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Welsh Affairs Committee

Inward Investment in Wales

Eighth Report of Session 2010–12

Volume I

Volume I: Report, together with formal minutes

Volume II: Oral and written evidence

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The Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales).

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The following Members were members of the Committee during the Parliament:

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/welshcom

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in printed volumes.

Additional written evidence may be published on the internet only.

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Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
Background	5
Our inquiry	6
2 Importance of Inward investment to Wales	7
Development of inward investment in Wales	7
Reasons for the decline in inward investment	8
Inward Investment: the new environment	10
3 Education	13
Further and Higher Education	15
Collaboration with industry	15
Research and Development	17
International Activity	19
4 Transport infrastructure	20
Road Network	20
Rail Services	21
Rail Freight	21
Ports	22
5 Promoting Wales abroad	24
Current situation	24
Concerns	25
Overseas offices	27
UK Government relationship with the Welsh Government	29
6 Looking forward	31
A new Welsh Development Agency?	32
Taxation	33
Enterprise zones	34
Conclusions and recommendations	36
Development of Inward Investment in Wales	36
Education	36
Further and Higher Education	36
Transport Infrastructure	37
Promoting Wales Abroad	38
Looking forward	39
Annex A	41
Attendees at the roundtable discussion at GE Aviation: 6 December 2010	41

Annex B	42
Visit to Berlin and Düsseldorf, Germany: 14–16 February 2011	42
Visit to Tata, Port Talbot: 5 April 2011	42
Visit to Airbus, Broughton: 30 June 2011	42
Visit to First Great Western: 14 July 2011	43
Visit to Brussels, Belgium: 6–8 September 2011	43
Appendix	45
Correspondence between the Welsh Affairs Committee and Welsh Assembly Government Ministers	45
Formal Minutes	51
Witnesses	52
List of printed written evidence	53
List of additional written evidence	54
List of Reports from the Committee during the current Parliament	55

Summary

The late 1980s and early 1990s was a golden age for Wales in attracting inward investment. The country offered a compelling package of grants, large parcels of land available for development, low labour costs, and a ready supply of workers. However, countries from Central and Eastern Europe, China and other developing countries are now able to offer potential investors significantly lower employment costs. In 2009, Wales was one of the worst performing areas in the UK in terms of attracting inward investment. Wales can no longer assume that overseas companies will be attracted by traditional inducements such as grants and low labour costs.

Wales must adapt to the changing conditions for attracting inward investment. The development of the knowledge economy has changed how countries attract investment from overseas. The Welsh Government, working with UK Trade & Investment (UKTI) and the UK Government, must think innovatively about how to exploit this opportunity and re-establish the importance of inward investment in its economic policy. It must develop a cogent economic strategy to maximise potential gains, and emphasise its distinctive attributes. These include a growing university-industry partnership, and innovation built on existing industries such as, aerospace, life sciences, manufacturing, specialist steel and tourism. In addition, Wales offers an attractive quality of life to prospective investors, with its coast and countryside and a rich cultural history.

During this inquiry, we have identified areas of concern that have the potential to be major impediments to competitiveness and to productivity. Investment in skills and transport by the UK Government and the Welsh Government should sit at the heart of the economic development agenda. The UK Government and the Welsh Government must renew their efforts to promote science and engineering in Wales.

Transport infrastructure has been under-funded by the UK Government and the Welsh Government for a number of years. We welcome and support the Secretary of State for Wales in calling for the electrification of the Great Western Main Line to Swansea, and we call on the Government to announce plans to extend electrification of the line to Swansea at the earliest opportunity. There is a perception that the high cost of the Severn Crossings toll acts as a deterrent to inward investment in Wales. In our Report on the tolls, published in 2010, we noted that there was a lack of empirical data to confirm this view. The Welsh Government has commissioned an economic impact on the bridges' operation and future and we look forward to the publication of the report.

EU funding, alongside other innovation and research funding, represents an opportunity for Wales to invest in skills and infrastructure tailored to the needs of inward investors. These decisions need to take into account the opportunities existing in emerging markets both as a source of future trade and of investment capital. In addition, opportunities exist to increase Wales's global status through its extensive network of current and former overseas University students. This should be maximised.

Wales could be much more effectively marketed for trade and inward investment overseas. The Welsh Government currently has no dedicated trade promotion agency. As a result,

the international recognition of Wales has suffered and investment opportunities have been missed. The Welsh Government must market Wales on the international stage more vigorously and must develop a clear identity that can be promoted to overseas markets, making the best use of the advantages that UKTI has in terms of resources and networks.

The abolition of the Welsh Development Agency (WDA) has reduced Wales's visibility in the global market place. Nearly five years on from its abolition, the WDA remains one of the most recognisable of all Welsh brands. Given the global recognition that the WDA brand commands, the Welsh Government must urgently consider how it can be used to improve and increase Wales's global identity. We recommend the establishment of a dedicated trade promotion agency, either sitting within the Welsh Government or as a private sector vehicle working in collaboration with the Welsh Government. Such a body should have a mix of skills with an emphasis on private sector experience.

The Welsh economy faces many challenges. However, it also has a number of strengths. Among these are a committed, loyal, and in places, highly skilled workforce which has demonstrated its willingness to adapt to changing and difficult circumstances. Wales also has a number of internationally recognised and successful companies in areas such as aerospace, life sciences, the steel industry and the automotive industry. The governments in London and Cardiff must continue to nurture these relationships and use them to attract other investors by demonstrating that Wales is an attractive place to invest. Wales should consider London a primary source of inward investors who already recognise the benefits of investing in the UK and may prefer Wales as a more cost effective and pleasant place to relocate.

