering factors other than cost in buying food, and was welcomed by the Welsh Local Government Association in a memorandum to us as “the first time that many within the public sector in Wales considered how the food they purchased could have an impact on the local economy, the environment and the potential impact on people’s health”.³¹⁷

154. However, Mr David Gilbert, the Welsh Local Government Association’s Regeneration Adviser, identified the complexity of the bidding process as one disincentive to smaller food producers bidding for public sector contracts:

One of the problems associated with bidding for local authority projects is the sheer paperwork of the tender process would put off a lot of very small companies... We have had a session of workshops to try and encourage local firms to bid and we are also encouraging local firms to form their own consortia to be able to bid, so I think [local procurement] has a very good long-term future.³¹⁸

155. The Wales Co-operative Centre recommended that where individual suppliers are not large enough to supply public sector contracts, either the contracts are broken down into smaller parts,³¹⁹ or co-operatives are developed to allow them to win bigger contracts.³²⁰ The Centre’s Agri-Food Project, which ran from 2003 until 2006, aimed to encourage farmers to work together to brand and market their products more effectively, with joint working enabling them to meet the requirements of larger contracts including public sector contracts, which would not have been possible as individual smaller farm businesses.³²¹ All local authorities in Wales have signed up to the *Opening Doors* SME Charter, by which local authorities give an undertaking to enable local SMEs to bid for

³¹³ Q 2147

³¹⁴ Q 2162

³¹⁵ Ev 595

³¹⁶ Q 1567

³¹⁷ Ev 595

³¹⁸ Q 1742

³¹⁹ Q 2150

³²⁰ Ev 642

³²¹ Ev 642

local contracts in a way that continues to ensure quality and cost effectiveness, but which allows them to compete.³²²

156. The public procurement market has great potential to source more products from small, local producers. In order for this to happen, local authorities need to simplify their procurement processes to help small businesses take advantage of the opportunities in this market. We consider that it is essential to develop a strategic framework in order to support and enable producers of food and drink in Wales to bid for public sector contracts, and we fully support the Welsh Assembly Government in its development of a local sourcing action plan. A particular focus needs to be on engaging small businesses in public sector procurement processes, which will help them to build skills and capacity. The Wales Co-operative Centre already runs some training courses in the business and legal aspects of food supply, which could be replicated more widely.

Skills

157. In common with many sectors examined in this Report, food production and processing suffers from a skills shortage. As we noted in the previous section of this Report, the gap has been plugged to a certain extent through the use of migrant labour. Nevertheless, in its evidence to us, Meat Promotion Wales noted, “The shortage of appropriately skilled labour is...a limiting factor to industry investment and development and also threatens the future viability of both existing processing activities as well as its future growth potential”.³²³ The Wales Agri-Food Partnership said that the skills shortage had been felt across the industry from production through to point of sale, affecting investment and development in the industry.³²⁴

158. The Wales Agri-Food Partnership identified as “top of the list of challenges” faced by food sector employers a shortage of new food technology graduates and postgraduates joining the food sector and the shortage of technicians.³²⁵ It recommended that “The image of the industry needs to be improved to encourage new entrants, and this should be linked to improving the value of jobs within the industry.”³²⁶ Professor Bill Goldsworthy added that there needed to be a greater understanding in the education sector of the employment opportunities that exist in the food sector for food technology graduates and technicians.³²⁷

159. Since we took evidence, new courses for science graduates have been launched in Wales, aimed at raising the numbers of qualified food scientists entering the food and drink industry across the whole of the UK. The Food Science and Technology conversion course at Masters level is being developed as a result of a partnership between the University of Wales Institute, Cardiff, the University of Glamorgan, Aberystwyth University, Coleg Menai, Food Centre Wales and the food and drink sector skills council, Improve. The partnership has attracted £250,000 of funding from the Higher Education

³²² Ev 595

³²³ Ev 587

³²⁴ Ev 557; Q 1575

³²⁵ Ev 557

³²⁶ Ev 559

³²⁷ Q 1575

Funding Council for Wales to develop and run the new conversion course and other industry specific short courses.³²⁸

160. We welcome recent educational partnerships aimed at raising the profile of graduate-level opportunities in the Welsh food and drink industry. We note that the new courses are the first of their kind in the UK and are pleased to see that Wales is building on its strengths as a producer of quality produce. Strong local brands and premium products, which cannot be replicated elsewhere, are Wales's main asset in the increasingly global economy. In order to support business growth in this sector, a robust skills base will be needed, along with initiatives aimed at supporting and developing small businesses.

³²⁸ <http://news.glam.ac.uk/news/en/2008/feb/06/wales-leads-way-food-science/>

3 Broadcasting and the creative industries

Background

161. Broadcasting and the creative industries represent a relatively young business sector, but one which makes a substantial contribution to the Welsh economy. In 2007, S4C (Sianel Pedwar Cymru, the channel largely reserved for the provision of peak-hours Welsh language programming) commissioned an impact study on the economic benefits of the service. This concluded that S4C contributed to the creation of more than 2,200 jobs in Wales and turned over a multiplier of over £85 million within the Welsh economy. At the peak of production, BBC Wales's drama studio complex near Pontypridd employed more than 400 artists, writers, editors, technicians, designers and producers, and 25% of ITV Wales's programming is made by independent producers.³²⁹ Beyond their direct contribution, broadcasting and the creative industries support the Welsh economy by sustaining numerous allied companies and services.³³⁰

162. The media and the creative industries have been transformed by the advent of globalisation. It is increasingly possible to access creative content from around the world in Wales. This heightened competition poses a challenge to local provision. On the other hand, emerging global markets and the advent of new media platforms provide new opportunities for broadcasters and the creative industries in Wales to expand their audiences and businesses, and to contribute to the Welsh economy. Technological advances, the success of international media companies, and the movement of populations across the globe are phenomena impacting upon countries around the world, but Wales faces its own distinct issues, including new and evolving devolution, the relatively small scale broadcast and print media, challenging geography and the context of bilingualism. In this third section of our Report we consider the ways in which Wales can address these challenges and take advantage of the increasingly global communications market.

The Welsh media

Television

163. Analogue television broadcasting in Wales has been delivered primarily through three Welsh institutions: BBC Wales and ITV Wales (which provide English language services) and S4C. Although analogue Channel 4 is not broadcast in Wales, most of its output is screened outside peak hours on S4C. Five has a restricted analogue service in Wales as it is only broadcast from three sites in Wales and thus has limited coverage. However, the introduction of digital technology following the Broadcasting Act 1996 has led to the creation of a multi-channel, multi-platform environment. The Welsh population can now access a range of channels which would not be available via an analogue signal, as well as digital-only channels such as S4C digidol and S4C 2. With 84% of the Welsh population

³²⁹ Q 1930 (S4C); Ev 627 (BBC); Q 1866 (ITV Wales);

³³⁰ Ev 614 (Elin Haf Gruffydd Jones)

now able to view digital television, and the digital switchover imminent in Wales, the domestic television broadcasting landscape is at one of the most significant crossroads in its history.³³¹

Radio

164. Wales records the highest levels of radio listening in the UK.³³² The latest figures released by Ofcom show that 62% of the Welsh radio audience tuned in to BBC network and national services in 2007, higher than the UK average of 54%. In addition to its UK-wide radio network, the BBC currently provides Welsh language and English language public service radio in Wales via Radio Wales and Radio Cymru, which remain Wales's only indigenous radio services broadcasting throughout the nation.³³³ Wales also has 19 local and regional commercial radio stations and four community radio stations.³³⁴ Commercial stations, however, have a lower audience in Wales than in the rest of the UK, attracting a 27% share (up from 24% in 2006 but lower than the UK average of 32%). Around one in seven individuals in Wales currently owns a Digital Audio Broadcasting (DAB) radio set and almost a third of listeners in Wales say they used digital television to listen to radio stations in 2007. Radio services are also increasingly provided via the internet, with one in seven Welsh people listening to radio services online during 2007.³³⁵ Evidence we received from Ofcom stated that “the radio industry as a whole across the UK has faced significant commercial pressures, not least because its level of advertising revenue has been either flat or declining and advertisers are increasingly interested in using the more targeted kind of mechanisms they are able to do through the internet”.³³⁶

Newspapers

165. The written press in Wales is limited, with more than 85% of the Welsh population reading only London based newspapers and turning to radio or television broadcasting for the nation's news and culture.³³⁷ There is no daily Welsh language newspaper, despite recent efforts to establish a title supported by public funds. Several of our witnesses highlighted the fact that Wales lacks a diversity of written press, with only two regional newspapers of any size (the *Daily Post* and *Western Mail*, both published by Trinity Mirror),³³⁸ although there are numerous local daily newspapers including the *South Wales Echo*, the *South Wales Argus*, the *Swansea Evening Post* and the *Wrexham Evening Leader*, as well as weekly titles. The National Union of Journalists told us that the main regional newspapers are not owned by Welsh companies:

³³¹ Memorandum submitted by Ofcom (not printed)

<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmwelaf/ucglobal/75.pdf>

³³² Ofcom, *The Communications Market Report: Nations and Regions—Wales*, 22 May 2008, p 9.

³³³ Ev 627

³³⁴ Ofcom, *The Communications Market Report: Nations and Regions—Wales*, 22 May 2008, p 23.

³³⁵ *Ibid.*, p.9

³³⁶ Ev 362; Q 2024

³³⁷ Institute of Welsh Affairs, *Media in Wales—Serving Public Values*, May 2008, p 57.

³³⁸ Ev 351; Q 1968 (Elin Haf Gruffydd Jones)

Wales has little direct control of its main media outlets. The main policy and budgetary decisions for...the majority of the Welsh newspaper sector are made in London...Globalisation further intensifies this process. It can bring in larger, less locally accountable players into the Welsh market place.”³³⁹

Referring to the concentration of ownership in the written press as a “dangerous monopoly”, Elin Haf Gruffydd Jones, Director of the Mercator Centre in the Department of Theatre, Film and Television Studies at Aberystwyth University, argued that the increasing ownership of media companies outside Wales could lead to profits leaving the country without equal investment being returned to Wales.³⁴⁰ The National Union of Journalists agreed, warning that the direction of profits out of Wales, without equal investment in the resource provided for Wales, could lead to further job losses in this field.³⁴¹

New media

166. Technological advances in the last decade have transformed the media landscape. Consumers are now able to access content provided from around the globe, on platforms as diverse as their mobile telephone, computer, radio or television. Broadcasting to the Welsh population has thus been opened up to new providers beyond the traditional institutions of the BBC, ITV and S4C. Elin Haf Gruffydd Jones of Aberystwyth University told us that “broadcasting has become ‘content distribution’”, employing a diversity of distribution methods to provide content on a range of platforms.³⁴²

167. Our witnesses thought that the rise of new media had also resulted in a significant change in the way in which broadcasting and creative content was approached by consumers. Evidence from S4C suggested that, “The way people in Wales, as in the rest of the world, consume entertainment and information is changing. Technologies are converging and people demand and are being supplied with content whenever and wherever they choose to use it”.³⁴³ The BBC agreed that “digital technology is changing the rules about the way in which people consume content...For example, Google and Yahoo...are regarded as the third and fourth best news providers in the world and they do not make any content”.³⁴⁴ The National Union of Journalists welcomed the proliferation of new online outlets for individual contributors, but noted their concern that such media sites should not replace well-funded and well-trained journalists, supplying accurate and impartial news and “other information that is a cornerstone of an informed democracy”.³⁴⁵

³³⁹ Ev 601

³⁴⁰ Q 1968

³⁴¹ Q 1874

³⁴² Ev 614

³⁴³ Ev 606

³⁴⁴ Q 2054 (BBC)

³⁴⁵ Ev 601

168. S4C told us that new media represented a significant increase in competition: “Whilst operating primarily at a Wales level we are facing competition which respects no geographical boundaries in terms of content and delivery technologies”.³⁴⁶ Ofcom agreed:

There are limitless—it would not be appropriate I think to describe them as channels—sources of content. That brings clear benefits to viewers and listeners within Wales who can now turn to anywhere in the world for the audiovisual content that they would like to listen to and to watch. That brings clear benefits to us all, but of course it also brings new challenges to the creators of Welsh content in that although they still produce content they are now producing it in a far more competitive environment, and when they are trying to attract audiences, they are now not only competing against three of four other UK terrestrial broadcasters but they are competing against the whole of the world.³⁴⁷

But the globalisation of communications has also brought advantages to broadcasters and consumers alike. For example, S4C is now carried on the Sky platform for viewers outside Wales. Mr Ron Jones, Executive Chairman of Tinopolis plc, a media company based in Llanelli, emphasised the opportunities that were available, saying, “in these new media areas the relationships have yet to be determined, the major companies have yet to be built up, and there are real opportunities here for us. Geography is no longer a barrier”.³⁴⁸

169. Although geography may no longer be a constraint, the breakdown of national boundaries in this sector has also removed any ‘captive market’ that may have existed in Wales. As the National Union of Journalists observed in its evidence, “The growth of multi-channel television, satellite, Freeview and broadband services has resulted in a massive increase in television channels and other video provision. But this process has reduced the audiences available for distinctive Welsh programming”.³⁴⁹

Devolution and the legislative context

Broadcasting

170. Broadcasting in both Welsh and English languages remains a non-devolved matter, falling under the remit of the UK Government’s Department for Culture, Media and Sport. Since the establishment of democratic devolution, however, the National Assembly for Wales has debated broadcasting policy as it impacts on Wales, and the Welsh Assembly Government has worked closely with UK-wide bodies, regulators and government departments to ensure that Welsh needs are met within the wider UK context.³⁵⁰ In practice, the dividing line between devolved and non-devolved responsibilities in this field is complex: whilst the regulation of broadcasting is a retained matter, its impact on

³⁴⁶ Ev 606

³⁴⁷ Q 2019

³⁴⁸ Q 2096

³⁴⁹ Ev 601

³⁵⁰ National Assembly for Wales Broadcasting Committee, *The Future of Public Service Broadcasting in Wales*, July 2008, p 9.

economic development and Welsh culture is of direct relevance to the responsibilities and strategies of the Welsh Assembly Government.

171. In 1999, our predecessor Committee published a Report on *Broadcasting in Wales and the National Assembly*.³⁵¹ This Report outlined the reasoning for maintaining responsibility over the regulation of broadcasting at Westminster as follows:

First, broadcasting is increasingly provided by national or multinational concerns, and the Government believes that the regulatory framework should be national so that the competitiveness of the UK broadcasting industry is not impaired by multiple regulation. Secondly, the broadcasting spectrum is a scarce resource, and the Government believes it will be more efficiently used if allocation is planned on a UK basis.³⁵²

The Report also noted, however, that under Section 33 of the Government of Wales Act 1998, the Assembly may consider, and make representations about, any matter affecting Wales, including broadcasting. It added that:

...the Assembly will be able to call witnesses to assist its considerations and the broadcasting regulators will place their annual reports before the Assembly. The DCMS has undertaken to consult the Assembly about broadcasting matters “of particular relevance to Wales”.³⁵³

Concern was raised in the Report that “consultation with the Assembly” should not mean consultation with the Executive alone, but with backbenchers and the Opposition as well as Ministers. This was supported by calls from witnesses for the National Assembly to appoint a broadcasting committee or sub-committee to scrutinise broadcasting in Wales. The Welsh Affairs Committee noted its hope that the Assembly would “take a close interest in broadcasting matters”.³⁵⁴

172. Nearly a decade on from the publication of *Broadcasting in Wales and the National Assembly*, and during our inquiry, the National Assembly for Wales established its own scrutiny committee to consider the future of public service broadcasting in Wales. The Assembly’s Broadcasting Committee published its Report in July 2008, following which it disbanded.³⁵⁵ **We welcome the important work recently completed by the National Assembly for Wales Broadcasting Committee on the future of public service broadcasting in Wales. We note the Broadcasting Committee’s acknowledgement that “the UK parliament is clearly the most appropriate place for debates on the wider economic regulation of the broadcasting industry” and that the Welsh Affairs Committee has the potential to play a greater role in the future of broadcasting policy in Wales. We also note their recommendation that the National Assembly should create a standing committee on communications. This is a matter for the Assembly**

³⁵¹ Welsh Affairs Committee, Second Report of Session 1998-1999, *Broadcasting in Wales and the National Assembly*, HC 48.

³⁵² *Ibid*, paragraph 16

³⁵³ *Ibid*.

³⁵⁴ *Ibid*. paragraph 17

³⁵⁵ National Assembly for Wales Broadcasting Committee, *The Future of Public Service Broadcasting in Wales*, July 2008

itself to decide. However, we would welcome the opportunity to pursue further discussions with the National Assembly for Wales on arrangements for the scrutiny of broadcasting policy.

The creative industries

173. The development of the creative industries in Wales is a matter devolved largely to the National Assembly for Wales as part of its responsibilities in the fields of education and training, economic development and culture. The Welsh Assembly Government launched its Creative Industries Strategy in 2004, and has recently re-structured its support for the creative industries via the creation of Creative Business Wales, part of International Business Wales, the Welsh Assembly Government department responsible for attracting new inward investment into Wales.³⁵⁶ Certain legislative powers central to the development of the creative industries remain at Westminster, not least policy relating to enforcement of intellectual property rights and wider regulation of international trade. The Department for Culture, Media and Sport is responsible for UK policy relating to the creative industries, alongside the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills.

174. As with broadcasting, the dividing line between devolved and non-devolved responsibilities in the field of the creative industries is complex. It appears to have been the subject of misunderstanding in Whitehall, for example, in the recent publication of the UK Government's strategy paper *Creative Britain: New Talents for the New Economy*.³⁵⁷ Although the paper claims to outline future policy for the creative industries across the UK, little mention is made of Wales. Only one paragraph is set aside to explain the role of the Welsh Assembly Government in the development of the creative industries, and no outline is given of how the Welsh Assembly Government has contributed to the action plan. Giving evidence to the Assembly's Broadcasting Committee, the then Welsh Assembly Government Heritage Minister Rhodri Glyn Thomas AM noted that:

...unfortunately, there is sometimes a lack of awareness of the implications of some statements and reports for Wales. I would argue that there should be much more awareness of the implications of that particular report [*Creative Britain: New Talents for the New Economy*] for Wales...there is a responsibility for us as a Government to ensure that DCMS is aware, when it draws up such reports, that it must take into account what is different in Wales to the rest of United Kingdom.³⁵⁸

The Assembly's Broadcasting Committee concluded that:

We are concerned that the Welsh Assembly Government does not seem always to be 'in the loop' as UK policy is being shaped in telecommunications, creative industries,

³⁵⁶ Ev 432 and 587. See paragraphs 55 to 61 above for a further discussion of the work of International Business Wales.

³⁵⁷ Department for Culture, Media and Sport, *Creative Britain: New Talents for the New Economy*,

³⁵⁸ National Assembly for Wales Broadcasting Committee, *Official Transcript*, BCC(3)-06-08, 2 June 2008.

and broadcasting, as evidenced by the lack of input by WAG in the UK Government's *Creative Britain: New Talents for the New Economy*.³⁵⁹

175. The lack of clarity over the territorial extent of a document such as *Creative Britain: New Talents for the New Economy* does little to assist the effective provision of support to the creative industries in Wales and in the UK more widely. We urge the Department for Culture, Media and Sport as the lead Whitehall department in the field of the creative industries to work more closely in the future with the Welsh Assembly Government. Policy documents should emerge from consultation with relevant Welsh bodies and should specifically set out how UK-wide strategies will apply to Wales. This will help ensure that both administrations are able to co-ordinate policies so that the creative industries in Wales are sufficiently equipped to face the challenges and opportunities posed by globalisation.

176. Where powers over a field of policy are shared by the Welsh Assembly Government and the UK Government, it is crucial that clarity is established on the allocation of roles and responsibilities, while recognising that it is sometimes difficult to split functions. We believe that the joint working required by devolution can be a great strength rather than a weakness. Good relationships need to be maintained across Whitehall at all levels as well as between the National Assembly for Wales and the House of Commons. We note a welcome increase in engagement on the part of Ministers from the Welsh Assembly Government in recent months. This should be reflected by Ministers and officials across Whitehall.

The Welsh voice in the world

177. A key conclusion of our discussion of food production and supply in the previous section of this report was that Wales should build on its strengths and use the power of localism to face the challenges of globalisation. The evidence we collected leads us to a similar conclusion in relation to broadcasting and the creative industries. Witnesses told us that, in order to be successful both at home and abroad, programming should reflect the Welsh identity. Written evidence from the BBC noted:

Alongside growing global influences, there has been a clear trend for some time towards a society where people increasingly value localness. Across virtually all demographic groups, our audiences' interest in locality has grown significantly over the last two decades, with particularly significant rises among audiences aged 16-44.³⁶⁰

178. S4C agreed that success in the global marketplace could only be achieved on the basis of a strong and memorable identity. It gave as an example its re-branding of services in January 2007, which aimed to create "a distinctive brand which stands out among the several hundred television channels available" predicting that "Quality and distinctiveness

³⁵⁹ National Assembly for Wales Broadcasting Committee, *The Future of Public Service Broadcasting in Wales*, July 2008, p.53.

³⁶⁰ Ev 621. Source: *Redefining Regions*, The Future Foundation, 2004.

will be the gold standards of the multi-channel, mutli-platform future”.³⁶¹ In oral evidence, Mr Pat Loughrey, Director for Nations and Regions of BBC Wales, added:

As new platforms and new opportunities become available it is really important that we take advantage of those to ensure the local democracy, local identity, local heritage and local language is nurtured and maintained...this is how you build your strength in the world—not by adopting a form of cultural mid-Atlanticism, but being strong in your indigenous identity and your indigenous experience, and having the self-confidence that comes with it...I do not see a contrast between meeting the tastes and needs of an international audience and the local audience...if it is firmly rooted in the place from which it came [it] has a profound international appeal. It is that which seeks to appeal to everyone that tends to appeal to no-one.”³⁶²

179. We do not believe that the adoption of a ‘neutral’ brand identity is a recipe for success in the global broadcasting markets. Our evidence suggests the reverse: that a strong local identity is a good foundation for success in the world. Broadcasting and the creative industries in Wales should draw on local strengths in order to prosper in the global economy.

Welsh and English language broadcasting

S4C

180. One of the distinctive assets of the broadcasting sector in Wales is the provision of high quality Welsh language programming. S4C is a dedicated Welsh language channel and under the requirements of the 1996 Broadcasting Act, BBC Wales provides at least 10 hours of distinctive programming to S4C each week, funded by the licence fee. Whilst it has previously been available only in Wales, digital technology and the availability of new platforms have now allowed S4C to serve Welsh-speaking populations outside the country. The channel has been extremely successful in this endeavour—in an average week about 120,000 people outside Wales tune into S4C.³⁶³ **We congratulate S4C on its success in engaging with the Welsh Diaspora by means of innovative methods such as providing services via satellite TV, online and through Internet Protocol Television. We consider that BBC Wales and ITV Wales could learn from this example.**

181. Television programming in the Welsh language is well served compared to other minority languages in Europe. Of the sixty or so territorially based minority language communities in Europe, only eight have specific television channels operating solely or primarily in the minority language.³⁶⁴ Elin Haf Gruffydd Jones told us that “The produce coming out of Wales at the moment is on the whole recognised to be of international standing...in that sense we are probably leading a lot of minority language

³⁶¹ Ev 606 and Ev 608

³⁶² Qq 2055 and 2074

³⁶³ Q 1911 (S4C)

³⁶⁴ Ev 617 (Elin Haf Gruffydd Jones). In addition to Welsh, these are Catalan, Basque, Galician, German (Italy), Frisian (NL), Swedish (Finland) and Irish. Following the submission of Elin Haf Gruffydd Jones’ evidence, Scottish Gaelic was added to the list with the launch of BBC Alba’s television service in September 2008.

communities”.³⁶⁵ In contrast, the Welsh language print media is limited in scope. Ms Jones noted that Wales “is an anomaly in that it has not yet succeeded in setting up a daily newspaper in the language”.³⁶⁶

Minority language media

Our visit to the Basque Country and Catalonia enabled us to investigate the provision of minority language broadcasting in other parts of Europe. We were struck by the different forms in which Basque and Catalan language content is distributed, compared to Welsh. Unlike in Wales, there are daily newspapers in both Basque and Catalan with a healthy circulation. In recent years, Catalan provision has grown significantly and now comprises television and radio broadcasts, including a privately-owned television station, although the great majority of provision is still supported via state funding.

In contrast, provision in Basque is more focused on the written media, literature and music. The Basque press is vibrant, including a daily newspaper with a strong local following. However, television and radio stations have found difficulty in carving out a niche amongst provision that is predominantly in the majority language and compares poorly to channels such as S4C.

Elin Haf Gruffydd Jones told us that the Welsh language has been described as being in an “anomalous position” by the Council of Europe due to its strong broadcast media but weak written press.³⁶⁷ In other countries, the vast majority of minority language daily newspapers have access to public funds. In January 2008, the Welsh Language Board published a review of the Welsh language print media, conducted by Dr Tony Bianchi and informed by a number of case studies from across Europe.³⁶⁸ The review found that access to public funds was central to the viability of producing a daily newspaper in Welsh, particularly given the current general decline in readership of newspapers in favour of the new media. Given the rise of new media, and the decline in circulation of newspapers more generally, it may be that the internet offers a more promising future for Welsh language media than a print newspaper supported by public subsidy.

The BBC and ITV

182. Some of our evidence expressed the view that English language broadcasting in Wales had suffered as a result of the investment in Welsh language provision. Written evidence provided by Tinopolis stated, “We are a bilingual nation and it is perhaps an anomaly that Welsh-speakers are better provided for than our native English-speakers. This is probably unsustainable in the long term”.³⁶⁹ Witnesses added that, in comparison to Welsh language broadcasting, English language programmes for distribution in Wales were not well tailored to the Welsh market and did not reflect the country’s concerns. Some thought this situation was likely to worsen after digital switchover. Although currently, BBC Wales

³⁶⁵ Q 1977

³⁶⁶ Ev 619

³⁶⁷ Q 1696

³⁶⁸ *A Review of the Welsh Language Print Media*, Dr Tony Bianchi, January 2008.

³⁶⁹ Ev 632

broadcasts two separate BBC Two services: BBC Two Wales on analogue and BBC 2W on digital, the BBC noted that: “Once analogue services are withdrawn in 2009, this split provision will no longer be possible. As a result, BBC Wales plans to begin to merge these two BBC Two services later this year”.³⁷⁰

183. The view that English language provision needs to be improved has been backed by a number of recent reports on broadcasting in Wales. In June 2008, Professor Anthony King produced an independent report for the BBC Trust on the Corporation’s coverage of the four nations.³⁷¹ It concluded that the BBC was not reflecting consistently the reality of devolution, and that it needed to go further in reporting the changing UK with the range that audiences are entitled to expect. In July, the scrutiny Committee set up by the National Assembly for Wales to consider the future of public service broadcasting in Wales concluded that “Wales is the UK’s invisible nation in terms of its place on TV screens” and said that S4C should expand its activities to support English-language programming that would be more local in character.³⁷² Most recently, the Welsh Assembly Government’s Advisory Group on Broadcasting, reporting at the end of November, proposed a new English language television channel for Wales and concluded:

Against a backdrop of rapid and revolutionary technological change, Wales is faced with becoming a passive consumer of content created by others rather than having a strong voice of its own. This is a once-in-a-generation opportunity to define what should be the appropriate scale and range of English language television provision for Wales, as well as to ensure continued provision of high quality journalism from more than one source.³⁷³

184. In response to the criticisms of the King Report, the BBC has undertaken to provide a more direct input from the nations and regions into its central management (the Controller of BBC Wales is now a member of the BBC Direction Group) and has made a commitment to more network production from Wales. In October 2008, the BBC announced that it was moving production of a number of high-profile programmes out of London, and that it would be doubling production in Wales.³⁷⁴ But at the same time, ITV said that it would be reducing Welsh news by a fifth and cutting jobs in Wales in order to make up for falling advertising revenue. Ofcom warned that these changes could have a serious impact on the independent television sector in Wales.³⁷⁵

185. In evidence, both the BBC and ITV defended themselves against charges of a ‘London-centric’ attitude. Mr Pat Loughrey of the BBC told us that “there is a very real

³⁷⁰ Q 2069. See also Ev 604 (S4C) and Ev 615 (Elin Haf Guffydd Jones)

³⁷¹ http://www.bbc.co.uk/bbctrust/research/impartiality/trust_conclusions.html

³⁷² National Assembly for Wales Broadcasting Committee, *The Future of Public Service Broadcasting in Wales*, July 2008, pp.64 and 16.

³⁷³ *Communication and Content: The Media Challenge for Wales*, Report of the Broadcasting Advisory Group, November 2008.

³⁷⁴ <http://news.bbc.co.uk/1/hi/wales/7672464.stm>

³⁷⁵ <http://news.bbc.co.uk/1/hi/wales/7644062.stm>

appetite in the BBC to enhance, to some extent, its presence in the production business across the whole of the United Kingdom”.³⁷⁶ ITV Wales said:

...we are the commercial broadcaster that makes the largest amount of programming outside London as it is and we believe there should be a meritocracy of ideas and that ideas, from wherever they come—England, Wales, Scotland, Northern Ireland or any other part of the British Isles—should succeed on merit and that trying to mandate these things through quotas is not the way to build a successful, creative industry...ideas will win out and to artificially put quotas on any part of the United Kingdom seems to us not the way to have a strong creative channel that people want to watch.³⁷⁷

The BBC also pointed to high profile successes produced in Wales, such as *Dr Who*, *Torchwood*, and *Life on Mars*.³⁷⁸ Some have argued that, although these programmes are commissioned in Wales, they do not reflect Welsh life and could have been set anywhere in the UK. Others, including evidence given to the recent inquiry by the Scottish Broadcasting Commission, are more positive about these programmes, which, if they do not represent the realities of Welsh life, do ‘brand’ Cardiff and Wales across the world to great effect.³⁷⁹

186. Recognising the success of BBC programmes made in Cardiff, some of our witnesses warned that UK institutions had a tendency to assume that Cardiff could stand for Wales as a whole, rather than ensuring that views from around the whole nation of Wales were represented. Evidence from Tinopolis recommended that, “A new settlement for public service broadcasting in Wales needs to provide for the whole of Wales”.³⁸⁰ In oral evidence, its Executive Chairman, added:

In Wales we are replicating, not just in broadcasting but elsewhere, the centralised ethos that we have throughout the UK...we have to be looking at ways of spreading the wealth around...I think there ought to be an economic multiplier there for some of our perhaps less fashionable areas as well.³⁸¹

187. Whilst Welsh language programming has been internationally recognised for its range and quality, English language broadcasting in Wales is not currently adequately reflective of Welsh identity. In large part, this is because Wales does not have a strong enough voice within the UK’s major media institutions. During our inquiry, the BBC and ITV reiterated their commitment to commissioning and producing programmes in Wales. We hope to see the results of this commitment in high quality programmes which are reflective of the range of different Welsh interests.

³⁷⁶ Q 2064

³⁷⁷ Qq1845-46

³⁷⁸ Q 2053 (BBC)

³⁷⁹ *Platform for Success*, final report of the Scottish Broadcasting Commission, September 2008.

³⁸⁰ Ev 632

³⁸¹ Q 2098

The impact of globalisation on public service broadcasting

188. The current media landscape in Wales is the result of a strong tradition of public service broadcasting. Our witnesses warned that globalisation posed a challenge to this framework and that intervention would be needed in order to ensure that Wales retains a distinctive and high quality range of programming. Ofcom told us that public service broadcasters had suffered from an increase in competition brought about by the entry of international media companies into the domestic market and a consequent decline in profitability:

In the past, there was very significant value which those broadcasters had through their privileged access to the radio waves, to broadcasting spectrum, and there were only a limited number of competitors, and therefore there was an opportunity for all of them to gather significant revenues and to be able to afford as a result to invest in public service content. As the level of competition increases with all of the new digital channels which people are able to access, the value of that spectrum declines and is continuing to decline, and therefore the balance of benefits versus costs of being a public service broadcaster are changing and have already changed significantly and will continue to change in the run-up to switchover.³⁸²

Ofcom cautioned that “the amount of viewing of the traditional public service broadcasting channels has been declining over time and that affects [...] the economics of those channels and therefore their ability to invest not only in UK content but, for some of those channels specifically in Welsh content”.³⁸³

189. Both Ofcom and ITV argued that the funding mechanisms governing public sector broadcasting would need to be revised in response to the changing global economic environment, in order to ensure that resources are targeted to areas where an important public service need was identified.³⁸⁴ Ofcom concluded that the “existing model of public service broadcasting will not survive the transition to a wholly multi-channel world unchanged”.³⁸⁵ Witnesses thought that the impact of globalisation on public service broadcasting was a particularly important question for Wales, where over 90% of independent production is created purely for the Welsh market and there is a significant local investment in broadcast content, without which the sector would probably not exist.³⁸⁶

190. Witnesses also argued that public service broadcasting could act as a guarantor of media diversity, which is currently relatively limited in the commercial sector in Wales, and particularly in the written press. This was thought to be important given the relatively recent advent of devolution.³⁸⁷ Ofcom said that:

³⁸² Q 2021

³⁸³ Q 2019

³⁸⁴ Q 2032 (Ofcom); Q 1830 (ITV Wales)

³⁸⁵ Ev 361

³⁸⁶ Q 2009 (TAC)

³⁸⁷ Q 2040 (Ofcom)

The plurality of provision for each of the nations of the UK, particularly in Wales where there is clearly a sense of democratic accountability within the nation as well as part of the broader UK framework, is something which we think is very important...to the extent that there are problems in continuing to fund that kind of programming to enable plurality...then we think the Government and Parliament will need to consider new kinds of solutions in order to be able to make that programming sustainable.³⁸⁸

ITV Wales agreed that “we, as a society need to find a way through to ensure that that plurality continues to exist. I do not think that it is obvious that the market on its own will continue to provide that”.³⁸⁹

191. In evidence, we heard calls for a broadcasting commission for Wales to be established to consider these issues, similar to the Scottish Broadcasting Commission, which reported in September 2008 after a year-long inquiry into the state of the industry in Scotland. The NUJ proposed that the commission’s remit might also include media training and education as well as retaining skills in Wales.³⁹⁰ Other witnesses welcomed the idea of a body that would take an interest in broadcasting matters,³⁹¹ although Ofcom told us that there did not seem to be demand for a Commission from the Welsh Assembly Government, with whom they said they were working to develop an “integrated” communications policy.³⁹² Elin Haf Gruffydd Jones warned that it was “important to recognise that we are moving in the direction of communications rather than just broadcasting. As a result, if there was a Broadcasting Commission for Wales, its remit ought to extend beyond broadcasting to consider communication and broadcasting as a whole”.³⁹³

192. Since this evidence was taken, the National Assembly for Wales Committee on Broadcasting has reported, recommending that the Assembly should establish a standing committee on communications to scrutinise the work of Welsh Ministers in relation to broadcasting and related cultural and creative industries. The Welsh Assembly Government’s Advisory Group on Broadcasting has also published its report recommending that a Wales Media Commission should be established to invite tenders that “incentivise imaginative thinking and collaboration between commercial entities, public service operators and Welsh social enterprises” across all media.³⁹⁴ It sets out a number of options for funding the Commission, including redistributing the part of the licence fee allocated to facilitating digital switchover, a levy, an increase in advertising on public service broadcasting channels, direct funding from government, national lottery funding, waiving proposed spectrum charges for public service broadcasting channels and using the proceeds from the sale of the analogue spectrum.