There is no easy solution for changing the fortunes of the Welsh economy. Wales does not have sufficient resources to work alone in attracting inward investment to Wales nor the advantages that UKTI has in terms of resources and networks. We were disappointed that the Business Minister for Wales chose not to give evidence to this inquiry. The Minister's decision was a grave discourtesy to the Committee and to Parliament. The Welsh Government must engage with politicians in the UK Government to maximise opportunities to attract inward investment to Wales and so improve the long-term prospects of the Welsh economy. The UK Government and the Welsh Government must work together effectively, and work with education providers and industry, for the improvement of the Welsh economy and the Welsh people.

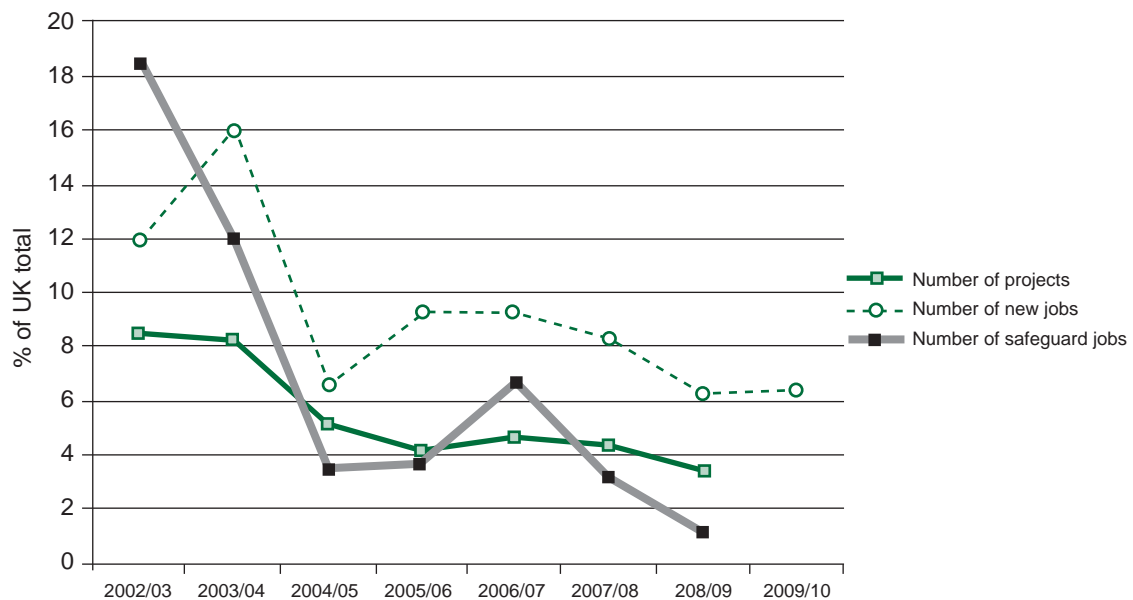
1 Introduction

Background

1. Surveys have shown that inward investment can generate, among other benefits, higher employment and productivity levels in economies. Historically, Wales has performed well in attracting inward investment with around £7 billion invested between 1980 and 1995.¹ Wales was particularly successful in attracting inward investment during the late 1980s and early 1990s and the country received approximately 15% of the UK’s inward investment and associated jobs created.² Based on its population size, this was three to four times its proportionate share of the inward investment and Wales was considered by commentators to be the UK’s most successful region for attracting inward investment.³

2. More recently, however, the environment for attracting large-scale investments has changed for the worse. In retrospect the 1980s and early 1990s can be viewed as “a golden age” for Wales in attracting inward investment. By 2009–10, Wales was receiving 6% of the total inward investment into the UK.⁴ Furthermore, with the increasing globalisation of commerce and trade and the associated mobility of labour, capital investors increasingly exploited opportunities in the countries of South East Asia and Eastern Europe. Figure 1 below shows Wales’s declining performance in attracting a share of UK inward investment.⁵

Measures of Welsh Inward Investment success as a % of UK total



Source: School of Business and Economics, Swansea University

1 Ev 188
 2 P Evans, R Holtz, and A Roberts, *Empirical investigation of FDI in Wales*, Welsh Assembly Government Research Unit (2008)
 3 S Hill and M Munday, *The UK Regional Distribution of Foreign Direct Investment: Analysis and Determinants*, Regional Studies 26(6) (1992)
 4 Ev w17
 5 Ev w21

Our inquiry

3. The Welsh Affairs Committee considers the future health and growth of the Welsh economy to be of central importance to our work during this Parliament. Since the General Election of 2010 we have held a number of inquiries relevant to the economy of Wales and we plan to continue this work in the future. Our inquiry into Inward Investment in Wales has been our widest-ranging investigation so far. During the inquiry we have examined: the current level of inward investment in Wales; skill levels in Wales; transport infrastructure; the way in which Wales is marketed overseas; and the effectiveness of co-operation between the UK Government and the Welsh Government.

4. Our inquiry involved a number of visits to businesses in Wales and in Europe so that we could hear at first hand the views of key players involved in the Welsh economy. We began our inquiry with a roundtable discussion with business representatives in Wales. This provided an invaluable opportunity for us to identify areas of concerns with business leaders, which we pursued during the course of this inquiry.⁶ We would like to thank GE Aviation Wales in Nantgarw, South Wales for hosting the event.

5. We also visited Tata in Port Talbot, Airbus in Broughton, and First Great Western at Reading. We undertook overseas visits to Germany and Belgium where we met a range of business representatives and officials from the UK and Welsh Government concerned with inward investment.⁷

6. Since the establishment of the Committee in July 2010, we have been committed to holding regular evidence sessions in Wales. As part of this inquiry, we held sessions at the National Assembly for Wales, Cardiff, at Swansea University, and at the OpTIC Technium in St. Asaph. We are grateful for the assistance we received to make these meetings successful. A full list of those from whom we took oral evidence can be found on pages 52–53. We are grateful to everyone who provided oral and written evidence to our inquiry.