³⁸⁸ Q 2030

³⁸⁹ Q 1829

³⁹⁰ Q 1885

³⁹¹ Q 2079 (BBC)

³⁹² Q 2047

³⁹³ Q 1976

³⁹⁴ *Communication and Content: The Media Challenge for Wales*, Report of the Broadcasting Advisory Group, November 2008, paragraph 2.29.

193. There have been calls to establish a broadcasting commission for Wales, in particular, to examine the future of public service broadcasting in the country. Both the Welsh Assembly Government and the National Assembly for Wales have considered establishing such a body. Should they decide to do so, its precise form and remit would be a matter for them to decide. However, broadcasting is not a devolved matter and we would urge any new commission, if one were to be established, to work closely with counterparts across the UK to ensure that a co-ordinated approach is taken towards the similar problems now facing public service broadcasters in all four nations, as well as in the English regions.

Exports

194. An alternative source of support for the Welsh creative industries lies in exports to foreign markets. Our witnesses thought that there was significant room for export growth within the sector. Evidence from the former North East Wales Institute of Higher Education (NEWI) highlighted the expansion of Chinese and Indian creative economies as an opportunity for Welsh producers: “There is a huge market; a billion people consuming media and creative industry products in China and they want new products”.³⁹⁵ Population mobility has also created audiences for Welsh programmes outside Wales through the development of expatriate communities. BBC Wales told us it had achieved success in marketing Welsh programmes abroad. At the time of evidence gathering, *Dr Who* had been sold to 37 countries across the world; *Torchwood*, its sister programme, to 31 countries and Cardiff Singer of the World, a biennial international singing competition was shown in 15 countries in 2007.³⁹⁶

195. Aside from the success of high profile shows such as *Dr Who*, Wales has a relatively poor track record in exporting programmes successfully. TAC (Teledwyr Annibynnol Cymru/Welsh Independent Producers) commented that “there has not been the breakthrough on the networks that is appropriate to the level of investment that the sector gets in Wales. I think we could expect more”.³⁹⁷ As TAC noted, “the level of UK network penetration by content originated in Wales is low—currently around 1.7%. The Welsh Assembly Government has set a target of 3% network penetration. If the content industry in Wales is to develop and compete globally further network penetration is essential”.³⁹⁸ Mr Ron Jones of Tinopolis also questioned the extent to which Wales could offer new creative product currently lacking in China, India and other countries, arguing that these countries had the technical, financial and intellectual capability to provide for themselves without a “leg up” from the Western world.³⁹⁹ He warned against over-emphasising Wales’s potential, arguing that “the creative sector in Wales is always going to be a very, very small part of the global market” and urging policy makers and producers to “avoid the hubris that sometimes comes into our self-assessment as a country of what we are able to do”.⁴⁰⁰

³⁹⁵ Q 2092

³⁹⁶ Q 2053 (BBC)

³⁹⁷ Q 2010

³⁹⁸ Ev 623

³⁹⁹ Q 2096

⁴⁰⁰ Q 2085

196. Wales is operating from a low base in terms of exports, but evidence from both the UK and Welsh Assembly Governments suggested that globalisation offered opportunities that Welsh companies could access, with support.⁴⁰¹ International Business Wales told us that their aim was to “manage [creative companies] in a way which helps them on the business side, not just the creative side”.⁴⁰² They gave as examples of their work the Wales Screen Commission, which promotes film-making in Wales, the Film Agency for Wales, which promotes the economic, cultural and educational aspects of film Wales, the UK and the world, and the Welsh Music Foundation, which encourages fledgling producers and rock bands to develop their businesses. International Business Wales noted that English language products and animation were particularly suitable for overseas markets.⁴⁰³ S4C agreed that Welsh producers could exploit international markets and told us of its achievements:

S4C programmes have been sold to more than 100 different territories. Recent successes include “China Rises” made by Tinopolis and co-produced with a number of companies including New York Times Television; the pre-school animation “Hana’s Helpline”, a co-production between S4C, Calon, Five and ZDF, with funding from the EU’s Media! Programme and the Wales Creative IP Fund; and children’s favourites “Mees” and “Sali Mali” which have been sold to Al Jazeera.⁴⁰⁴

197. In addition to selling products directly overseas, there are alternative ways in which Welsh companies can take advantage of the global marketplace. The independent production company Tinopolis, based in Llanelli, now operates in around a hundred different countries. In evidence, its Executive Chairman described how the company had achieved this expansion:

...we [adopted] a fairly radical approach in terms of becoming an international company; and we took the approach of using effectively financial engineering rather than our creative skills by acquiring businesses outside Wales which would add to us a whole range of new customers, a whole new range of products and services, and the ability to really fight a different battle using that new critical mass that we had acquired.⁴⁰⁵

Gwion Owain, Chief Executive of TAC, added that international co-production could also be encouraged and suggested there should be public financing for the creation of content by companies based in Wales (rather than for programmes simply filmed in Wales).⁴⁰⁶

198. Television and film production is only one part of the creative sector in Wales—there are many other areas which could be usefully developed for export. The broad potential of the creative industries was clearly highlighted to us by the work undertaken by Canolfan Bedwyr, the Language Technologies Unit at Bangor University. Technology developed at

⁴⁰¹ Q 78 (Rt Hon Ian McCartney) and Q 429 (Andrew Davies AM)

⁴⁰² Q 1702

⁴⁰³ Q 1703

⁴⁰⁴ Ev 609

⁴⁰⁵ Q 2083

⁴⁰⁶ Q 1998

the centre has led to the creation of electronic proofing tools, dictionaries, translation aids and speech technology that not only assist the Welsh language, but are now being used as far afield as Africa and the Indian sub-continent.⁴⁰⁷ We were told by Ms Delyth Prys, Head of Bangor University's Language Technology Unit, that creative technology developed in Wales for Welsh purposes now offers opportunities for the Unit in a global as well as domestic environment.⁴⁰⁸ Nevertheless, witnesses noted that most of the discussions about support for the creative industries in Wales tended to focus on broadcast media, whilst neglecting areas such as art, design and fashion,⁴⁰⁹ as well as computer games, which were described to us as an under-exploited sector, given the huge size of the worldwide market.⁴¹⁰

199. The creative industries in Wales are operating from a low base as far as exports are concerned, yet globalisation has opened up more overseas markets than ever before. We are encouraged by the individual successes we have heard about, including BBC and S4C television programmes as well as the innovative research conducted by Canolfan Bedwyr. However, if Welsh companies are to increase their presence on the international stage they will need support to develop the business capacity of their enterprises in addition to the creative excellence that is their core role. We were told of a number of promising initiatives aimed at supporting Welsh companies to exploit their global potential, but we would urge government to ensure that the potential of the creative industries is understood in the broadest sense of the term. Policy must not be developed in such a way as to focus solely on traditional visual and audio media.

The Business Environment

200. Throughout this Report, we have emphasised the importance of supporting business to exploit the opportunities of globalisation. This is of particular importance in the context of the small business model which dominates the Welsh economy. Specific support for the creative industries in Wales is provided by the Welsh Assembly Government's Creative Industries Strategy, but a number of themes which have emerged from this inquiry will be crucial in determining the success of the Welsh creative industries in the global marketplace, particularly in the current adverse economic climate. These include the need to raise skills levels within the Welsh population, the requirement for a modern technological infrastructure to support the needs of the sector and support for business innovation and growth.

Skills

Planning for skills needs

201. Access to higher level skills is vital if Welsh companies are to move up the value chain and compete against increasing production from abroad. Evidence from the Welsh Local

⁴⁰⁷ Q 2131

⁴⁰⁸ Q 2177

⁴⁰⁹ Q 2091 (Siôn Hughes of the former NEWI)

⁴¹⁰ Q 1704

Government Association (WLGA) suggested that this has been a neglected area within the creative industries. Whilst welcoming the Welsh Assembly Government's Creative Industries Strategy, it noted that:

...the strategy mainly considers economic development and focuses on high-end business development opportunities in the sector which have the best potential to generate wealth. Whilst this is certainly a very welcome development there is a lack of provision and policy around developing on-the-ground opportunities for young people to develop skills and increase interest in the creative industries sector.⁴¹¹

The WLGA argued that much remains to be done if the sector is to deliver more high quality jobs and become a major factor in the creation of a more prosperous Wales. It suggested that specific skills shortages need to be addressed, citing trained theatre technicians as an example as well as research and development (the "raw materials" of culture) to stimulate creativity as well as jobs. The WLGA thought that local authorities could play a part in this through the development of necessary skills in the education sector and business development provision in their respective areas.

202. Evidence from Ofcom and Skillset commented that there was no shortage of media training courses in Wales. Indeed, Rhodri Williams, Director of Ofcom, said, "I am not persuaded that there is sufficient opportunity in the market-place to find jobs for all the people who are trained in all the media studies courses throughout Wales, or whether there are that many jobs for them at the end of the day".⁴¹² Other witnesses agreed that, although excellent courses were on offer in Wales, the problem was that these were not matched to the needs of the economy. The National Union of Journalists argued that "the market for education is determined by what the students want to study rather than the need that industry has for graduates in those particular fields", leading to a situation where the opportunities to read media studies are increasing in higher education, whilst the actual opportunities for working journalists are diminishing.⁴¹³

203. The Federation of Small Businesses Wales highlighted planning for skills needs as an essential factor in economic development:

Knowing where the skills gaps lie within Wales is one of the key challenges facing us if we are to better compete. Matching supply with demand is notoriously difficult. What is clear however is that education and training at all levels needs to be better organised to respond to the demands of employers.⁴¹⁴

Written evidence from the former North East Wales Institute of Higher Education (NEWI) cited design as an example of the current mismatch within the creative industries, arguing that, "Art and design and related subjects needs to be moved to a more central position in higher education as the subject disciplines become increasingly economically relevant. We need to be more rigorous in integrating this at policy level".⁴¹⁵ NEWI also

⁴¹¹ Ev 595

⁴¹² Ev 623 and Q 2000

⁴¹³ Q 1887

⁴¹⁴ Ev 435

⁴¹⁵ Ev 636

thought that design graduates needed to have “a better understanding of business, in particular global business and ‘the world’ as a market place.” It commented that “Innovative ways of teaching are being developed in a fragmented and piecemeal way, plagued by short termism and rarely sustainable beyond the period of initial funding...Increasingly our art, design and media graduates are finding employment opportunities overseas”.⁴¹⁶

204. Within the creative industries, as elsewhere, the provision of training needs to take account of changing economic demands. Higher level skills are increasingly important if Wales is to compete in the global marketplace, but courses must be relevant to the needs of business. We have found evidence to suggest that there is currently a mismatch between the courses on offer and those required for economic development. We urge governments to work together with training providers to ensure that funding is aligned with the sector’s priorities.

The role of higher education

205. Graduate level skills are a vital component of Wales’s success in the global economy, but universities can also make an economic contribution by building partnerships with business and providing access to global research networks. Amanda Wilkinson, Director, Higher Education Wales told us that:

...there have been huge developments recently in the creative industries, certainly in a number of universities, the work they do in Aberystwyth, the work we have recently started in Bangor, but very dramatically, of course, the work that is being done in south Wales with the new developments between Glamorgan and the Welsh College of Music and Drama and the setting up of the film and creative centre with the support of the Skills Sector. That is a huge development and sometimes I do not think we have attached sufficient significance to its importance, its economic importance, and the fact that it needs trained people, and of course it is a totally global industry. I think higher education has recently started to make real contributions to the creative industries.⁴¹⁷

206. Evidence from Skillset supported this view, claiming that “Outside of Manchester, Wales has the best infrastructure for students and graduates outside of London anywhere in the UK. This encourages students to remain in Wales and establish companies here”.⁴¹⁸ Skillset told us that they were in the second stage of developing Screen Academy Wales, focusing on internationalisation. This had involved working in partnership with Cyfle, and liaising closely with Creative Business Wales in order to ‘piggy back’ on their international trade delegations. At the time of giving evidence Skillset was looking to develop exchanges with China and developing another Skillset Academy Network to focus on New Media.⁴¹⁹

⁴¹⁶ Ev 635

⁴¹⁷ Q 623

⁴¹⁸ Q 2000

⁴¹⁹ Qq 1982-4

207. One way of exploiting the economic potential of universities is by means of a creative ‘hub’ model. Creative hubs enable higher education to lead the emergence of the knowledge economy by facilitating knowledge transfer for innovation and raising skill and productivity levels in the labour force. Evidence from Higher Education Wales explained how hubs had begun to operate in Wales:

Universities can help foster the knowledge economy by acting as ‘growth poles’ or ‘hubs’ around which high value creative industries cluster. These companies often recruit from the university graduate pool, commission research or consultancy services from the university and benefit from the general knowledge environment that a university can engender. Wales is currently developing some small hubs of which visual media and animation in South Wales is an example. Five higher education institutions in the area provide courses and research in the audio visual media field. Skillset Cymru, the Sector Skills Agency for Audio Visual Industries in Wales co-ordinates the training work of the industry. The higher education sector aims to foster further growth poles in Wales in the years ahead.”⁴²⁰

Partnerships with universities can also give business access global research networks. We were told that links were being developed between NEWI and the Tamil film industry in Chennai,⁴²¹ between Skillset Screen Academy Wales and film schools in Toronto and Beijing,⁴²² Canolfan Bedwyr and University of Colombo⁴²³ and Cardiff University with the China Communications University.⁴²⁴

208. In addition to hubs, our evidence suggests that the formation of individual partnerships between businesses and higher education institutions is also productive. Evidence submitted to us by Canolfan Bedwyr, Bangor University emphasised the value of Knowledge Transfer Partnership schemes.⁴²⁵ Bringing together an academic department, a company, and a particular graduate, the scheme aims to encourage the transfer of knowledge from education institutions to business in order that companies expand and develop their profitability. The Technology Strategy Board, a non-departmental public body sponsored and funded by the Department for Innovation, Universities and Skills to promote technology-enabled innovation across the UK, works with the Welsh Assembly Government to deliver the Knowledge Transfer Partnership scheme in Wales. Bryn Jones, Business Development Manager for Knowledge Transfer at Bangor University told us that greater joined-up thinking between the Welsh Assembly Government and UK Government in this area in recent times has been welcomed. He expressed concern, however, that UK-wide programmes are “very much one-size fits all” and that Welsh-based needs ought to be considered within programmes undertaken in Wales in the future.⁴²⁶

⁴²⁰ Ev 470

⁴²¹ Q 2093

⁴²² Ev 621

⁴²³ Ev 639

⁴²⁴ Ev 486

⁴²⁵ Q 2112

⁴²⁶ Q 2120

209. Universities have a vital part to play in ensuring that the Welsh economy can meet the challenges of globalisation. Increasingly, higher education institutions function as ‘hubs’ for the creative industries, facilitating knowledge transfer for innovation and raising skill and productivity levels. We welcome the global reach of Welsh universities and colleges. Collaboration of this kind provides opportunities to share expertise and good practice across geographic boundaries, which can in turn be applied for economic benefit.

Infrastructure

210. In the twenty-first century, the telecommunications infrastructure is fundamental to the economic success of the creative industries. To take full advantage of the global opportunities offered by the new media, Wales needs a robust and comprehensive network. In some areas of Wales, geography presents a particular challenge to achieving this objective. However, where it is made available, new technology allows economic development to be extended to remote areas, enabling people to make connections around the world.

The telecommunications network

211. Digital television, digital radio and broadband coverage all form part of the Welsh telecommunications network and are the basis not only for business activity, but also for the leisure and entertainment functions that provide a market for much of the output of the Welsh creative industries. Digital television allows for a wider range of channels and has the potential to provide better coverage than analogue, particularly for those living in mountainous or remote areas. Historically, take-up of digital TV in Wales has been higher than the UK average; however, large increases in 2007 mean that England and Scotland now have similar levels of take-up to Wales, with Northern Ireland at a slightly lower level. Less than 1% of the population reported that they did not have digital television because it was not available.⁴²⁷

212. Radio audiences in Wales averaged 24.4 hours of listening per week in 2007, higher than in any other UK nation.⁴²⁸ A number of our witnesses expressed concern at the arrangements in place for DAB broadcast of Radio Wales and Radio Cymru. Due to current legislative arrangements, the UK BBC multiplex (which delivers digital stations) does not carry services specifically for Wales and, as such, does not carry Radio Wales or Radio Cymru. Instead, these services are carried via two local commercial multiplexes which cover only South Wales, amounting to around 56% of the Welsh population.⁴²⁹ Although licences have been issued for a North East Wales and West Cheshire multiplex and a separate multiplex for the rest of North Wales, neither is currently in operation.⁴³⁰ Until this situation is resolved, the availability of Radio Cymru and Radio Wales is dependent on other platforms, such as digital television and online, and on commercial

⁴²⁷ *Ibid.*

⁴²⁸ Ofcom, *The Communications Market Report: Nations and Regions—Wales*, 22 May 2008. <http://www.ofcom.org.uk/research/cm/cmrnr08/wales/>

⁴²⁹ Ev 627

⁴³⁰ Ofcom, *The Communications Market Report: Nations and Regions—Wales*, 22 May 2008, pp 25–26.

operators, who only broadcast in parts of the country where it is economically viable to do so.⁴³¹ In its evidence, the BBC called for a change in legislation to resolve this situation.⁴³²

We urge DCMS and Ofcom to work together to ensure universal access to BBC Radio Wales and BBC Radio Cymru on DAB digital radio across Wales.