7. The Committee was assisted in this inquiry by its Specialist Adviser, Professor Max Munday, Director of the Welsh Economy Research Unit, Cardiff Business School, Cardiff University.⁸

6 A full list of attendees can be found in Annex A.

7 A full list of the visits the committee undertook can be found in Annex B.

8 See Formal Minutes of 4 November 2010 at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/welsh-affairs-committee/formal-minutes/>

2 Importance of Inward investment to Wales

Development of inward investment in Wales

8. During the 1970s, Wales was among the first regions to recognise the potential benefits of inward investment. Successive governments saw inward investment as an effective means of replacing the jobs lost in Wales following the decline of heavy industries such as coal mining and steel production. Wales offered a “compelling package” consisting of grants, large parcels of land available for development, low labour costs and a ready supply of workers.⁹

9. A steady flow of foreign owned companies from USA, Germany and Japan came to Wales, representing industries such as electronics, vehicle components and chemicals; and companies such as Panasonic, Bosch, Ford, LG and TRW established a significant presence in the country.¹⁰ In the 1990s there was a mix of service and more capital-intensive manufacturing investments, including General Dynamics, ING Direct and Zurich Insurance.¹¹

10. Between 1979 and 1991 foreign investment in Wales accounted for over 14% of the UK total, despite less than 5% of the UK population living in Wales.¹² By 1992, the number of employees in foreign-owned companies operating in manufacturing industry in Wales stood at over 70,000 or just under 30% of all employees in the sector.¹³ Evidence submitted by academics from the School of Business and Economics at Swansea University¹⁴ noted the performance of Welsh industry during this period:

Jobs in engineering in Wales grew by nearly 15% between 1983 and 1990, compared to a fall in all other regions; the Welsh unemployment rate converged steadily on the UK rate; and real GDP growth in Wales was amongst the highest of all regions in the UK: averaging 4.5% per annum in 1986–90 compared to a UK average of 3.1%. Manufacturing productivity growth between 1981–92 was the highest of any UK region.¹⁵

11. However, by the 1990s the advantages by which Wales had “sold” itself to inward investors were less compelling, with the new entrants to the EU from Central and Eastern Europe, China and other developing countries able to offer significantly lower employment

9 Q 307

10 Ev w11

11 *Ibid.*

12 Ev w17

13 *Ibid.*

14 Professor David Blackaby, Dr Stephen Drinkwater, Professor Philip Murphy, and Dr Catherine Robinson, School of Business and Economics, Swansea University

15 Ev w17

costs. Professor Peter Gripaios from Plymouth University commented that attracting inward investment to Wales had been “seen almost as a one-trick pony”.¹⁶ As a result, “easy come footloose manufacturing operations [were] also easy go”.¹⁷ Professor Gripaios argued that:

It is okay being the cheapest in the UK [...] but that does not help you very much if you are in a big European market where Hungary is a lot cheaper and if you are in a world market where China is a lot cheaper.¹⁸

12. With Wales unable to compete on cost, it lost its competitive advantage. Inward investment and the jobs created from it began to fall, with 11.8% of new and safeguarded jobs in the UK going to Wales in 1992 but only 5.6% of jobs going to Wales by the middle of the decade.¹⁹ Between 1998 and 2008, 171 foreign-owned sites closed in Wales, with the loss of 31,000 jobs, mainly in manufacturing.²⁰

13. Wales’s performance within the UK also deteriorated. Since 2006, the country’s share of UK investment projects has ranged between 3.4% and 4.6%, well below the earlier peaks of investment. Wales, one of the top regional performers in the UK in attracting FDI in the period 1990–2004, had become almost the worst performer by 2009. In explaining the decline in inward investment in Wales, Glenn Massey, author of *Review of International Business Wales*,²¹ commented:

That is not to say that the UK was not successful for FDI; it was. It still remained No.1 in Europe and that was likely to continue. However, there was a shift away from the regions. Scotland, Wales and parts of northern England were very successful in the 1990s. From 2000 onwards, most of the FDI, with a few exceptions, is now in London and the south-east of England. The centre of gravity has changed.²²

Reasons for the decline in inward investment

14. Several witnesses argued that the inward investment policy followed by successive governments over the previous decades had been a relatively “short term palliative rather than a long run solution” to Wales’s economic problems.²³ In describing the previous policy, Professor Robert Huggins and Professor David Brooksbank from the University of Wales Institute, Cardiff (UWIC), commented that it had been based on a:

16 Q 3

17 Ev 115

18 Q 4

19 Ev 188

20 P Evans, R Holtz and A Roberts, *Empirical investigation of FDI in Wales*, Welsh Assembly Government Research Unit (2008)

21 Glenn Massey, *Review of International Business Wales* (2009)

22 Q 307

23 Ev 115

... series of fairly well trodden and rehearsed rules, encompassing the provision of pragmatic attractions such as financial incentives, ample land availability, and a sound infrastructure with competitively priced labour.²⁴

15. Many of the jobs provided in the 1980s and 1990s had been low-paid assembly-line work and had not improved the long-term skills of the employees. Dr John Ball, Lecturer of Economics at Swansea University, argued that policies had concentrated on the provision of employment to the detriment of self-sustaining growth: “it was employment at any price”.²⁵

16. In discussing the types of companies that had been encouraged to invest in Wales, Dr Ball argued that no attempt had been made to differentiate between efficient and non-efficient firms; instead policy had been focused on attracting manufacturers of products at the end of their life cycle, which were driven by cost.²⁶ They therefore moved rapidly when lower costs became available elsewhere. In written evidence, Dr Ball summarised that:

... Wales became a “branch plant” economy; inward investment became synonymous with external ownership, low skilled employment, standard end of life cycle products, mature technologies and restricted management opportunities.²⁷

Professor Gripaios agreed that: “Wales [had] not been successful in attracting foreign-owned higher-order manufacturing business functions, and there [was] little evidence of significant spin-off”.²⁸

17. Written evidence from Professor Robert Huggins and Professor David Brooksbank, argued that the development of the knowledge economy altered “the rules of FDI attraction”.²⁹ High-level skills, innovation and access to knowledge were now the key attractions rather than low-cost labour and land.³⁰ Many witnesses argued further that Wales had failed to recognise that the market place had changed, and that it had not refined its inward investment strategy to reflect the changed circumstances. Sir Roger Jones, former Chair of the Welsh Development Agency, commented that:

... the Welsh Assembly Government were minded that the sun would stay in the sky for ever [...] They did not look at the downside risk and the skills required in order to stay afloat and win in a more difficult market.³¹

Mr Massey agreed that:

24 Ev w6

25 Q 3

26 Ev 112

27 *Ibid.*

28 Ev 115

29 Ev w6

30 Q 14, Ev w5

31 Q 256

The problem Wales had was that the toolset it developed to attract that type of investment [such as consumer electronics and automotive-type projects] did not change to reflect the new world economy.³²

18. In the early 1990s, Wales was one of the top performing areas of the UK for attracting inward investment. The country benefited from the employment and economic well-being that inward investment brought, as more traditional industries declined. However, by 2009, the country had become one of the worst performing areas of the UK and much of the economic benefit of earlier investment had disappeared.

19. Wales was slow to adapt to the changed conditions for attracting inward investment. In particular, successive governments reacted too slowly to the emerging competition from Eastern Europe and Asia. In addition, Wales's competitiveness compared with other areas of the UK deteriorated markedly. The UK Government and the Welsh Government must work together to reverse this decline.

Inward Investment: the new environment

20. In July 2010, the Prime Minister, Rt Hon David Cameron MP, announced that the UK's ability to attract and retain inward investment would be at the heart of the UK Government's economic recovery plans:

Attracting and retaining inward investment is hugely important for our economic recovery. We want Britain to be a place where companies can grow and succeed, where the world's best companies thrive, where great ideas and innovations are turned into great products and where we have a world-class workforce.³³

Similarly, the Welsh Labour manifesto for the National Assembly elections in May 2011 signalled the new Government's focus on inward investment, stating that Wales is "open for business [...] whether they are Wales based or an inward investor".³⁴

21. Most witnesses supported this renewed focus on inward investment, arguing that it would contribute to economic growth. In written evidence to the Committee, Dr Ball noted that a successful inward investment policy could provide:

- A major source of employment;
- The introduction of new skills and technology to the receiving region;
- A substantial multiplier effect;
- Encouragement of local suppliers; and
- A long-term strategic asset as a basis for economic growth.³⁵

22. In May 2010, Scottish Development International published an independent evaluation of the impact of FDI. The report found that inward investment flows between 2001 and

32 Q 309

33 Prime Minister speaking at the UK Trade & Investment Summit, 14 July 2010

34 Welsh Labour Manifesto, *Standing up for Wales* (2011)

35 Ev 111

2009 (using a sample of 55 projects) had created around 13,000 net additional jobs. The analysis suggested that higher wages, higher employment and higher productivity were experienced by inward investor companies.³⁶

23. There has, however, been a long-running debate in Wales about the relative merits of policies supporting inward investment and those supporting indigenous investment. As the School of Business and Economics at Swansea University explained, the 1990s saw an attempt by the Welsh Government to shift the emphasis in Welsh industrial policy away from inward investment and towards supporting indigenous business growth through a number of policy initiatives.³⁷ Professor David Pickernell, Professor in Economic Development Policy at the University of Glamorgan, argued that rather than being in conflict these policies could be complementary, and drew attention to the “knowledge spill-over theory of entrepreneurship,” which suggested that benefits can be derived from explicitly linking inward investment policy with policies aimed at indigenous business development.³⁸

24. However, witnesses were also agreed that a new approach was needed in attracting FDI and harnessing the economic benefits for the Welsh economy.³⁹ Mr Massey argued that:

We are never going to go back and be attractive to low-value manufacturing. That has gone, unless we become a low-wage economy again, and I do not think any of us want that. What we have to do in terms of manufacturing is attract high added-value projects...⁴⁰

25. Inward investment continues to be crucial to the growth of the Welsh economy. It provides a number of benefits and multinational firms help develop efficient supply chains, raise productivity in local suppliers, improve export performance and maintain employment. **Traditional approaches, such as grants and low labour costs, can no longer be relied upon to attract inward investors. The development of the knowledge economy has changed how countries attract investment from overseas. The Welsh Government must think innovatively about how to exploit this opportunity and develop a cogent economic strategy to maximise potential gains. In addition to developing domestic business growth, the Welsh Government must reassert the importance of inward investment in its economic policy.**

26. During our inquiry we were informed of a number of factors upon which companies make decisions regarding inward investment. Some of the key areas are the responsibility of the UK Government; others are the responsibility of the Welsh Government. A number are shaped by the governments in both Cardiff and London. Lord Green of Hurstpierpoint,

36 SQW Consulting, *SDI Policy Evaluation* (2010)

37 Ev w18

38 Ev 117

39 Q 48

40 Q 310

Minister for Trade and Investment at the Department for Business, Innovation and Skills (BIS), told us that countries weighted these up “systematically”:

It is almost as if they are building up a grid: here are the criteria, here are the countries and we are scoring each country, and we come out with a decision in the bottom right-hand corner.⁴¹

27. In this Report, we have focused on what we consider to be the key issues that affect inward investment in Wales—education; transport; and the international profile of Wales.