213. Although broadband is now available from all Welsh BT exchanges, Wales has the lowest broadband penetration of the UK nations.⁴³³ Take-up of broadband is highest in Cardiff (58%), Swansea (56%) and Newport (62%), compared to 42% in the rest of Wales. Take-up is lowest in smaller urban areas in the south (34%), whereas rural areas in Wales have higher take-up of broadband (51%) than in urban areas of Wales taken as a whole.⁴³⁴ There are ongoing problems with access in some rural areas, due to the distance from exchanges. For business, the speed of broadband connections is a crucial issue. The new generation of faster broadband is being rolled out across the UK, but there are concerns that rural areas will be amongst the last to benefit. Ofcom told us that it was working with the Welsh Assembly Government to address this problem, but commented that “it is quite likely that there will need to be some form of public intervention for the most remote kinds of areas to close that gap”.⁴³⁵

Universality of access

214. In evidence, Elin Haf Gruffydd Jones emphasised the importance of ensuring universality of access for the Welsh population to all media platforms. Reminding us that access to television across the country was one of the cornerstones of public service broadcasting, she argued:

...if we are looking at public service broadcasters using other forms of delivery, for example through broadband, through internet access, then it is very, very important that people who live outside urban conurbations are able to access these services on an equal footing...there are comparisons to be made with the situation that we had in the 1980s before the privatisation of BT, that there was a responsibility to provide a telephone line at the exact [same] cost regardless of where you lived...there should be a way of addressing that issue and using that principle of universality of access in the digital era.⁴³⁶

215. A comprehensive network is equally important for business. BT told us that “Modern communications infrastructure is a vital pre-requisite for economic success in the twenty-first century. Without this, it would be very difficult to compete with nations in other parts of the world in what is now, more than ever before, a global economy”.⁴³⁷ The Federation of Small Businesses agreed, but also thought that businesses needed to be more alert to the

⁴³¹ Ev 372 (BBC)

⁴³² Q 2072

⁴³³ In Wales, take-up is 42% compared to 57% in England and Scotland and in 52% in Northern Ireland.

⁴³⁴ Ofcom, *The Communications Market Report: Nations and Region—Wales*, 22 May 2008 <http://www.ofcom.org.uk/research/cm/cmnr08/wales/>

⁴³⁵ Q 2038

⁴³⁶ Q 1958

⁴³⁷ Ev 413

potential benefits of new technology, saying “Good progress has been made on rolling out broadband in Wales but businesses need to be better aware of the benefits of establishing even a basic online presence. FSB statistics show that under 20% of businesses sell online”.⁴³⁸

216. Broadband connections are increasingly important for both business and personal transactions. Today, a wide range of public as well as commercial services via the internet (for example, local government services such as payment of council tax). Whilst this is convenient for many, it means that the penalty of being left out of the information loop is also growing. Ofcom said, “Because those kinds of networks are still at the very early stages, I think it is hard to predict with certainty the nature of the services that will be provided and therefore the potential impact on citizens of the inability to access those services”.⁴³⁹ **For both economic and social reasons, no-one in Wales should be left out of the digital revolution. This is why we have launched a new inquiry into digital inclusion in Wales, scheduled to begin shortly. We welcome the recent publication of the UK Government’s Digital Action Plan by Rt Hon Paul Murphy MP, Secretary of State for Wales. We look forward to scrutinising this document and presenting our recommendations for further action.**

Business growth and innovation

The Creative Industries Strategy and Creative IP Fund

217. Support for business growth and innovation in the creative sector is provided by the Welsh Assembly Government’s Creative Industries Strategy, which “facilitates the creation, retention and exploitation of intellectual property, encourages new investment into Wales, and helps Welsh businesses to grow domestically and internationally”.⁴⁴⁰ International Business Wales told us that its creative industries team helped deliver benefits of over £30 million to the Welsh economy in 2006-07, through the attraction of inward investment, the development of companies already in Wales, and the provision of a location service.⁴⁴¹ At the time of giving evidence, the Creative IP (Intellectual Property) Fund had invested nearly £2.5m in seven projects, “as a result of which approximately £6.5m is projected to be spent within the creative industries in Wales”.⁴⁴²

218. Although most of our witnesses gave a positive response to the Creative Industries Strategy, some thought there was an over-concentration on film and television to the detriment of other industries.⁴⁴³ Evidence from Tinopolis commented that “The Welsh Assembly Government’s Creative Industries Strategy demonstrates a failure to think clearly about what [the creative] industries are and target those sectors where there is commercial merit and potential.”⁴⁴⁴ In oral evidence, its Executive Chairman added, “An element of

⁴³⁸ Ev 436

⁴³⁹ Q 2038 (Ofcom)

⁴⁴⁰ Ev 432

⁴⁴¹ Ev 588

⁴⁴² Ev 433 (Welsh Assembly Government)

⁴⁴³ Q 1985 (TAC)

⁴⁴⁴ Ev 632

realism is required when considering what young and immature companies ought to be persuaded to do—recognition is developing within the Welsh Assembly Government of what can work and what cannot”.⁴⁴⁵

219. Within the broadcasting industry, Ofcom told us that most independent production in Wales is funded either by S4C or the BBC. It thought that the Creative IP Fund was beneficial, but small in comparison, acting mainly as “a gap financier in financing commercial projects, some of which are produced for Wales, others produced for international audiences”.⁴⁴⁶ Other witnesses welcomed the initiative, which they considered would enable companies to look beyond producing content for the ‘usual suspects’ of BBC Wales, S4C or ITV Wales, although they cautioned that the project was still in its early stages and a better assessment of its success would be possible in five years’ time.⁴⁴⁷ Evidence from ITV Wales cited *The History of Mr Polly* as a successful early recipient of assistance from the Welsh IP fund. The programme was made in Cardiff for ITV Wales peak time programming, but went out to the wider ITV network.⁴⁴⁸

220. The Creative IP Fund functions by investing in a company in return for a share of the Intellectual Property (IP) generated by its project. It aims to recoup the value of the original investment and to allow creative businesses to retain more ownership of their IP, rather than having to give up their rights. We heard from witnesses that intellectual property was an important issue in independent programme sector, particularly following the 2003 Communications Act, which transferred ownership of rights from broadcasters to producers. Gwion Owain, Chief Executive of TAC, thought that the main opportunity offered by globalisation to independent producers in Wales was the opportunity to exploit the intellectual property rights in programmes and digital content. Both TAC and S4C argued that this has opened up new markets for independent producers to exploit their format rights, selling internationally to broadcasters.⁴⁴⁹ TAC commented:

The UK Government in terms of the regulation of content markets is to be commended as this development recognises the commercial value of content and allows producers the freedom to exploit rights in broadcast content. This regulatory development will be a significant driver of the economic growth of the content industries.⁴⁵⁰

221. TAC warned, however, that companies would need to be supported to make the most of their IP. It noted that that an ongoing concern amongst independent producers was the extent to which broadcasters and content distributors would start to demand ever-increasing bundles of rights.⁴⁵¹ Although the Welsh Assembly Government told us that its Creative Industries Strategy has helped some companies to retain their intellectual property, other witnesses said that a wider scheme was needed. The Federation of Small

⁴⁴⁵ Q 2108

⁴⁴⁶ Q 2042

⁴⁴⁷ Q 2042 (Ofcom); Ev 355 Q1985 (TAC); Q1989 (Skillset)

⁴⁴⁸ Q 1868

⁴⁴⁹ Q 1981

⁴⁵⁰ Ev 622

⁴⁵¹ Qq1990-91 (TAC); Ev 607 (S4C)

Businesses told us “There is no real scheme for SMEs to exploit their intellectual property...we really need to start looking at a Wales-wide scheme that is going to encourage innovation within SMEs, that is going to be incentive-based and is going to have some sort of finance attached to it”.⁴⁵² There was also concern that IP regulation should not unduly constrain publicly funded research. Evidence from Canolfan Bedwyr noted that:

...there are conflicting tensions between the desire for all research carried out by public money to be freely available and the needs of industry to be commercially viable...funding authorities should ensure that no undue restrictions are placed on the further commercial exploitation of pre-competitive resources developed by public money, provided that those resources are equally available to all.⁴⁵³

222. We support the Welsh Assembly Government’s Strategy for the Creative Industries and are pleased to have heard of some early success stories. We hope that the Welsh Assembly Government will continue to build on this initiative and ensure that its benefit is spread as widely as possible across the creative industries in Wales. Initiatives such as the Creative IP Fund are to be commended and would have an even greater impact if their work dovetailed into a wider framework across the UK as a whole. As intellectual property is not a devolved matter, the UK Government should work closely with the Welsh Assembly Government to ensure that the UK-wide regulation of intellectual property is fit for the demands of the modern, global economy, particularly in the field of the creative industries.

Small businesses and innovation

223. Our witnesses stressed the importance of innovation if Welsh companies are to take advantage of global opportunities.⁴⁵⁴ Mr Ron Jones of Tinopolis told us that the sector had to adapt its strategies to the needs of new markets:

...those companies and countries that are attuned to providing content for this new environment are likely to prosper. Some companies in Wales began to invest seriously in new media several years ago. Now we have a decent number at the sharp end of building new distribution channels, creating the content and building entirely new business models as a result. Even better, we have, for the first time, an element of the creative industries where location is not a barrier. Llanelli or London, Cardiff or Bangor, they can all prosper in this new environment.⁴⁵⁵

Mr Jones called for funding to be channelled towards innovative new companies rather than “second rate films that do not have distributors and therefore no chance of making money”.⁴⁵⁶

224. Small businesses are often the most highly innovative parts of the economy. They also account for the vast majority of the business stock in Wales. However, the prospect of

⁴⁵² Q 443 (FSB)

⁴⁵³ Ev 639

⁴⁵⁴ Ev 589

⁴⁵⁵ Ev 633

⁴⁵⁶ Q 2096

entering a global market may appear to be an overwhelming challenge for a smaller company. In evidence, the Federation of Small Businesses told us that many SMEs were aware that there are opportunities in overseas markets, but:

...it is very much the case of getting their house in order first before they can see outside the front door... There does appear to be a difficulty in embracing the whole idea of globalisation, which is of course to see your market in terms of the global market and the barriers are artificial barriers. For small businesses, very much their market is the local market. And really they want to look at how they are going to market the local schools, local councils or whatever their goods and services are that they supply. It is really trying to get this perception, if you like, redressed, so that the markets really do not just end at the end of your city boundary or your town boundary, if you like. It is more about changing perceptions as well as the practicalities of how do you deal with export agents, et cetera.⁴⁵⁷

225. Elin Haf Gruffydd Jones added that increasing consolidation within the independent production sector had been one response to globalisation.⁴⁵⁸ For example, S4C has recently changed its funding policy, inviting production companies to apply together for significant funding to cover development costs over a longer time period, rather than offering small amounts of money on a piecemeal basis. In 2005, three animation companies were awarded a total of £500,000 to provide a number of multi-platform animation projects, including short films and promotional material.⁴⁵⁹ S4C said that “Consolidation gives the sector economies of scale, enhanced market experience and a greater portfolio of work. This assists growth and we have seen Welsh independent production companies expand either organically or through merger or acquisition”.⁴⁶⁰

Creative Clusters

Our visit to Spain and the Basque Country allowed us to examine the operation of a ‘creative cluster’. EIKEN, the Basque Audiovisual Cluster, comprises 45 companies including producers of films and television programmes, as well as multi-platform and animation content, distributors, telecommunication operators, technology companies, regional, local and cable television stations, training providers and service companies which are co-located. The cluster functions as a unifying factor, giving the regional industry a recognisable identity and facilitating the co-operation needed for regional businesses to compete in an unpredictable market, at a time when competition has increased thanks to the new digital technologies. Its mission also includes improving competitiveness and providing a technology benchmark for the industry’s future development.

The Audiovisual Cluster is the latest in a series of twelve industry clusters established in the Basque Country which attract supported from the regional administration. The link with

⁴⁵⁷ Q 433

⁴⁵⁸ Q 1951

⁴⁵⁹ Ev 609

⁴⁶⁰ Ev 610

public policy allows clusters to help to fulfil economic priorities and develop an international presence.

Within Wales, there is some evidence that a cluster model could emerge. ITV Wales told us that the Welsh Media Park in Cardiff functions as a cluster for the creative industries. At the time we took evidence, there were 17 other media companies on the site, with an overall level of investment estimated at £14 million. ITV Wales said that, when operating at capacity, the centre would add £75 million per annum to the GDP of the area and create 2,000 jobs. It hoped that the media park would “create an atmosphere where people can make programmes not just for Wales but for other parts of the UK and maybe—hopefully—other parts of the world”.⁴⁶¹

226. Small businesses are perhaps the most innovative parts of the Welsh economy. However, their small size means that they need a greater degree of support if they are to access the new global markets. The models we have examined in the course of this inquiry suggest that companies are more likely to prosper when they come together as creative clusters, providing mutual support and expertise. The creation of a focus for the industry allows public funds to be targeted more effectively and assists companies in developing an international presence.

⁴⁶¹ Qq 1864-7; Ev 598

4 Population movement

227. The final section of our Report deals with population movement and its effects on Wales. Increasing population mobility is a feature of globalisation. As national economies become ever more integrated into the global market, new opportunities arise for people to move abroad, either to settle or to spend a section of their career working in another country. This is manifested not only in population movement into Wales, but also in the decisions of Welsh people to leave the country and work elsewhere. As globalisation continues and even accelerates, these flows are likely to continue, although the rate and nature of movement will vary over time. Wales must therefore prepare for an economic climate in which its workforce is viewed as a global resource.

The changing population of Wales

228. The size, profile and composition of Wales' population, in common with that of the rest of the UK, are constantly changing. Statistics published by the Welsh Assembly Government showed that the population of Wales increased from 2.89 million in 1997 to 2.97 million by 2006, and that it was projected to increase by 11% to 3.3 million by mid-2009.⁴⁶² In the year ending June 2006, cross border migration from England accounted for 96% of inward migration to Wales. The overall population profile is affected not only by birth and death rates and by inward and outward migration, but also by the movement of people within Wales⁴⁶³ and by the age distribution of the population.

229. Within Wales, there has been a demographic shift from rural to urban centres.⁴⁶⁴ Some witnesses were of the view that the flow of people into Welsh rural areas has in recent years largely consisted of commuters, who tend to use the facilities close to their area of work, rather than where they live,⁴⁶⁵ and that this has led to a decline in the viability of local facilities.⁴⁶⁶ An additional consideration is that a higher proportion of people over 60 live in authorities which are largely rural and coastal, as opposed to the more urbanised unitary authorities.⁴⁶⁷ All of these factors have a significant impact on the composition of the workforce and are also important in planning the delivery of public services.

230. During our evidence sessions in 2007, we asked Mr Bill Wells, then Economy and Labour Market Divisional Manager in the Department of Work and Pensions, how globalisation had affected the pattern of population movement in some parts of Wales such as Cardiff, Newport and Wrexham. He cited the opening up of borders, the ease and lower cost of travel, European Union expansion and the relative prosperity of the UK as key

⁴⁶² *Wales' population—a demographic overview, 2008*, Welsh Assembly Government, March 2008; Ev 565

⁴⁶³ Ev 500

⁴⁶⁴ Ev 501

⁴⁶⁵ Ev 479

⁴⁶⁶ Ev 562

⁴⁶⁷ Ev 561

factors.⁴⁶⁸ The then Wales Commissioner for Racial Equality, Reverend Aled Edwards, reminded us that Wales has had a long experience of migration:

...our population increased quite dramatically about 100 years ago, an immigration rate of 45 [immigrants] to 10,000 [inhabitants] which is quite exceptional to the extent that it is second only to America. Therefore, we have it in our own experience as a people, an experience of migration which is almost second to none, and a way of handling it and a sense of identity that is perhaps more pluralistic in its approach...There is a growing sense of Welshness that is based upon internationalism and diversity...we have redefined ourselves from generation to generation and current patterns of global change in migration lead us to yet another time of re-definition for us.⁴⁶⁹

However, he cautioned that “Wales cannot rest on a sense of welcoming that is more romantic than real” and explained the need to work towards social cohesion during periods of global change.⁴⁷⁰

231. In its written submission of May 2007, the Department of Work and Pensions advised us that the total number of individuals born overseas and living in Wales was around 120,000, compared to 2.8 million people living in Wales who were born in the UK (i.e. less than 4% of the population compared to 10.1% for the UK as a whole). As well as the longer term, established ethnic minority communities in Wales, more recent population movements have arisen as a result of the arrival of asylum seekers for example from Zimbabwe, Iraq and Somalia, and of short term migrant workers especially from European Union countries. The Committee did not take detailed evidence on issues relating to settled immigrant communities nor asylum seekers in Wales, but it is apparent to us that there is inadequate data available about these types of population changes throughout different parts of Wales.

232. After the enlargement of the European Union in 2004 and the accession of the A8 countries, Wales, in common with many other areas in the UK and Europe, saw an increase in economic migration. In its written submission of May 2007, the Department of Work and Pensions noted that the largest population of individuals born overseas and living in Wales was that from the EU 15 countries (36,000) and from A8 accession states (15,000).⁴⁷¹ However, it acknowledged that these estimates were not as accurate as it might wish.⁴⁷² We asked the Department for more data in order to better understand how the flow of migrant workers varied throughout different parts of Wales. It provided us with an additional memorandum giving figures by local authority district of Worker Registration Scheme participants and National Insurance Number registrations, as percentages of the working age population.⁴⁷³ These tables indicated that between April 2005 and March 2006, Newport, Wrexham, Carmarthenshire and Cardiff were the authorities in Wales

⁴⁶⁸ Q 845

⁴⁶⁹ Q 939

⁴⁷⁰ Ev 501

⁴⁷¹ Ev 488

⁴⁷² Q 849. See also Ev 503 (North Wales Police); Q 702 (Wrexham Community Cohesion Co-ordinator).

⁴⁷³ Ev 489

which had the highest relative proportions of A8 migrant workers.⁴⁷⁴ However, Mr Wells, Economy and Labour Market Divisional Manager, Department for Work and Pensions, told us that there were “a number of different sources” of data about the numbers of immigrants and migrant workers in Wales, but that the information available was not precise, and the Office of National Statistics was aiming to improve its migration statistics.⁴⁷⁵ Other witnesses agreed that the data quality was poor. Councillor Aled Roberts, Leader, Wrexham County Borough Council, described the figures for the number of economic migrants in Wrexham as “guesstimates”⁴⁷⁶ and North Wales Police stated that “no-one actually has a definitive figure” for the number of economic migrants.⁴⁷⁷

The integration of Filipino workers in Neath Port Talbot

Although migration from Eastern Europe has been particularly significant in recent years, these are by no means the only workers to come to Wales to find employment. A recent study was commissioned by the Chairman of the Committee on the recruitment, employment and integration of Filipino workers in Neath Port Talbot, who work mainly in healthcare, where there are skills shortages in the local labour pool. The workers were highly valued by their employers and generally reported a good level of job satisfaction, although there were some problems with the recognition of skills and experience gained in the Philippines. One area of concern was training, where there was confusion over the eligibility of migrants from outside the EU for publicly funded training courses. Despite relatively limited social integration with the local community, there were few reports of discrimination or racist abuse and workers said that the public attitude towards immigrants had improved markedly over the past decade.⁴⁷⁸

233. Different parts of Wales have at different times experienced large population movements, including for example the inward migration of Italian and Irish workers into the docks and mines of South Wales in particular and the movement of people from North Wales to the South Wales mining valleys and to docks areas, especially Cardiff. Such changes have been part of the history of Wales since the nineteenth century. These flows sometimes peaked for a short time, as was the case in Cardiff in particular during the late 1980s and early 1990s when there was a period of reunion of refugee families affected by the civil war in Somaliland.

234. The period during which we took evidence on population change and mobility coincided with a significant increase in the number of people entering Wales as migrant workers from the 2004 European Union accession countries (the ‘A8’). The evidence we received reflected this experience and this section of the Report therefore focuses on the way in which Wales responded to this recent phenomenon of globalisation. We recognise, however, that immigrant communities have had a presence in Wales for many generations and have made a huge economic and cultural contribution to the nation. The concerns of these settled Welsh communities deserve

⁴⁷⁴ Ev 490

⁴⁷⁵ Q 849

⁴⁷⁶ Q 702

⁴⁷⁷ Ev 503

⁴⁷⁸ *Filipino Workers in Neath Port Talbot*, published by the Bevan Foundation (www.bevanfoundation.org), January 2009.

separate consideration, but fall outside the scope of the evidence we took during this inquiry.

Migrant workers in Wales

235. In many cases migrant workers arrive with the intention of staying and working in the UK for a temporary period of time before returning to their home country, in contrast to other categories of immigrants who arrive with the intention of settling for the longer term. Mr Bill Wells, Economy and Labour Market Divisional Manager, Department of Work and Pensions, told us that most migrant workers tended to be between 25 and 34 years old, single, and in full time work. Dr Surhan Cam, School of Social Sciences, Cardiff University, said that over 40% of migrant workers in Wales were employed in public services such as health and community services. In the private sector in Wales, the largest areas of employment for migrant workers are manufacturing (24%) and hospitality (17%).⁴⁷⁹

236. The Welsh Local Government Association told us that migrant workers had settled in all local authorities in Wales, but that whilst in some cases this had been on a relatively small scale, other authorities had experienced profound demographic change.⁴⁸⁰ The main migrant communities in North Wales were identified as Wrexham, the Deeside industrial estate and surrounding areas, North Flintshire, Llandudno, Bangor, and factories in Llangefni and Gaerwen⁴⁸¹ and in South Wales, Cardiff and Newport.⁴⁸² In 2007, the then UK Skills Envoy, Sir Digby Jones told us that competition for migrant workers was likely to intensify as their countries of origin became richer with more employment opportunities and therefore less incentive for them to travel abroad for work.⁴⁸³ The effect of other countries opening their borders would similarly increase competition for migrant workers.⁴⁸⁴

Labour and skills shortages

237. The evidence we received during 2007 included examples of the demand for migrant worker labour in some employment sectors and in some areas of Wales, because employers were unable to fill all their vacancies from the local workforce. Mr Padraig McCarthy, Head of Strategic Development at Dawn Pac, a retail packing business with operations in Crosshands, Carmarthenshire, told us that the local labour force was one of the primary reasons why his company had originally located in Wales in 1992.⁴⁸⁵ However, the profile of the company's workforce had changed in recent years, with the company's existing, skilled workforce being augmented by migrant labour "due to the lack of an available workforce locally".⁴⁸⁶ Mr Adam Jackson, Public Policy Director, Tesco stated that 81 of its

⁴⁷⁹ Ev 511

⁴⁸⁰ Ev 593

⁴⁸¹ Ev 502

⁴⁸² Q 1233

⁴⁸³ Qs 776-778

⁴⁸⁴ Q 777

⁴⁸⁵ Qq 1086, 1088 and 1090. The other reasons given were the location, the sea transport link from Rosslare to Fishguard, and grant aid. Dawn Pac is now known as Dawn Group Crosshands.

⁴⁸⁶ Q 1089

17,000 employees in Wales were migrant workers (all of them from Poland), but that employees from Poland were only recruited after the jobs had first been advertised locally via the Job Centre Plus, the local press and radio, and in-store.⁴⁸⁷ The Admiral Group, a company selling car insurance and related products, with over 2,000 staff in Cardiff and Swansea described “the lack of staff in South Wales, not costs” as the key factor affecting its future growth.⁴⁸⁸

238. Wales Tourism Alliance told us that tourism and hospitality industry suffered from a generally poor image in Wales, which deterred local people from seeking employment within the sector.⁴⁸⁹ It cited a report by the Tourism Training Forum for Wales, which found that overseas workers sought employment in tourism in Wales because of both the availability of jobs and the shortage of local labour in the sector.⁴⁹⁰ The Wales Tourism Alliance recognised the need to improve education and raise skills of local labour, stating that “the in-migrant labour now used in tourism establishments in many parts of Wales is only a short-term, interim solution to a pressing employment need and does not offer any longer-term answers to the industry’s recruitment needs”.⁴⁹¹

239. Wales TUC and the TGWU (now part of Unite) told us that the highest demand for migrant workers was to fill unskilled jobs, for which there was a shortfall in local supply,⁴⁹² but other witnesses said that migrant workers were also increasingly required to fill specific skills gaps. Mr Mark Spragg, Business Development Manager of CSA Service Group, a business providing labour force and security services, told the Committee that his company had its own recruitment division in Warsaw which was used to recruit Polish workers when vacancies in Wales could not be filled by local labour.⁴⁹³ In its written evidence, the Group noted that, “it is clear that a number of client companies are unable to find enough local candidates in possession of the right skills and competence”. In oral evidence, Mr Spragg added:

We are noticing that the make-up of the candidates that we are obtaining from Poland is subtly changing. Perhaps in the early stages it was very much at the lower end of the unskilled element of labour, but we are now noticing a higher proportion of technically adept and certainly linguistically adept people coming forward.⁴⁹⁴

240. We heard from witnesses of other cases where employers had used migrant workers to fill skills gaps. The Dawn Meats Group, based in Carmarthenshire, identified a lack of suitably qualified local staff as one of the key issues facing the UK processing sector, saying that “the skills levels of migrant workers tends to be good. They tend to have higher levels of basic education”.⁴⁹⁵ Catherine Speight, Regional Secretary of Amicus (now a part of

⁴⁸⁷ Q 1417

⁴⁸⁸ Ev 416

⁴⁸⁹ Ev 438

⁴⁹⁰ Ev 439

⁴⁹¹ Ev 440

⁴⁹² Ev 473, TGWU is now part of Unite.

⁴⁹³ Q 1095

⁴⁹⁴ Q 1205

⁴⁹⁵ Ev 515 and Q 1116

Unite), told the Committee that “Skills shortages in construction are definitely attracting migrant labour”.⁴⁹⁶ Ann Lloyd, Director of Health and Social Services in the Welsh Assembly Government, stated that Wales’s health service had always relied on migrant workers:

We have always been an inward recruiter, largely because we could not manage to fill all the posts that we needed for an expanding health service ... from within our own resources. Therefore, we have always looked to the Indian subcontinent and other areas to provide us with the necessary medical staff.⁴⁹⁷

Issues for migrant workers

Impact on country of origin

241. The economic contribution and skills of migrant workers benefit the Welsh economy, but this can come at a cost for their country of origin. This problem is particularly pronounced where migrant workers (and other immigrants) are recruited for specialist skills, which may be of equal or greater social value in their home country. Evidence from the Welsh Assembly Government recognised this impact and recommended that:

There should be much greater action to reduce the impact of the loss of health workers in poor countries, including better recruitment policies in the UK but more health system strengthening in affected countries to reduce the need for health workers to migrate. [...] The UK code of conduct on the recruitment of healthcare staff from developing countries seeks to stem the flow of staff from these countries to the UK but has proved difficult to operate in practice.⁴⁹⁸

242. Mrs Ann Lloyd, the then Director of Health and Social Services in the Welsh Assembly Government explained to us in 2007 that the Welsh Assembly Government was supporting healthcare partnerships with developing countries, and had chosen to focus on Africa, through its *Framework for Welsh Assembly Action on International Sustainable Development*.⁴⁹⁹ Gwent Healthcare Trust and Cardiff University had links with hospitals and the medical school in Southern Ethiopia; Pontypridd Overseas Network Trust, with Mbale, Uganda in a primary care-based partnership; Swansea University with Gambia, based on sharing education and e-learning; and Dolen Cymru, had strong education and healthcare links with Lesotho.⁵⁰⁰

243. We recognise the great economic benefit that migrant workers can bring to Wales, but are concerned that this should not have a disproportionate effect on the economic stability of migrant workers’ home countries. We commend the work of the Welsh Assembly Government in building healthcare partnerships with developing countries to reduce the impact of the loss of health workers from these countries.

⁴⁹⁶ Q 229

⁴⁹⁷ Q 504

⁴⁹⁸ Ev 445-46

⁴⁹⁹ Ev 447

⁵⁰⁰ Ev 447- 450

Recognition of qualifications

244. We heard that in some cases, skilled migrant workers had experienced difficulties because their qualifications were not recognised in the UK. The Minister for Employment and Welfare Reform advised us that around 32% of immigrants reported their qualifications as ‘other’, possibly because it was difficult for them to equate to a UK standard of qualification.⁵⁰¹ The Polish-Welsh Mutual Association proposed that there should be a more comprehensive way of translating the qualifications of migrant workers and helping them fill posts for which they were qualified.⁵⁰²

245. Our evidence has demonstrated that migrant workers have experienced difficulties in gaining recognition for overseas qualifications. In a global market with an increasingly mobile workforce, people who trained abroad must be enabled to make full use of their skills to benefit the Welsh economy. We recommend that the Sector Skills Councils work with the relevant government departments to ensure the appropriate recognition of overseas qualifications or their translation into Wales or UK equivalents. It is important that an objective verification is applied to ensure that overseas qualifications and experience translate into the quality of service expected in the UK and that there is an English language test to ensure that the skills can be properly applied.

Language skills

246. Some witnesses identified lack of English language skills and an inadequate provision of language classes as major barriers for migrant workers. The Welsh Local Government Association conducted a survey in 2007 amongst Wales’ 22 local authorities and concluded that a lack of English language skills amongst migrant workers and inadequate ESOL (English for speakers of other languages) provision were critical issues for public service providers.⁵⁰³ It added that demand for ESOL classes far outweighed provision in many areas of Wales.⁵⁰⁴ The Polish-Welsh Mutual Association described language as “the biggest barrier of all, which drives migrants to form their own ghettos, leads to exploitation ... [and] makes integration and cohesion all the more difficult”.⁵⁰⁵ The Association added that local authority ESOL classes were not always meeting workers’ needs, and that it was trying to encourage the development of more flexible ‘survival English’ courses.⁵⁰⁶

247. The bilingual context of Wales raises its own issues. Age Concern Cymru told us that vulnerable people, such as older people in care homes, often reverted to their mother tongue rather than using their second language and that 23% of older people in Wales have Welsh as their first language.⁵⁰⁷ The Wales Commissioner for Racial Equality commented that:

⁵⁰¹ Q 1237 (Rt Hon Caroline Flint MP, July 2007).

⁵⁰² Q 1504

⁵⁰³ Ev 595

⁵⁰⁴ Ev 595

⁵⁰⁵ Ev 551

⁵⁰⁶ Ev 555

⁵⁰⁷ Q 1594

...the growing emphasis on the acquiring and the use of English...becomes highly problematic in a bilingual setting when it is used as a measuring stick for integration and identity. The emphasis on one language as a means of identity rather than as an essential means of communication does not rest well with Wales' bilingualism or...with the growing modern global experience of multilingualism.⁵⁰⁸

248. Language skills are a vital element of training for migrant workers. The ability to speak the local languages with a degree of fluency is vital not only for employment reasons, but also to improve social cohesion. Many migrants entering Wales may have some familiarity with the English language, but our evidence suggested that it was often inadequate, and few have knowledge of Welsh. This may be a considerable disadvantage, particularly in rural areas or in industries such as care and nursing. There is a need to improve the provision of English and Welsh language tuition at specific times and in specific geographical regions in order to respond to peaks of inward migration such as that caused by migrant workers during 2007. Local authorities do not always have the resources to meet these specific additional demands and we recommend that the Welsh Assembly Government considers providing assistance in such circumstances via short term targeted additional funding.

Exploitation

249. Mr Paul Whitehouse, Chairman of the Gangmasters Licensing Authority told us that local authorities and others did sometimes have to support migrant workers who had been subject to exploitation or trafficking as a means of entering the country.⁵⁰⁹ Following concerns about the maltreatment of migrant workers in the food industry, which relies heavily on migrant labour, the use of migrant labour is now regulated by the Gangmasters Licensing Authority, a non-departmental public body set up in April 2005.⁵¹⁰ At the time we took evidence in 2007, there were 12 licensed gangmasters in Wales in the agriculture or food processing industry.⁵¹¹

250. The Gangmasters Licensing Authority works with and exchanges information with government departments, the police and local authorities as well as with other organisations such trade unions, local community groups and Citizens Advice.⁵¹² The Wales TUC and the TGWU (now a part of Unite) acknowledged the role of the Gangmasters Licensing Authority in enforcing standards in the agencies supplying labour to the sector, which they welcomed as a “positive force”,⁵¹³ but identified a number of persistent problems that blighted the sector. These included ‘hot bedding’ (when a number of people working on different shifts share a room and beds); deductions from wages for accommodation and travel; lack of employment contracts; no information on working hours; ‘zero hours’ contracts; intimidation and threats; health and safety issues; high agency charges and misleading information; and abuse of the Workers’ Registration

⁵⁰⁸ Ev 499

⁵⁰⁹ Q 1271

⁵¹⁰ Ev 519

⁵¹¹ Ev 521 (Gangmasters Licensing Authority); Q 838

⁵¹² Q 129

⁵¹³ Ev 473; Qq 657-658

Scheme by some agencies.⁵¹⁴ They argued that many of these issues affected all agency workers, not just migrant workers,⁵¹⁵ and claimed that “The Gangmasters Licensing Authority was supposed to include reasonable accommodation standards but this is not being enforced”.⁵¹⁶

251. The Chairman of the Gangmasters Licensing Authority, Mr Paul Whitehouse, told us that labour providers in multiple industries were able to switch workers over to a sector outside the Authority’s remit in order to avoid detection. He also pointed out that the Authority had only 9 compliance inspectors to cover the whole of the UK, from a total complement of 45 staff.⁵¹⁷ Although he felt that the Authority was “punching above its weight” at the present time, the current level of staffing was insufficient and “if we had more, we could have more of an impact”.⁵¹⁸ Citizens Advice Cymru added that it had been lobbying for a Fair Employment Commission as a mechanism by which an infringement of employment rights in all sectors could be redressed, and which could give advice and representation on such issues.⁵¹⁹ This proposal was supported by a recent report by the Welsh Assembly Equality of Opportunity Committee, which found that a lack of knowledge of their rights and poor English could leave migrant workers open to exploitation. It also called for the Welsh Assembly Government to support all local authorities in Wales to develop “welcome packs” for migrants, linked to a central multi-lingual website.⁵²⁰

252. No migrant workers should experience exploitation, no matter the industry in which they are employed. At present, our evidence suggests that the resources devoted to preventing and addressing exploitation are insufficient. The Gangmasters Licensing Authority has only a limited remit and is poorly resourced, whilst local authorities are already struggling with other priorities. We recommend that the remit of the Gangmasters Licensing Authority is extended to include additional industries and that it is provided with appropriate additional resources for this larger remit.

Impact on the existing workforce

Employment levels

253. The vast majority of those who came to Wales from A8 countries after 2004 found employment. Mr Bill Wells, the Economy and Labour Market Divisional Manager at the Department of Work and Pensions, told us that virtually none of the UK’s A8 migrant worker population claimed welfare benefits.⁵²¹ Mr Jeremy Oppenheim, Director for

⁵¹⁴ Ev 473. Following EU enlargement in 2004, the UK Government put in place transitional measures to regulate A8 nationals access to the labour market (via the Workers’ Registration Scheme) and to restrict access to benefits (UK Border and Immigration Agency, Ev 497).