3 Education

28. Education and skills policy is devolved to the Welsh Government. It is widely acknowledged that Wales “continues to have a major problem with basic skills”.⁴² Underachievement in terms of education and skills for 15 year olds in Wales was highlighted by the findings of the Organisation for Economic Cooperation and Development’s (OECD) 2009 PISA Report, which found that the mean score for reading, mathematics and science in Wales was not only below the OECD average, but also the lowest of the UK countries.⁴³ Wales’ ranking is shown in comparison with the scores of the other UK countries in the table below.

UK 2009 PISA Results for Reading, Maths and Science

	Reading	Maths	Science
England	Joint 27 th of 67 (494 points)	Joint 28 th of 67 (493 points)	Joint 16 th of 67 (515 points)
Northern Ireland	Joint 19 th of 67 (499 points)	Joint 30 th of 67 (492 points)	Joint 19 th of 67 (511 points)
Scotland	Joint 15 th of 67 (500 points)	21 st of 67 (499 points)	17 th of 67 (514 points)
Wales	Joint 38 th of 67 (476 points)	Joint 40 th of 67 (472 points)	Joint 30 th of 67 (496 points)
Organisation for Economic Cooperation average	493 points	496 points	501 points

Source: PISA Report for 2009

29. The Welsh Government has acknowledged that the basic skill levels of young people need to be improved. *Standing Up for Wales* noted that “Economic recovery requires action to build a fairer, sustainable future, and jobs and the economy must be the overriding priority in the next Assembly term”.⁴⁴ The manifesto confirmed the Welsh Government’s commitment to developing skills “as central to making Wales a highly attractive place to live, invest, employ and grow”.⁴⁵

30. Dr Ball argued that low skill levels were a deterrent to investors.⁴⁶ A number of witnesses were particularly concerned about the decline in single subject science courses and in STEM skills (science, technology, engineering and maths). In 2008, the Royal Society’s report, *Science and mathematics education 14–19*, showed, amongst other

42 Annual report of the Wales Employment and Skills Board, *A Wales that Works* (2009) p 18

43 Organisation for Economic Cooperation Programme for International Student Assessment (PISA) 2009 Results.

44 Welsh Labour Manifesto, *Standing up for Wales* (2011)

45 *Ibid.*

46 Q 11

findings, that the proportion of learners taking biology, chemistry, physics and mathematics at a higher level in Wales was significantly below that of the other UK countries (Advanced level in Wales, England and Northern Ireland and the Higher qualification in Scotland).⁴⁷

31. Aled Davies, Skills Director for Wales, Energy and Utility Skills Ltd, told the Committee that the number of students studying electronic and electrical engineering courses in universities had fallen by 40% in the last ten years across the UK,⁴⁸ while applications for computer science A-level had fallen 63% over the last 14 years.⁴⁹ Mr Davies noted that in Wales a career in engineering did not have a “sexy image” and that students had a negative perception of the careers available to them.⁵⁰ By contrast, we were told during our visit to Germany that engineers were highly valued and were held in high regard by society.

32. Some witnesses were optimistic that negative perceptions about science and engineering could be overcome by the early engagement of industry with students, starting from school age. We were told of some imaginative examples of such engagement. Steve Thomas, Government Affairs Executive at Airbus, told us about an open day that Airbus had held where it had invited all potential recruits, from internships to apprenticeships to direct entry graduates. Four thousand people had attended the event.⁵¹ The advantages of early engagement with children were also raised with us during our visit to Tata in Port Talbot. However, we were told that such relationships were too often reliant on a personal relationship with a particular teacher, which could be lost if the teacher left the school. To achieve a longer lasting relationship between industry and education, Stuart Bailey, then Manager for Graduate and Apprentice Development at Cassidian, stated that there was a need to have:

... some means of pulling industry and education together, by which you get key people from industry talking to key people from schools to start developing this relationship. At the moment, it is done on an *ad hoc* and individual basis.⁵²

33. Other witnesses spoke about the wider need to change the aspirations of students in Wales. According to Professor Gripaios: “they have to be hungrier and better educated”.⁵³ Sir Terry Matthews, Chairman of Wesley Clover, commented on the need for students and graduates to develop an entrepreneurial spirit, which would make them attractive to foreign investors, as well as aiding indigenous businesses growth. Mr Simon Gibson, Chief Executive Officer at Wesley Clover, praised the work at Queen’s University in Belfast, where entrepreneurship was taught as a module in every degree:

47 The Royal Society, *Science and mathematics education 14–19* (2008)

48 Q 165

49 Q 167

50 Q 165

51 Q 363

52 Q 176

53 Q 8

I would hazard a substantial bet that the Northern Ireland economy is going to benefit in 10 or 20 years very significantly because it has taught entrepreneurship in higher education to every single grad that comes out of that institution [...] They have taken a very fundamentally simple decision—every graduate needs to be taught entrepreneurship—and they are changing the road map.⁵⁴

34. Failure to improve the skills of young people in key areas will contribute to continued economic decline in Wales. We recommend that the UK Government and the Welsh Government renew their efforts to promote science and engineering in Wales. In particular, both Governments must address negative perceptions among young people of science subjects and should promote links between businesses and schools from the earliest possible age.

35. We welcome and recognise the work that is currently undertaken by companies to engage with schools. This must be encouraged and expanded. We recommend that the Welsh Government place more emphasis in the school curriculum on the importance of business and industry, including trying to locate a higher proportion of work experience placements within them. The future economy of Wales depends on a well-educated and highly-skilled workforce.

Further and Higher Education

Collaboration with industry

36. We also examined the role of further and higher education in attracting inward investment. Lord Green recognised that their role was becoming “increasingly prominent in investors’ decisions”.⁵⁵ Glyndŵr University commented that it had “long recognised the importance of attracting investment from outside the region” to promote the economic and social development of its region.⁵⁶

37. Professor Richard Davies, Vice-chancellor of Swansea University, emphasised the importance of working with industry, although he acknowledged that universities in Wales had previously “fallen behind the pace”.⁵⁷ He told us that the Bay Science and Innovation Campus being developed by Swansea University would “facilitate a step change in the University’s interaction with industry”,⁵⁸ and would provide:

... an intensive, open-innovation environment by inter-mingling industrial R&D, academic research, and postgraduate students. The campus will also be designed to facilitate the growth of high-technology clusters in the region by including consultancy, access to business support, and incubator facilities.⁵⁹

54 Q 111

55 Q 493

56 Ev 173

57 Q 131

58 Ev 128

59 *Ibid.*

38. Professor Davies identified how the university focused on collaborating with large companies. This had several advantages as larger companies “pay better wages, they are better for our graduates, they take a larger number of graduates, and they pay for research and development —they do over 95% of that”.⁶⁰ He identified the long-standing links the university had with Tata and Rolls Royce.

39. Mr Thomas illustrated how Airbus was working with Deeside College and Glyndŵr University at the Advanced Composite Training and Development Centre on the Hawarden Industrial Park in Broughton. The centre allowed its employees to progress from craft apprentice level at Airbus to Chartered Engineer through qualifications delivered by Glyndŵr University. Tony Hawkins, Managing Director of Glyndŵr Innovation at Glyndŵr University, added that they were now working on a second-generation centre that would involve “innovation, knowledge transfer, skills, research” and would create a “learning pathway” from junior school to degree studies.⁶¹ Although Welsh universities are now working harder than before on developing these links, there is still some way to go before they catch up with other universities in the United Kingdom.

40. In written evidence to the Committee, Professor Siân Hope, Executive Director of Innovation and Professor of Computer Science at Bangor University, commented on the importance of the energy sector for North West Wales. The higher and further education sectors supported the strategy “Anglesey Energy Island” and were strengthening their relationship with Horizon Nuclear with regard to future opportunities for “knowledge exchange and accredited programmes”.⁶² During our visit to Germany, we heard how important this relationship was viewed by Horizon, with Bangor University looking to tailor training and research for the sector.

41. Swansea University highlighted how their work with large companies such as Tata and Rolls Royce offered “real potential for supporting cluster development of high-technology companies”.⁶³ In particular the University saw the potential for developing three broad academic areas: Engineering, Computer Science and Telecommunications, and Life Sciences and Medicine, areas which were linked to more than 75% of industrial R&D in the UK. Dr Grahame Guilford, Consultant of Commercialisation at the Swansea Bay Science and Innovation Campus, Swansea University, described the characteristics of a cluster as including “a strong research base, major industry partners, small and medium-sized enterprises, supply chains and spin-outs”.⁶⁴

42. In written evidence, Airbus described the impact that supply-chain jobs had on employment where, in addition to the 6,000 directly employed Broughton workforce, a further 2,000 people were employed by suppliers to Airbus, located on, or in close proximity to, the Broughton site.⁶⁵ During our visit to Glyndŵr University, we also heard

60 Q 151

61 Q 381

62 Ev 166

63 Ev 127

64 Q 142

65 Ev 161

about the development of the opto-electronic industry cluster in North Wales, centered around the work at Optic Glyndŵr, in addition to a growing cluster in the creative industries in Wrexham, based around the University's new Centre for the Creative Industries.

43. Nick Baird, Chief Executive of UK Trade & Investment (UKTI), agreed that Wales had a number of “strong clusters” in Wales including, and not limited to, the aerospace cluster, advanced manufacturing, life sciences and the media.⁶⁶ He commented that there were economic advantages to having recognisable clusters in a region and noted the success of Manchester, which had managed to market itself as a location for creativity.⁶⁷

44. Partnership working between universities and industry will play a crucial role in Wales's future prospects and is a key factor in attracting companies to Wales. We believe that there is an urgent need to tailor university courses to business needs in Wales. We welcome the work that has been undertaken at institutions such as Swansea University, Bangor University and Glyndŵr University, and the links they are developing with major multinationals such as Tata, Rolls Royce and Airbus. The Welsh Government should explore how these schemes could be emulated at other universities.

Research and Development

Funding

45. In 2009–10, Government-funded research councils in the United Kingdom awarded research grants worth £1.58 billion: Welsh universities secured £53 million, only 3.3% of the total—well below the 5% normal share of overall public funding allocated to Wales.⁶⁸ Based on a 5% target, Wales should generate a funding pot of approximately £75 million annually.

46. In addition to UK Research Funding Councils, Welsh Universities are able to apply for EU Structural Funds through 2007–2013 ‘Convergence Funding’ programmes for West Wales and the Valleys (the successor to Objective 1) and the Regional Competitiveness and Employment programmes for East Wales. The focus is upon R&D, innovation and high-level skills underpinning an effective wealth-creating private sector. Professor R. Davies, Swansea University, commented that they had bid for convergence funding as part of a “long-term development, and convergence funding is used to grow capacity in the university that will be maintained and sustained into the future”.⁶⁹

47. We examined whether there was a degree of complacency amongst some Welsh universities in winning bids for funding due to the existence of routes such as EU Structural Funds. Professor Mark Drakeford AM argued that there was a need for universities to take advantage of the variety of European funding opportunities that

66 Q 451

67 Q 452

68 See <http://www.hefcw.ac.uk/home/home.aspx>

69 Q 143

existed, and not to simply rely on Convergence funding: “it is not one or the other; it is both”.⁷⁰ Eluned Parrott AM, Welsh Liberal Democrat Shadow Minister for Enterprise, Transport, Europe and Business, argued that full advantage had not been taken of funding opportunities in Europe. However, she acknowledged that there were difficulties with applying for European funding for higher education, with priority given to large scale collaborative projects across country boundaries:

First, it requires high-profile partnerships across EU border, and frankly, it takes time, money and a strong reputation to deliver those kinds of partnerships. Secondly [...] [t]he European funding procedures, particularly in terms of research, are extremely time-intensive—more so than with the UK research councils. The scale of the projects that are funded is often off-putting to smaller institutions, and many of our universities are smaller than the national average.⁷¹

Commercialisation

48. Swansea University acknowledged that there were gaps in the commercialisation of research results and the development of new technologies from UK universities. Professor Richard Davies commented that the university was:

... not funded to commercialise research. We are a charity and we are funded for research and teaching, not to make profits. There have been major inefficiencies in the UK higher education system in translating research into products and wealth creation.⁷²

49. Professor Michael Scott, Vice-chancellor of Glyndŵr University, was critical that decisions on research funding were based on issues such as research assessment exercises, and peer review in terms of research papers, rather than the ability to translate research into a product that was then sold in the market place.⁷³ Mr Massey agreed that funding decisions should be based on outcomes and cited the Massachusetts Institute of Technology (MIT) as an example of “how lecturers are basically entrepreneurs”.⁷⁴

50. We heard evidence that Wales has a poor record in capturing research funding. In addition, much of the knowledge gained from research is lost because it is not used in a practical sense. There is a clear need to ensure that research capabilities are matched by the ability to change ideas into new and innovative products and services for the market place. We urge the UK Government to make it clear how it proposes to close this “innovation gap” and to ensure the future prosperity of the Welsh economy.

51. The European Convergence Programme has proved to be a valuable investment route for Welsh universities. However, universities in Wales must not limit themselves

70 Q 400

71 Q 401

72 Q 147

73 Q 386

74 Q 318

to focusing only on Convergence funding and must examine wider opportunities for securing European funding. They must work to maximise the value from funding across all R&D income streams and look to take advantage of all European funding opportunities.

52. We welcome the collaborative approach that has been increasingly adopted by Welsh universities. We encourage them to continue to pursue this approach, not only within Wales but also to develop successful partnerships with overseas institutions.

International Activity

53. Many of our witnesses spoke about the need for Welsh universities to be less parochial and to look and work globally. Some examples of good practice were identified, including the work done by universities to build strong links with overseas institutions, industry and governments. Swansea University had established a China Centre to facilitate relationships between the university and businesses in China. It was also seeking opportunities in emerging markets such as Cambodia, Vietnam and Laos.⁷⁵ Professor Scott commented that Glyndŵr University had recently gained a £5 million contract with the Vietnamese Television Corporation.⁷⁶

54. According to Lord Green, another way that links could be developed internationally was by the intelligent use of alumni networks, including making use of the Welsh diaspora overseas.⁷⁷ Professor Iwan Davies, Pro Vice-chancellor of Swansea University, commented on the importance of maintaining links with its alumni and using them as an opportunity to promote “Swansea and Wales as an economy”.⁷⁸

55. Professor Davies identified UKTI’s “critical” role in helping it establish relationships overseas, due to the network opportunities it presented and its ability to bring partners together.⁷⁹ He commented that the university had worked well with UKTI on its Institute of Life Sciences and emphasised the importance of its engagement with the new Bay Science and Innovation Campus.⁸⁰

56. We welcome the work that is being done by Welsh universities internationally and encourage them to develop this further. There is a real opportunity to use alumni to increase awareness of Welsh universities and the work they produce, and to help develop links between industry and government with Welsh universities.

57. UK Trade & Investment (UKTI) must ensure it is aware of the potential offered by universities in Wales and that it communicates these to prospective inward investors. We call on UKTI to clarify how it aims to support the work done by Welsh universities.

75 Q 134

76 Q 377

77 Q 497

78 Q 133

79 Q 137

80 Q 37

4 Transport infrastructure

58. A number of witnesses argued that the transport infrastructure in Wales was in need of improvement. Professor Stuart Cole, Professor of Transport at the University of Glamorgan, argued that if Wales was to compete successfully with countries in Eastern Europe, it's transport facilities had:

... to be able to help overcome the cost differentials and distances from these markets by becoming ultra-efficient and influence competitiveness for inward investment ...⁸¹

59. During our visit to Germany, it became clear that UKTI officials recognised that the current transport infrastructure in Wales could act as a potential deterrent for investors.

Road Network

60. In the United Kingdom, 90% of freight is transported by road. Two routes in Wales form part of the Trans European Network [TENs] which link Ireland to Wales and then to England and the rest of Europe: the M4 Motorway leading on to the A48 and on to the A40 in the south of the country and the A55 in the North. Owens (Road Services) Ltd described the M4 around the Bryn Glas tunnels as “one of the most congested parts of the road network in Wales; at peak flow, traffic volumes exceed the capacity of this stretch of road by up to 105%”.⁸² Owens continued that:

It is therefore imperative that this important European route is brought up to an international standard and all routes off the motorway network, which have been recognised as alternatives in emergencies, are fit for purpose.⁸³

61. The Freight Transport Association (FTA) commented that investors in Mid Wales faced particular challenges due to its remoteness from major road and rail networks.⁸⁴ Professor Cole agreed that there was a perception that Aberystwyth was difficult to get to,⁸⁵ while Ian Jarman, Environmental and Legislation Manager for Owens (Road Services) Ltd, said that a good road infrastructure was absent in West Wales.⁸⁶ **We are concerned by evidence that the quality of transport links in Mid and North Wales and the connectivity between the rest of Wales and England deters overseas investment in parts of Wales. We welcome the strong East-West focus in the Welsh Government's new transport plan. We intend to conduct an inquiry into transport connectivity between Wales and the rest of the UK and the Republic of Ireland during this Parliament.**