⁵¹⁵ Q 689

⁵¹⁶ Q 658

⁵¹⁷ Qq 1342 and 1369

⁵¹⁸ Qq 1306-1310

⁵¹⁹ Q 1351

⁵²⁰ *Issues affecting migrant workers in Wales, their families and the communities in which they live and work*, Equality of Opportunity Committee, National Assembly for Wales, November 2008, p.9.

⁵²¹ Q 855

Stakeholders and Regionalisation at the Border and Immigration Agency, said that the Workers' Registration Scheme had had an impact on restricting people's access to benefits such as Jobseeker's Allowance, Income Support, and Pension Credit.⁵²² In fact, the Deputy Director of Shelter Cymru, Mr Owen Burt, said that difficulties were caused by the inability of many migrant workers to access the benefits system on arrival in Wales (for example, the requirement to be registered for work/undertaking registered work for a 12-month period before being able to qualify for assistance with housing).⁵²³ The Polish-Welsh Mutual Association agreed that "Situations are continuously arising where migrant workers find themselves needing emergency assistance and have no recourse to public funds. In those circumstances the only options are charities, churches and voluntary organisations".⁵²⁴

254. We found no evidence to suggest that the phenomenon of economic migration from A8 countries had an adverse effect on levels of employment amongst the existing population in Wales. The Welsh Local Government Association told us "there is some suggestion...that migrant workers were stealing the jobs of local people, but when actually we look at the evidence of that, that is...not proving to be the case. The job vacancies at the Jobcentre are still the same".⁵²⁵ Evidence from the Department of Work and Pensions agreed that "there has been no discernible effect of A8 migration on claimant unemployment or the employment outcomes of non-migrants in the UK. The primary impact appears to have been to increase total employment".⁵²⁶ This was also the view of Admiral Group plc, which told us "The influx of Eastern European labour does not appear to us to have displaced work in Wales, rather they have filled the jobs that the local workforce is not keen on and they contribute to the overall economic good".⁵²⁷ The Minister for Employment and Welfare Reform agreed that economic migration has raised total employment levels in recent years.⁵²⁸ She added that "The number of vacancies per head of population [in Wales] is actually far higher than across Great Britain, so that suggests that jobs are out there, there is not a shortage of jobs".⁵²⁹

Wages

255. Some witnesses claimed that migrant workers were willing to accept a lower wage than the existing population of Wales. The Wales Commissioner for Racial Equality stated in his written submission of June 2007 that there was "a strong perception" amongst young Welsh workers, particularly those in the south Wales valleys and in Wrexham, that recent immigration had lowered wages and made some jobs more difficult to acquire".⁵³⁰ The Chairman of the Gangmasters Licensing Authority told us that "very few" migrant workers

⁵²² Q 826

⁵²³ Q 1668

⁵²⁴ Ev 555

⁵²⁵ Q 1737

⁵²⁶ Ev 488; see also Ev 517 and Qq 1232, 1265.

⁵²⁷ Ev 416

⁵²⁸ Q 1232

⁵²⁹ Q 1254

⁵³⁰ Ev 501

provided by gangmasters were paid more than the minimum wage, or where applicable the agricultural minimum wage.⁵³¹ Mr Chris Myant, Director of the Wales Commission for Racial Equality, told us that “there is a tendency at the lower end of the job market for wage rates to possibly settle on the minimum wage” and explained that the Commission had a role to play in ensuring that migration did not lead to the deliberate lowering of terms and conditions of existing staff.⁵³²

Impact on public services

256. Any increasing population, such as that described to us in 2007 relating to migrant workers, potentially places additional local demands on public services. Many of our witnesses said that local services could be better-tailored to the needs of communities if local authorities were provided with improved data. The Welsh Local Government Association (WLGA) told us in 2007 that inadequate data had hampered their ability to respond to the increased number of migrant workers living in Wales:

The lack of accurate figures and profiles of the migrant worker population severely inhibit measures that local authorities need to develop to respond to the diverse needs of new economic migrant workers...In addition, little is known about the intentions of migrant workers; if they will stay in Wales for a short period of time, or settle in Wales indefinitely.⁵³³

Migrant workers and public services in Wrexham

As part of our inquiry, we visited Wrexham to learn more about the way in which local services have responded to the arrival of significant numbers of migrant workers. Wrexham and its surrounding areas have one of the highest concentrations of migrant workers in Wales. We held a formal oral evidence session with representatives of the local authority and voluntary and community groups and were able to meet informally with others during the day. During our time in Wrexham, we discussed the specific needs of migrants coming to the area as well as the impact of their arrival on the existing local population. The evidence we received greatly informed the recommendations of this section of our Report.

The increase in migration to Wrexham has presented challenges for the local authorities through a simple increase in demand for services. We were told that housing was one of the sectors that had come under most severe pressure. Not only was there more competition for low cost housing, there had been a significant growth in HMO properties (houses in multiple accommodation) to accommodate migrant workers, which placed additional strain on associated services such as rubbish disposal and recycling. Work had also been required in the provision of education and translation of documents and services into other languages. The burden this imposed risked jeopardising the quality of services provided not only to the new, incoming workers, but also to the existing population of the area.

⁵³¹ Q 1301

⁵³² Q 963

⁵³³ Ev 593. See also Ev 513 from the Welsh Consumer Council.

We were told of the Council's efforts to combat the myths surrounding economic migration, including unfounded accusations that migrant workers were 'jumping the queue' for housing, or that they were more likely to be involved in crime. These misperceptions endanger community cohesion and mask the significant economic contribution to Wales made by economic migrants, without whom many local firms would have difficulties in carrying out their business.

257. Housing and translation were described to us as specific areas where local services had struggled to meet the needs of a growing population. Shelter Cymru and the Wales Local Government Association both told us that there was a misconception that a high proportion of social housing went to migrant workers and that this was not the case in practice.⁵³⁴ ⁵³⁵ However, Shelter Cymru explained that the housing needs of migrant workers did affect the availability of private rented accommodation:

Employment agencies for migrant workers can block book private sector accommodation, paying above current rates, and then placing 8-10 workers in three bedroom properties, with each paying rent. This pushes up local rent levels and can put it out of the reach of other tenants. Increased pressure on the private rented sector also affects the supply available to local authorities for temporary accommodation and leasing schemes to help meet their obligations under the homelessness legislation.⁵³⁶

258. Shelter Cymru also told us that migrant workers frequently experienced problems with "appalling conditions" and unsuitable accommodation.⁵³⁷ In many cases, tenants were reluctant to complain, due to the fear of losing their home and possibly their job as well.⁵³⁸ Mrs Chris O'Meara, the Chair of Community Housing Cymru, proposed that local authorities (specifically, the Welsh Local Government Association) should be given a strategic housing role to identify the extent of housing need, to anticipate how this was likely to develop in the future, and to work with housing associations as strategic partners.⁵³⁹ Shelter Cymru called for greater government investment in affordable housing⁵⁴⁰ and also recommended that "larger employers of migrant workers should be taking a greater responsibility for ensuring appropriate and suitable housing is provided, rather than leaving it to the public sector to resolve".⁵⁴¹

259. The housing demand associated with an increase in economic migration after the accession of the A8 states to the European Union compounded an existing shortage of affordable housing in Wales. Local authorities must take a central role in strategic planning for housing and they must receive appropriate support from central government to respond to short term additional demands for housing.

⁵³⁴ Ev 581

⁵³⁵ Ev 594; Q 1737

⁵³⁶ Ev 580

⁵³⁷ Ev 580

⁵³⁸ Ev 578

⁵³⁹ Qq 1370-1371

⁵⁴⁰ Ev 583

⁵⁴¹ Ev 582

260. In response to a more diverse population, local authorities are increasingly providing services and documentation in translation; however, there are issues of capacity. The Welsh Local Government Association told us that there was a significant shortage of translators to meet the specialist language needs of migrant worker children in schools in Conwy and Flintshire.⁵⁴² The Polish-Welsh Mutual Association drew our attention to a leaflet in Polish which it had produced, in collaboration with the Carmarthenshire Association of Voluntary Services, explaining every service provided by the NHS, together with telephone numbers and information on where to go to for help.⁵⁴³ This was originally prompted by the problems that migrant workers were having in accessing dentistry and maternity services in Llanelli.⁵⁴⁴

261. Increased population mobility is a feature of globalisation. This means that levels of migration into Wales from other countries will continue to vary. We have found no evidence to suggest that the arrival of migrant workers has posed a threat to local services. In fact, migration overall represents a sizeable economic boost for Wales. However, migrant workers do have particular needs which must be supported, including the provision of information about services and employment rights and the translation of documents and services into languages other than Welsh and English. Equally, in areas which have experienced high levels of inward migration in a short period, the increased demand for services can be challenging for local authorities to meet. We consider that there is a pressing need for improved methods of data collection concerning the numbers of migrants in particular areas and their likely period of residence in order to inform decision-making and planning for additional pressure on local services. Greater sharing of information between employers, agencies and public service providers is also required. This will be of continued importance in future years as the ongoing integration of national economies into the global market encourages even greater population mobility. Leaving local services with inadequate funding to cope with demand leads to a poorer service for local communities and can also negatively affect community cohesion.

Social cohesion

262. Our witnesses were overwhelmingly positive regarding the overall economic contribution of migrant workers to Wales. TUC Wales said that studies showed that “migrant workers pay more in taxes than the value of public services they receive”.⁵⁴⁵ Andrew Davies AM, then Minister for Enterprise, Innovation and Networks, Welsh Assembly Government, stated that “Many businesses see the access to migrant workers as a very important factor in their continued growth and remaining competitive. Access to highly skilled and highly committed workers is vital for them”.⁵⁴⁶ Mr Chris Myant, Director of the Wales Commission for Racial Equality, told us that “A number of businesses have been very clear to us that if it was not for their ability to draw on this pool

⁵⁴² Ev 593

⁵⁴³ Q 1514

⁵⁴⁴ Q 1513

⁵⁴⁵ Ev 397

⁵⁴⁶ Q 396 (giving evidence in March 2007)

of migrant labour, they would not be able to sustain their businesses in Wales.”⁵⁴⁷ CBI Wales concluded that “the employer experience of migrant workforces is almost entirely positive”.⁵⁴⁸

263. The then Wales Commissioner for Racial Equality, Reverend Aled Edwards stated that Wales’ particular approach to handling cultural diversity was characterised “by frequently reinventing itself and adapting to new realities”:

Increasingly, uniformity cannot be enforced by a single language, common ethnicity, shared faith or sovereign statehood with concrete borders. Wales, unlike larger nations, has always had to turn to more creative emblems of national identity: specifically, around how different peoples recognise each other and get on with each other within communities.

264. In oral evidence to us, the Leader and the Community Cohesion Co-ordinator of Wrexham County Borough Council mentioned some specific projects the Council had undertaken in order to foster social cohesion. These included a public information programme, the production of ‘myth-buster’ leaflets and the ‘One Wrexham’ Charter.⁵⁴⁹ The Council had produced an information booklet for migrant workers in six languages (including English and Welsh),⁵⁵⁰ giving information on how to access police support, refuse collection, health and unemployment issues, higher education, and where to go to for advice. It was also developing a community cohesion strategy involving the police, fire service and health trusts.⁵⁵¹

265. TUC Cymru and the TGWU (now a part of Unite) told us that the requirement to work long hours could make it difficult for migrant workers to meet local people. They often worked long shifts and were moved from their workplace to their house by their employers. Whilst many migrant workers might choose to work long hours in order to maximise their income and return home as soon as possible, this nevertheless restricted opportunities for them to mix with the community.⁵⁵² We put it to representatives of employment agencies that they could play a greater role in social cohesion and the integration of migrant workers into the local communities. Mr Mark Spragg, Business Development Manager of CSA Service Group, agreed that agencies such as his could play a major role. He told the Committee, “As an ethical employer, especially where we have people who we have brought into a new culture, we see it as part of our role to educate them in the ways of that particular culture”.⁵⁵³

266. Not all employers, however, recognised their social responsibilities. When asked what policies Dawn Pac pursued in order to improve the level of social cohesion between the

⁵⁴⁷ Q 968

⁵⁴⁸ Ev 396

⁵⁴⁹ Q 713

⁵⁵⁰ The other languages are Polish, Portugese, Czech and Slovak (Q 715).

⁵⁵¹ Q 713-16

⁵⁵² Q 668

⁵⁵³ Q 1157

migrant workers it employed and the indigenous community its Head of Strategic Development, Mr Padraig McCarthy, told us:

In terms of policy as such, I do not believe there is a written policy that applies in terms of social cohesion...Our primary function...is that we are an economic organisation. We will encourage integration as actively and as best we can and we engage with the local authorities in term of the local council and local employment agencies. It would be through those channels that we would tend to interact with the community.⁵⁵⁴

267. The recent report on *Issues Affecting Migrant Workers* from the Equality of Opportunity Committee of the National Assembly for Wales has called for an employers' code of practice focusing on reduction of exploitative practices.⁵⁵⁵ We consider that any such code could usefully include a commitment by employers and employment agencies to encourage social cohesion and help workers integrate into the local community.

Attracting and retaining skilled labour

268. Globalisation has stimulated a flow of skilled and talented workers to Wales, from a variety of other countries. But the increase in labour mobility that has been brought about by globalisation also means that, in future years, it is possible that more Welsh people may choose to go abroad to work. In written evidence, the former North East Wales Institute of Higher Education (NEWI) noted:

India and China in particular alongside other developing economies are seeing enormous growth and are also investing heavily in education and training. This, coupled with their low cost base means that we cannot expect to hold on to all the higher level skills roles in this country that we might have anticipated. This is a problem for the UK and the Western European economies as a whole, not just Wales.⁵⁵⁶

269. It is unrealistic to expect all graduates trained in Wales to remain within the country for the whole of their careers. Indeed, it is advantageous for individuals to travel and gain skills and experience elsewhere, before returning to Wales to put their expertise to use. However, Professor Robert Rowthorn, Emeritus Professor, University of Cambridge, noted in evidence to us, "there are economic benefits to be had from keeping the most skilled and talented Welsh people at home and encouraging the return of those who have left".⁵⁵⁷ When asked how, in the era of globalisation Wales can ensure that it attracts and retains the most skilled and talented people, Professor Rowthorn said "That is the number one question...it is a difficult thing to encourage people to stay. Good universities are obviously very attractive".⁵⁵⁸ NEWI emphasised the importance of encouraging Welsh graduates to

⁵⁵⁴ Qq 1191 and 1194

⁵⁵⁵ *Issues affecting migrant workers in Wales, their families and the communities in which they live and work*, Equality of Opportunity Committee, National Assembly for Wales, November 2008, p.9.

⁵⁵⁶ Ev 634

⁵⁵⁷ Ev 507

⁵⁵⁸ Qq 1026-1027

pursue their careers in Wales, for which better networks, opportunities and support structures needed to be developed.⁵⁵⁹ In its evidence, the Welsh Local Government Association observed that:

Wales' unique status as a small developed nation has enabled it to begin to develop a unique approach that is crucial to addressing the new and emerging issues relating to A8 economic migration. In some areas of Wales good practice has flourished in short periods of time and with limited funding and expertise. However, the situation is fluid and must be effectively monitored and measured to ensure that local authorities and other public services in Wales can develop evidence-based policy and respond appropriately as local circumstances require.⁵⁶⁰

270. In recent years, Wales has benefited from an inward flow of migrants, many of them highly skilled. It has also made efforts to raise skill levels within the existing population, as discussed in the first section of this Report. In order to ensure that the Welsh economy exploits these resources to the full, the UK Government, the Welsh Assembly Government and local government in Wales will need to co-ordinate their activities more closely, enabling sound strategic planning for local services in response to varying levels of inward and outward migration, and providing a ladder of opportunity for incoming migrants, as well as the existing population, to raise their skills and contribute to the country's prosperity.

⁵⁵⁹ Ev 634

⁵⁶⁰ Ev 594

5 Conclusion

271. In the twenty-first century, the economy of Wales cannot be considered in isolation, but must be seen in the context of global opportunities and threats. Today, national economies are no longer independent entities operating separately, but are interdependent. Much of the evidence we took in the course of this inquiry was informed by the particular economic circumstances in Wales at the time. In 2007, witnesses reported rising house prices and an in-flow of migrant workers to Wales. Since that time, the challenges of globalisation have become apparent in the global economic downturn. As economies have become more interlinked, so economic problems can spread more easily from one country to another.

272. Today, more than ever, it is important for Wales to maximise the economic return that can be derived from global trade. As companies cut costs to remain viable in a worsening economic climate, Wales will need to make the most of its local strengths and the skills of its workforce in order to remain a desirable location in which to do business. This Report puts forward the fundamental elements necessary for a successful global economic strategy. We hope that our conclusions and recommendations will prove particularly valuable in the current climate.

273. In Wales, globalisation has often been viewed as a wholly negative phenomenon, endangering jobs and triggering the decline in the industries which have traditionally sustained the Welsh economy, such as coal mining and heavy manufacturing. It is certain that, for Wales, globalisation means change and a transition to new forms of economic activity. It is no longer feasible to build an economy based on the production of mass market commodities which can be carried out more cheaply elsewhere. Instead, Welsh companies must move up the value chain, making use of higher level and specialist skills to offer premium goods and services which cannot be sourced abroad. This process is challenging and governments in both London and Cardiff have a responsibility to ensure the Welsh population is as prepared as it can be for the demands of the global marketplace. In the longer term, the rise in global trade holds out the prospect of increased prosperity as the economy recovers and markets expand. For those countries able to negotiate the transition successfully, the result should ultimately be a rise in standards of living.

274. To make the most of globalisation, Wales must exploit its strong local identity and values. Our inquiry has convinced us that adaptation to globalisation should not involve adopting a 'neutral' brand identity. On the contrary, it is the power of localism that will provide a foundation from which to approach the world. Wales has many strengths on which it can build, including expertise in high technology sectors, food and drink, hospitality, tourism, broadcasting and the creative industries. Wales has already moved a long way from its industrial roots in coal mining and textiles. Today, small businesses make up the vast majority of the business stock. These are often at the forefront of innovation, but place great value on their local origins and character. This is a powerful combination of assets, which can be harnessed to the benefit of the Welsh economy. Small businesses may find the prospect of entering the global marketplace

daunting, but with the right support and by joining forces and working collaboratively, the sector has the potential to add significantly to Wales's prosperity.

275. Globalisation poses economic risks, but there are a number of critical areas in which action can be taken with the aim of minimising the effects of the global economic downturn. Chief among these is the skills levels of the population. Our inquiry convinced us that the most important way in which Wales can address the challenges of globalisation is by improving the skills of the population at every level. Skills will be crucial to Wales's ability to weather the economic downturn as well as to prospects for long term growth. More work needs to be done to ensure that the Welsh population has the basic numeracy, literacy and interpersonal skills to compete with countries around the world. These will also form a basis for lifelong learning, which is likely to become ever more important as the pace of globalisation increases and economic demands shift more rapidly.

276. In the coming years graduate-level specialist and technical skills will be the mainstay of developed economies. But the role of the university goes much further than the provision of training courses for school leavers. It is vital that Wales should recognise the economic potential of higher education institutions, particularly in these troubled economic times. Universities can lead the knowledge economy in Wales, facilitating knowledge transfer for innovation and raising skill and productivity levels in the labour force. For this transfer to take place effectively, academia needs to work in harmony with business. The emergence of 'hub' models, where small companies cluster around a university campus in order to take advantage of academic innovation and global research networks, is one way to encourage productive and mutually beneficial contacts between business and higher education. Support for universities will now be more vital than ever and we are very concerned at the apparent funding gap that is emerging between Welsh institutions and those in the rest of the UK and Europe, which should be addressed as a matter of urgency.

277. Increased population mobility is a feature of globalisation. The evidence we gathered during this inquiry coincided with a peak in economic migration into Wales from the A8 accession countries joining the European Union in 2004. This is the most recent example of population movement into Wales, which has a long history of inward migration, with some incomers choosing to settle in the country and others staying only for short periods. We found no evidence to suggest that the arrival of migrant workers in Wales has posed a threat to local services. In fact, migration overall represents a sizeable economic boost for Wales. However, migrant workers do have particular needs which must be supported. Equally, in areas which have experienced high levels of inward migration in a short period, the increased demand for services can be challenging for local authorities to meet. We consider that there is a pressing need for improved methods of data collection concerning the numbers of migrants in particular areas and their likely period of residence in order to inform decision-making and planning for additional pressure on local services. This will be of continued importance in future years as the ongoing integration of national economies into the global market encourages even greater population mobility.

278. Globalisation's impact on Wales means that business needs to move up the value chain, making use of the higher level skills available in the nation as well as the products

and services that are unique to Wales. This is equally true in traditional industries such as farming, where low cost products are now available from high volume producers around the world, and in young industries such as broadcasting, where new media have transformed the transmission of concepts and products around the world. In the course of this inquiry, we have collected numerous examples of innovative practice in Wales, spanning the full range of economic sectors. These examples demonstrate that, despite the present difficulties, Wales does have the essential ingredients necessary to face the challenges of globalisation.

279. We therefore believe that globalisation affords great opportunities and challenges. Its all-pervading impact should not prevent it from being harnessed for the benefit of the people of Wales whilst simultaneously not being used to exploit other peoples elsewhere. Indeed, we find much to commend in the ethos of internationalisation which we saw espoused in Mondragón in the Basque Country: an open and internationalised environment, building through external networks a commitment to social cohesion, solidarity with the world and respect for the environment.

Conclusions and recommendations

Introduction

1. Our decision to conduct an inquiry into Globalisation and its Impact on Wales was motivated by an awareness that the prosperity of the people of Wales now depends on global movements of trade. In an increasingly inter-dependent world economy, it will be vital for Wales to raise skills, foster innovation and sustain foreign investment and exports. (Paragraph 25)
2. Within the last six months, the dangers and risks inherent in the process of globalisation have been starkly demonstrated. This has been an extensive and in depth inquiry and the Committee has gathered evidence over a period of more than two years. In this time, the state of the global economy has shifted significantly. When we began this inquiry, many of those who gave evidence were concerned about rising house prices, exacerbated by the movements of an increasingly mobile, international population. In contrast, at the time of writing, the UK is suffering the effects of a financial crisis that is undeniably global in nature, and which has caused the decline in value of many homes. Personal prosperity is now inextricably linked to the fluctuations of the global economy and the Government's response to them. (Paragraph 26)

Employment and Skills

3. Reliable and modernised infrastructure is the foundation of economic success. This includes conventional transport links by road and by rail as well as the digital infrastructure that underlies today's global telecommunications networks. Whilst improvements have been made in recent years, we are concerned that difficulties in some areas may be holding back business growth and investment in Wales. We are currently undertaking a separate inquiry into cross-border transport services, in which we are examining the adequacy of transport links to and from Wales, ensuring that Welsh interests are fully taken into account in the Department for Transport's UK-wide strategies. This will be followed by a new inquiry into digital inclusion. For Wales to prosper from globalisation, the whole Welsh population must have access to the new commercial and personal opportunities afforded by increasingly rapid and innovative forms of global communications. (Paragraph 54)
4. In order for the Welsh economy to be sustained in the years to come, Welsh companies must be supported to access markets overseas. Equally, Wales needs to continue to attract the foreign investment that has provided such a significant contribution to its economy. International Business Wales should play an important part in facilitating both these processes, but we were frankly disappointed by its very modest achievements in China. International Business Wales should have sufficient resources and the professionalism and commercial judgment to carry out its functions effectively. We hope, therefore, that it will closely monitor the quality, competence and level of its staffing in targeted countries to ensure that it is making

the most of the opportunities available and that support is available where it is needed. (Paragraph 61)

5. Skills are the key to maintaining levels of employment in Wales. An increase in higher level skills amongst the Welsh population is the only way in which the nation can compete successfully for jobs against other countries, where lower wages are the norm. During this inquiry, we have found evidence of existing skills gaps. Constantly re-evaluating and increasing skills at every level becomes even more important during an economic downturn. Wales must avoid the trap of a 'low skill equilibrium' and dependence on low skilled, low paid jobs, which are vulnerable to relocation worldwide. In order to do this, the UK and Welsh Assembly Governments must work with the higher education sector to raise the skills base, stimulating the local economy and enabling Wales to compete in a world where high volume, low value production increasingly takes place overseas. (Paragraph 73)
6. We commend the work of higher education institutions in developing research and development hubs in partnership with the Welsh Assembly Government and with business. We consider that this model is likely to contribute significantly to business growth and innovation in Wales, helping the country to face the challenges of globalisation and take advantage of its opportunities. We would also commend the local and global perspectives of Mondragón University in the Basque Country and Xiamen University in China, which we had the opportunity of visiting during the inquiry.
7. In the twenty-first century global economy, universities are the drivers of sustainable employment. As providers of higher level skills, they enable a country to up-skill its population and compete against low wage economies abroad. Links with local businesses allow for the commercialisation of innovative research developments. In addition, universities make a significant direct economic contribution to their locality. In the course of our inquiry, we saw how other countries have harnessed the power of universities for local benefit by employing a 'hub' model. This model is beginning to be adopted in Wales, but this is very late in the day and we are concerned to see that the full economic potential of higher education institutions has not yet been recognised by industry or by the Welsh Assembly Government and its bodies or indeed by universities themselves. It is vital that the UK and Welsh Assembly Governments should fully integrate the commercial potential of higher education into their policies in order to avoid being overtaken by other countries, both elsewhere in Europe and beyond. (Paragraph 77)
8. We have been impressed by the range of innovative projects that are taking place in Welsh universities to develop specialist skills and apply them for economic benefit, including forging global partnerships. But we are deeply concerned by the evidence we have received suggesting that Welsh universities are under-funded in relation to higher education institutes in England and Scotland, as well as internationally. We considered this issue in detail in our recent Report on the cross-border provision of higher and further education for Wales. We concluded that policy decisions since devolution have resulted in different priorities in Wales compared to the rest of the UK. Whilst such differences are sometimes a consequence of devolution, we found that higher education institutions in Wales are being disadvantaged at this crucial

time. We also found that the higher education sector in Wales receives a smaller share of UK research funding than would be expected from its relative size. We recommended that the Welsh Assembly Government and the Wales Office should make efforts to address this shortfall in funding, including research funding, and to do so as a matter of urgency (Paragraph 87)

9. As skills levels rise in developing countries, it will become increasingly important for Wales to ensure that its population is adequately prepared for the workplace. In addition to degree-level qualifications, literacy, numeracy and interpersonal skills are vital to the Welsh economy, particularly where businesses are trying to provide services in competition with other countries in the international marketplace. We are concerned that there is a shortage of such basic skills in Wales, in common with the rest of the UK. Not only are these directly relevant to the workplace, they also provide the foundation for lifelong learning. Education policy in Wales is the responsibility of the Welsh Assembly Government, but the evidence we have collected in the course of this inquiry suggests that there is a demand for a specific service-related qualification from employers. This could be offered in Welsh schools, or form part of a UK-wide industrial programme such as Investors in People. (Paragraph 92)
10. Many different agencies and partners can be involved in raising basic skills levels among the existing workforce and those seeking work. During this inquiry, we heard of the valuable work of housing associations and other voluntary bodies in this area, which we commend. Adult and community education in Wales are also of great importance. We note that the Welsh Assembly Government has been consulting on a new policy for adult community education and we look forward to seeing the results of this consultation. (Paragraph 93)
11. We agree that the Welsh skills strategy should be informed by international comparisons so as to ensure that Wales is not slipping behind its key competitors in the global economy. (Paragraph 102)
12. Our inquiry has demonstrated that, for the Welsh economy to grow in the twenty-first century, skills levels must be matched to the needs of business. In order for this to happen, educators and companies need to work in partnership. Training by colleges and other providers is only effective when it is owned at least partially by the employer and seen as a priority. Equally, the provider needs to be sensitive and responsive to the needs of employers. We welcome efforts to give employers a voice in skills planning, but would also urge them to recognise their responsibility for their existing employees and the benefits of engaging directly in training their own workforce. Umbrella organisations such as the CBI and FSB can play a part in this process. In return, governments on both sides of the border as well as higher and further education institutions have a duty to ensure that they offer a product that is tailored to the needs of the economy. (Paragraph 108)

Food production and supply

13. In an increasingly global economy, the promotion of 'brand Wales', both abroad and at home, can ensure that Welsh food products find a sustainable market. In Wales

itself, supermarkets are the major part of the retail market. As such, they have an important part to play in ensuring that local products are the basis of their offering to local people. Access to the local market is an important first step for small businesses who may later grow and develop the ability to export. We are encouraged by the initiatives by retailers we have heard of in this area, but agree with the Competition Commission that more should be done to encourage small Welsh businesses to enter the market. In this context, we broadly support calls for a supermarkets Ombudsman to be appointed to ensure that big retailers treat small suppliers fairly. (Paragraph 130)

14. We agree with the President of the National Farmers' Union Cymru that Welsh lamb is a respected brand and that its Protected Geographical Indication (PGI) status should be used to develop this quality label. We recommend that the UK Government should actively promote PGI for Welsh products in Brussels. We note that cattle and sheep reared in Wales are not always eligible for PGI if slaughter takes place across the border in England. Given the recent closures of Welsh abattoirs, we urge Ministers to change the system so that the benefits of PGI can be preserved for Welsh farmers in future years. (Paragraph 134)
15. We were extremely impressed by our visit to Mondragón and consider that Wales would benefit from renewing links with the Corporation. Although many Welsh co-operatives were initially inspired by Mondragón through the Wales Co-operative Centre, contact appears to have fallen away over the past 25 years and the co-operative model is not well-established in Welsh agriculture today. Indeed, the evidence we received regrettably indicated some resistance to it within the farming community. We hope that the Mondragón's successful formula will again inspire Welsh businesses, co-operatives, trade unions and community groups to adopt innovative models of co-operation.
16. The food production sector in Wales is characterised by a small business model. We hope that many of these small businesses will grow over time and increase their contribution to the Welsh economy. In order to do this, they will require support not only from the Welsh Assembly Government, but also from the UK Government in terms of fiscal structures and regulatory regimes. We support the use of collaborative and co-operative working patterns as a way of enabling small suppliers to compete with large volume producers and we would encourage the Welsh Assembly Government to make use of the Wales Co-operative Centre as a centre of excellence to drive forward co-operative working. This will allow food production in Wales to exploit the opportunities made available by globalisation whilst retaining its local flavour. (Paragraph 150)
17. The public procurement market has great potential to source more products from small, local producers. In order for this to happen, local authorities need to simplify their procurement processes to help small businesses take advantage of the opportunities in this market. We consider that it is essential to develop a strategic framework in order to support and enable producers of food and drink in Wales to bid for public sector contracts, and we fully support the Welsh Assembly Government in its development of a local sourcing action plan. A particular focus needs to be on engaging small businesses in public sector procurement processes,

which will help them to build skills and capacity. The Wales Co-operative Centre already runs some training courses in the business and legal aspects of food supply, which could be replicated more widely. (Paragraph 156)

18. We welcome recent educational partnerships aimed at raising the profile of graduate-level opportunities in the Welsh food and drink industry. We note that the new courses are the first of their kind in the UK and are pleased to see that Wales is building on its strengths as a producer of quality produce. Strong local brands and premium products, which cannot be replicated elsewhere, are Wales's main asset in the increasingly global economy. In order to support business growth in this sector, a robust skills base will be needed, along with initiatives aimed at supporting and developing small businesses. (Paragraph 160)

Broadcasting and the creative industries

19. We welcome the important work recently completed by the National Assembly for Wales Broadcasting Committee on the future of public service broadcasting in Wales. We note the Broadcasting Committee's acknowledgement that "the UK parliament is clearly the most appropriate place for debates on the wider economic regulation of the broadcasting industry" and that the Welsh Affairs Committee has the potential to play a greater role in the future of broadcasting policy in Wales. We also note their recommendation that the National Assembly should create a standing committee on communications. This is a matter for the Assembly itself to decide. However, we would welcome the opportunity to pursue further discussions with the National Assembly for Wales on arrangements for the scrutiny of broadcasting policy. (Paragraph 172)
20. The lack of clarity over the territorial extent of a document such as *Creative Britain: New Talents for the New Economy* does little to assist the effective provision of support to the creative industries in Wales and in the UK more widely. We urge the Department for Culture, Media and Sport as the lead Whitehall department in the field of the creative industries to work more closely in the future with the Welsh Assembly Government. Policy documents should emerge from consultation with relevant Welsh bodies and should specifically set out how UK-wide strategies will apply to Wales. This will help ensure that both administrations are able to co-ordinate policies so that the creative industries in Wales are sufficiently equipped to face the challenges and opportunities posed by globalisation. (Paragraph 175)
21. Where powers over a field of policy are shared by the Welsh Assembly Government and the UK Government, it is crucial that clarity is established on the allocation of roles and responsibilities, while recognising that it is sometimes difficult to split functions. We believe that the joint working required by devolution can be a great strength rather than a weakness. Good relationships need to be maintained across Whitehall at all levels as well as between the National Assembly for Wales and the House of Commons. We note a welcome increase in engagement on the part of Ministers from the Welsh Assembly Government in recent months. This should be reflected by Ministers and officials across Whitehall. (Paragraph 176)

22. We do not believe that the adoption of a 'neutral' brand identity is a recipe for success in the global broadcasting markets. Our evidence suggests the reverse: that a strong local identity is a good foundation for success in the world. Broadcasting and the creative industries in Wales should draw on local strengths in order to prosper in the global economy. (Paragraph 179)
23. We congratulate S4C on its success in engaging with the Welsh Diaspora by means of innovative methods such as providing services via satellite TV, online and through Internet Protocol Television. We consider that BBC Wales and ITV Wales could learn from this example. (Paragraph 180)
24. Whilst Welsh language programming has been internationally recognised for its range and quality, English language broadcasting in Wales is not currently adequately reflective of Welsh identity. In large part, this is because Wales does not have a strong enough voice within the UK's major media institutions. During our inquiry, the BBC and ITV reiterated their commitment to commissioning and producing programmes in Wales. We hope to see the results of this commitment in high quality programmes which are reflective of the range of different Welsh interests. (Paragraph 187)
25. There have been calls to establish a broadcasting commission for Wales, in particular, to examine the future of public service broadcasting in the country. Both the Welsh Assembly Government and the National Assembly for Wales have considered establishing such a body. Should they decide to do so, its precise form and remit would be a matter for them to decide. However, broadcasting is not a devolved matter and we would urge any new commission, if one were to be established, to work closely with counterparts across the UK to ensure that a co-ordinated approach is taken towards the similar problems now facing public service broadcasters in all four nations, as well as in the English regions. (Paragraph 193)
26. The creative industries in Wales are operating from a low base as far as exports are concerned, yet globalisation has opened up more overseas markets than ever before. We are encouraged by the individual successes we have heard about, including BBC and S4C television programmes as well as the innovative research conducted by Canolfan Bedwyr. However, if Welsh companies are to increase their presence on the international stage they will need support to develop the business capacity of their enterprises in addition to the creative excellence that is their core role. We were told of a number of promising initiatives aimed at supporting Welsh companies to exploit their global potential, but we would urge government to ensure that the potential of the creative industries is understood in the broadest sense of the term. Policy must not be developed in such a way as to focus solely on traditional visual and audio media. (Paragraph 199)
27. Within the creative industries, as elsewhere, the provision of training needs to take account of changing economic demands. Higher level skills are increasingly important if Wales is to compete in the global marketplace, but courses must be relevant to the needs of business. We have found evidence to suggest that there is currently a mismatch between the courses on offer and those required for economic

development. We urge governments to work together with training providers to ensure that funding is aligned with the sector's priorities. (Paragraph 204)

28. Universities have a vital part to play in ensuring that the Welsh economy can meet the challenges of globalisation. Increasingly, higher education institutions function as 'hubs' for the creative industries, facilitating knowledge transfer for innovation and raising skill and productivity levels. We welcome the global reach of Welsh universities and colleges. Collaboration of this kind provides opportunities to share expertise and good practice across geographic boundaries, which can in turn be applied for economic benefit. (Paragraph 209)
29. We urge DCMS and Ofcom to work together to ensure universal access to BBC Radio Wales and BBC Radio Cymru on DAB digital radio across Wales. (Paragraph 212)
30. For both economic and social reasons, no-one in Wales should be left out of the digital revolution. This is why we have launched a new inquiry into digital inclusion in Wales, scheduled to begin shortly. We welcome the recent publication of the UK Government's Digital Action Plan by Rt Hon Paul Murphy MP, Secretary of State for Wales. We look forward to scrutinising this document and presenting our recommendations for further action. (Paragraph 216)
31. We support the Welsh Assembly Government's Strategy for the Creative Industries and are pleased to have heard of some early success stories. We hope that the Welsh Assembly Government will continue to build on this initiative and ensure that its benefit is spread as widely as possible across the creative industries in Wales. Initiatives such as the Creative IP Fund are to be commended and would have an even greater impact if their work dovetailed into a wider framework across the UK as a whole. As intellectual property is not a devolved matter, the UK Government should work closely with the Welsh Assembly Government to ensure that the UK-wide regulation of intellectual property is fit for the demands of the modern, global economy, particularly in the field of the creative industries. (Paragraph 222)
32. Small businesses are perhaps the most innovative parts of the Welsh economy. However, their small size means that they need a greater degree of support if they are to access the new global markets. The models we have examined in the course of this inquiry suggest that companies are more likely to prosper when they come together as creative clusters, providing mutual support and expertise. The creation of a focus for the industry allows public funds to be targeted more effectively and assists companies in developing an international presence. (Paragraph 226)

Population movement

33. Different parts of Wales have at different times experienced large population movements, including for example the inward migration of Italian and Irish workers into the docks and mines of South Wales in particular and the movement of people from North Wales to the South Wales mining valleys and to docks areas, especially Cardiff. Such changes have been part of the history of Wales since the nineteenth century. These flows sometimes peaked for a short time, as was the case in Cardiff in

particular during the late 1980s and early 1990s when there was a period of reunion of refugee families affected by the civil war in Somaliland. (Paragraph 233)

34. The period during which we took evidence on population change and mobility coincided with a significant increase in the number of people entering Wales as migrant workers from the 2004 European Union accession countries (the 'A8'). The evidence we received reflected this experience and this section of the Report therefore focuses on the way in which Wales responded to this recent phenomenon of globalisation. We recognise, however, that immigrant communities have had a presence in Wales for many generations and have made a huge economic and cultural contribution to the nation. The concerns of these settled Welsh communities deserve separate consideration, but fall outside the scope of the evidence we took during this inquiry. (Paragraph 234)
35. We recognise the great economic benefit that migrant workers can bring to Wales, but are concerned that this should not have a disproportionate effect on the economic stability of migrant workers' home countries. We commend the work of the Welsh Assembly Government in building healthcare partnerships with developing countries to reduce the impact of the loss of health workers from these countries. (Paragraph 243)
36. Our evidence has demonstrated that migrant workers have experienced difficulties in gaining recognition for overseas qualifications. In a global market with an increasingly mobile workforce, people who trained abroad must be enabled to make full use of their skills to benefit the Welsh economy. We recommend that the Sector Skills Councils work with the relevant government departments to ensure the appropriate recognition of overseas qualifications or their translation into Wales or UK equivalents. It is important that an objective verification is applied to ensure that overseas qualifications and experience translate into the quality of service expected in the UK and that there is an English language test to ensure that the skills can be properly applied. (Paragraph 245)
37. Language skills are a vital element of training for migrant workers. The ability to speak the local languages with a degree of fluency is vital not only for employment reasons, but also to improve social cohesion. Many migrants entering Wales may have some familiarity with the English language, but our evidence suggested that it was often inadequate, and few have knowledge of Welsh. This may be a considerable disadvantage, particularly in rural areas or in industries such as care and nursing. There is a need to improve the provision of English and Welsh language tuition at specific times and in specific geographical regions in order to respond to peaks of inward migration such as that caused by migrant workers during 2007. Local authorities do not always have the resources to meet these specific additional demands and we recommend that the Welsh Assembly Government considers providing assistance in such circumstances via short term targeted additional funding. (Paragraph 248)
38. No migrant workers should experience exploitation, no matter the industry in which they are employed. At present, our evidence suggests that the resources devoted to preventing and addressing exploitation are insufficient. The Gangmasters Licensing

Authority has only a limited remit and is poorly resourced, whilst local authorities are already struggling with other priorities. We recommend that the remit of the Gangmasters Licensing Authority is extended to include additional industries and that it is provided with appropriate additional resources for this larger remit. (Paragraph 252)

39. The housing demand associated with an increase in economic migration after the accession of the A8 states to the European Union compounded an existing shortage of affordable housing in Wales. Local authorities must take a central role in strategic planning for housing and they must receive appropriate support from central government to respond to short term additional demands for housing. (Paragraph 259)
40. Increased population mobility is a feature of globalisation. This means that levels of migration into Wales from other countries will continue to vary. We have found no evidence to suggest that the arrival of migrant workers has posed a threat to local services. In fact, migration overall represents a sizeable economic boost for Wales. However, migrant workers do have particular needs which must be supported, including the provision of information about services and employment rights and the translation of documents and services into languages other than Welsh and English. Equally, in areas which have experienced high levels of inward migration in a short period, the increased demand for services can be challenging for local authorities to meet. We consider that there is a pressing need for improved methods of data collection concerning the numbers of migrants in particular areas and their likely period of residence in order to inform decision-making and planning for additional pressure on local services. Greater sharing of information between employers, agencies and public service providers is also required. This will be of continued importance in future years as the ongoing integration of national economies into the global market encourages even greater population mobility. Leaving local services with inadequate funding to cope with demand leads to a poorer service for local communities and can also negatively affect community cohesion. (Paragraph 261)
41. The recent report on *Issues Affecting Migrant Workers* from the Equality of Opportunity Committee of the National Assembly for Wales has called for an employers' code of practice focusing on reduction of exploitative practices. We consider that any such code could usefully include a commitment by employers and employment agencies to encourage social cohesion and help workers integrate into the local community (Paragraph 267)
42. In recent years, Wales has benefited from an inward flow of migrants, many of them highly skilled. It has also made efforts to raise skill levels within the existing population, as discussed in the first section of this Report. In order to ensure that the Welsh economy exploits these resources to the full, the UK Government, the Welsh Assembly Government and local government in Wales will need to co-ordinate their activities more closely, enabling sound strategic planning for local services in response to varying levels of inward and outward migration, and providing a ladder of opportunity for incoming migrants, as well as the existing population, to raise their skills and contribute to the country's prosperity. (Paragraph 270)

Conclusion

43. In the twenty-first century, the economy of Wales cannot be considered in isolation, but must be seen in the context of global opportunities and threats. Today, national economies are no longer independent entities operating separately, but are interdependent. Much of the evidence we took in the course of this inquiry was informed by the particular economic circumstances in Wales at the time. In 2007, witnesses reported rising house prices and an in-flow of migrant workers to Wales. Since that time, the challenges of globalisation have become apparent in the global economic downturn. As economies have become more interlinked, so economic problems can spread more easily from one country to another. (Paragraph 271)
44. Today, more than ever, it is important for Wales to maximise the economic return that can be derived from global trade. As companies cut costs to remain viable in a worsening economic climate, Wales will need to make the most of its local strengths and the skills of its workforce in order to remain a desirable location in which to do business. This Report puts forward the fundamental elements necessary for a successful global economic strategy. We hope that our conclusions and recommendations will prove particularly valuable in the current climate. (Paragraph 272)
45. In Wales, globalisation has often been viewed as a wholly negative phenomenon, endangering jobs and triggering the decline in the industries which have traditionally sustained the Welsh economy, such as coal mining and heavy manufacturing. It is certain that, for Wales, globalisation means change and a transition to new forms of economic activity. It is no longer feasible to build an economy based on the production of mass market commodities which can be carried out more cheaply elsewhere. Instead, Welsh companies must move up the value chain, making use of higher level and specialist skills to offer premium goods and services which cannot be sourced abroad. This process is challenging and governments in both London and Cardiff have a responsibility to ensure the Welsh population is as prepared as it can be for the demands of the global marketplace. In the longer term, the rise in global trade holds out the prospect of increased prosperity as the economy recovers and markets expand. For those countries able to negotiate the transition successfully, the result should ultimately be a rise in standards of living. (Paragraph 273)
46. To make the most of globalisation, Wales must exploit its strong local identity and values. Our inquiry has convinced us that adaptation to globalisation should not involve adopting a 'neutral' brand identity. On the contrary, it is the power of localism that will provide a foundation from which to approach the world. Wales has many strengths on which it can build, including expertise in high technology sectors, food and drink, hospitality, tourism, broadcasting and the creative industries. Wales has already moved a long way from its industrial roots in coal mining and textiles. Today, small businesses make up the vast majority of the business stock. These are often at the forefront of innovation, but place great value on their local origins and character. This is a powerful combination of assets, which can be harnessed to the benefit of the Welsh economy. Small businesses may find the prospect of entering the global marketplace daunting, but with the right support and by joining forces

and working collaboratively, the sector has the potential to add significantly to Wales's prosperity. (Paragraph 274)

47. Globalisation poses economic risks, but there are a number of critical areas in which action can be taken with the aim of minimising the effects of the global economic downturn. Chief among these is the skills levels of the population. Our inquiry convinced us that the most important way in which Wales can address the challenges of globalisation is by improving the skills of the population at every level. Skills will be crucial to Wales's ability to weather the economic downturn as well as to prospects for long term growth. More work needs to be done to ensure that the Welsh population has the basic numeracy, literacy and interpersonal skills to compete with countries around the world. These will also form a basis for lifelong learning, which is likely to become ever more important as the pace of globalisation increases and economic demands shift more rapidly. (Paragraph 275)
48. In the coming years graduate-level specialist and technical skills will be the mainstay of developed economies. But the role of the university goes much further than the provision of training courses for school leavers. It is vital that Wales should recognise the economic potential of higher education institutions, particularly in these troubled economic times. Universities can lead the knowledge economy in Wales, facilitating knowledge transfer for innovation and raising skill and productivity levels in the labour force. For this transfer to take place effectively, academia needs to work in harmony with business. The emergence of 'hub' models, where small companies cluster around a university campus in order to take advantage of academic innovation and global research networks, is one way to encourage productive and mutually beneficial contacts between business and higher education. Support for universities will now be more vital than ever and we are very concerned at the apparent funding gap that is emerging between Welsh institutions and those in the rest of the UK and Europe, which should be addressed as a matter of urgency. (Paragraph 276)
49. Increased population mobility is a feature of globalisation. The evidence we gathered during this inquiry coincided with a peak in economic migration into Wales from the A8 accession countries joining the European Union in 2004. This is the most recent example of population movement into Wales, which has a long history of inward migration, with some incomers choosing to settle in the country and others staying only for short periods. We found no evidence to suggest that the arrival of migrant workers in Wales has posed a threat to local services. In fact, migration overall represents a sizeable economic boost for Wales. However, migrant workers do have particular needs which must be supported. Equally, in areas which have experienced high levels of inward migration in a short period, the increased demand for services can be challenging for local authorities to meet. We consider that there is a pressing need for improved methods of data collection concerning the numbers of migrants in particular areas and their likely period of residence in order to inform decision-making and planning for additional pressure on local services. This will be of continued importance in future years as the ongoing integration of national economies into the global market encourages even greater population mobility. (Paragraph 277)

50. Globalisation's impact on Wales means that business needs to move up the value chain, making use of the higher level skills available in the nation as well as the products and services that are unique to Wales. This is equally true in traditional industries such as farming, where low cost products are now available from high volume producers around the world, and in young industries such as broadcasting, where new media have transformed the transmission of concepts and products around the world. In the course of this inquiry, we have collected numerous examples of innovative practice in Wales, spanning the full range of economic sectors. These examples demonstrate that, despite the present difficulties, Wales does have the essential ingredients necessary to face the challenges of globalisation. (Paragraph 278)
51. We therefore believe that globalisation affords great opportunities and challenges. Its all-pervading impact should not prevent it from being harnessed for the benefit of the people of Wales whilst simultaneously not being used to exploit other peoples elsewhere. Indeed, we find much to commend in the ethos of internationalisation which we saw espoused in Mondragón in the Basque Country: an open and internationalised environment, building through external networks a commitment to social cohesion, solidarity with the world and respect for the environment. (Paragraph 279)

Formal Minutes

Tuesday 27 January 2009

Members present:

Dr Hywel Francis, in the Chair

Mr David Jones
Alun Michael
Mark Pritchard

Hywel Williams
Mark Williams

Draft Report (*Globalisation and its impact on Wales*) proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 279 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 30 January, 6, 20 and 27 February, 13 March, 17 and 24 April, 9, 14 and 22 May, 5, 12, 19 and 26 June, and 3, 17 and 24 July 2007 (Session 2006-07), 13, 20 and 27 November, 3 and 11 December 2007, and 15, 22 and 29 January, 5 and 26 February and 1 July 2008 (in the last Session of Parliament).

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Tuesday 3 February at 10.00 a.m.]

List of Reports from the Committee during the current Parliament

Session 2008-09

First Report	Cross-border provision of public services for Wales: Further and higher education	HC 57 Incorporating HC 401 viii-xii, Session 2007-08
Second Report	Globalisation and its impact on Wales	HC 184 –I, II
First Special Report	The proposed draft National Assembly for Wales (Legislative Competence) (Housing) Order 2008: Government Response to the Committee's Seventh Report of Session 2007–08	HC 200

Session 2007-08

First Report	Energy in Wales: follow up inquiry	HC 177
Second Report	The proposed Legislative Competence Order in Council on additional learning needs	HC 44
Third Report	Work of the Committee in 2007	HC 325
Fourth Report	The proposed National Assembly for Wales (Legislative Competence) Order in the field of social welfare 2008	HC 257
Fifth Report	The proposed draft National Assembly for Wales (Legislative Competence) (social welfare and other fields) Order 2008	HC 576
Sixth Report	The provision of cross-border health services for Wales: Interim Report	HC 870
Seventh Report	The proposed draft National Assembly for Wales (Legislative Competence) (Housing) Order 2008	HC 812
First Special Report	The proposed Legislative Competence Order in Council on additional learning needs: Government response to the Committee's Second Report of Session 2007-08	HC 377
Second Special Report	Energy in Wales – follow-up inquiry: Government Response to the Committee's First Report of Session 2007-08	HC 435
Third Special Report	The proposed National Assembly for Wales (Legislative Competence) Order in the field of social welfare 2008: Government Response to the Committee's Fourth Report of Session 2007-08	HC 715

Session 2006-07

First Report	Work of the Committee in 2005-06	HC 291
Second Report	Legislative Competence Orders in Council	HC 175

Third Report	Welsh Prisoners in the Prison Estate	HC 74
First Special Report	Government Response to the Committee's Second Report of Session 2006-07, Legislative Competence Orders in Council	HC 986

Session 2005-06

First Report	Government White Paper: Better Governance for Wales	HC 551
Second Report	Proposed Restructuring of the Police Forces in Wales	HC 751
Third Report	Energy in Wales	HC 876-I
Oral and written Evidence	Energy in Wales	HC 876-II
Fourth Report	Future of RAF St Athan	HC 1129
Fifth Report	Current Restructuring of the Police Forces in Wales	HC 1418
Oral and written Evidence	NHS Dentistry in Wales	HC 771-i
First Special Report	Government Response to the Committee's Second and Third Reports of Session 2004-05, Manufacturing and Trade in Wales and Public Services Ombudsman (Wales) Bill	HC 433
Second Special Report	Government Response to the Committee's Fourth Report of Session 2004-05, Police Service, Crime and Anti-Social Behaviour in Wales	HC 514
Third Special Report	Government Response to the Committee's First Report of Session 2005-06, Government White Paper: Better Governance for Wales	HC 839
Fourth Special Report	Government Response to the Committee's Second Report of Session 2005-06, Proposed Restructuring of the Police Forces in Wales	HC 1431
Fifth Special Report	Government Response to the Committee's Third Report of Session 2005-06, Energy in Wales	HC 1656
Sixth Special Report	Government Response to the Committee's Fourth Report of Session 2005-06, Future of RAF St Athan	HC 1657
Seventh Special Report	Government Response to the Committee's Fifth Report of Session 2005-06, Current Restructuring of the Police Forces in Wales	HC 1695