81 Ev 147

82 Ev 154

83 *Ibid.*

84 Ev w32

85 Q 234

86 Q 237

Rail Services

62. Witnesses commented on the importance of a fast passenger rail service between London and Wales. David Stevens, Chief Operating Officer of Admiral Group Plc, told us that when the company was deciding where to locate in the UK, the company's financial backers had stipulated that it had to be within two hours of London for easy access.⁸⁷ We were pleased by the Government's announcement of the electrification of the Great Western Main Line from London to Cardiff by 2017.⁸⁸ However, Professor Cole spoke of the negative perception caused by not extending electrification to Swansea:

... if you are inward investor [...] you begin to wonder why the Department for Transport—the British Government—have not invested west of Cardiff. Perhaps it is not worth your investing west of Cardiff.⁸⁹

The Secretary of State for Wales, Rt Hon Mrs Cheryl Gillan MP, told the Committee that she was continuing to press for electrification to Swansea, and that the “door [was still] open”.⁹⁰

63. The Government also announced that it would consider plans for electrification of the South Wales Valleys routes.⁹¹ In evidence to the Committee, the Secretary of State for Wales told us that she was developing a business case for the electrification of the Valley lines.

64. We welcome the Government's commitment to the electrification of the Great Western Main Line to Cardiff. We believe a strong economic case has been made for electrification of the line to Swansea and we welcome and support the Secretary of State for Wales in calling for it to happen. We call on the Government to announce plans to extend electrification of the Great Western Main Line to Swansea at the earliest opportunity. We also welcome the Secretary of State's commitment to develop a business case for the electrification of the South Wales Valleys lines.

65. The Great Western franchise will be renewed in 2013 for a period of 15 years. We call on the Welsh Government and the Wales Office to use the opportunity provided by the franchise negotiations to ensure the greater frequency of train services between England and Wales, so that opportunities for attracting inward investment are maximised.

Rail Freight

66. Rail freight usage has been on an upward trend since the mid 1990s.⁹² The Freight Transport Association commented that a high speed line to Wales was not a requirement

87 Q 423

88 HC Deb, 1 March 2011, col 186

89 Q 200

90 Q 500

91 HC Deb, 1 March 2011, col 187

92 Ev w32

for freight, and that instead gauge clearance⁹³ and improved capacity for lower cost ‘classic lines’ were the priority to improve the connectivity of South Wales.⁹⁴

Definition of W10 and W12 loading gauges

Network Rail uses a W loading gauge classification system of freight transport ranging from W6A (smallest) through W7, W8, W9, W9Plus, W10, W11 to W12 (largest):

W10: Allows 2.9 m (9 ft 6 in) high Hi-Cube shipping containers to be carried on standard wagons and also allows 2.5 m (8 ft 2 in) wide Euro shipping containers.

W12: Slightly wider than W10 at 2.6 m (8 ft 6 in) to accommodate refrigerated containers. Recommended clearance for new structures, such as bridges and tunnels.

67. In written evidence to the Committee, the FTA argued the need for a minimum loading gauge of W10, which allowed for the transport of the 9ft 6ins high containers now favoured by shipping companies. It would also cater for freight growth in the future. A loading gauge of W12 would also allow for the transport of refrigerated containers:

... it is important to ensure that W12 (or at least W10) gauge clearance is provided when electrification is done on the Great West Main Line, and this be extended to Swansea—this allows compatibility with standard freight flows, allowing the line to work as part of rail’s developing Strategic Freight Network.⁹⁵

68. Currently the maximum gauge clearance accommodates some mainland European gauge vehicles but does not maximise the traffic potential. We call on the Government to consider enhancing the gauge to W12, which would enable Wales to compete for new freight traffic and would allow the movement of additional European rail traffic. We also call on the Government to ensure that railway lines are maintained to route availability standards.

Ports

69. Milford Haven Port Authority told us that Welsh ports provided an opportunity for “creating inward investment hubs with strong commercial logic and momentum”.⁹⁶ Since 2007, Milford Haven Port has attracted over £2 billion of inward investment based on three internationally significant projects.⁹⁷ Associated British Ports⁹⁸ have directly and indirectly

93 A loading gauge defines the maximum height and width for railway vehicles and their loads to ensure passage through bridges, tunnels and other structures.

94 Ev w33

95 *Ibid.*

96 Ev 155

97 Ev 156

98 Associated British Ports owns five ports in South Wales: Newport, Cardiff, Barry, Port Talbot and Swansea.

supported over £2.78 billion per year of gross output to the Welsh economy, accounted for over 16,000 jobs, and provided a GVA of £902.5 million (2% of Welsh total).⁹⁹

70. In written evidence, Associated British Ports argued that not enough was being done to promote Welsh ports to potential customers looking to invest in Wales. They expressed concern that the Welsh Government was not liaising effectively with potential inward investors or the UK Government:

It is [...] recognised that the Welsh Assembly Government could play a greater role in promoting investment in Welsh ports, particularly through facilitating strategic engagement with potential customers who express a high-level interest in investing in Wales or, more broadly in the UK. With respect to the latter, it is important that WAG ensures effective and ongoing liaison with UK Government departments such as the Department for Business, Innovation and Skills.¹⁰⁰

71. We call on the UK Government and the Welsh Government to recognise the importance of ports to the economy of Wales. Both the UK and Welsh Governments should, in their responses to this Report, set out how they are promoting investment in this area.

72. We have heard evidence that poor transport infrastructure can have a detrimental effect on the levels of inward investment. Transport infrastructure has been under-funded by the UK Government and the Welsh Government for a number of years. While we recognise the UK Government's commitment to reducing the national deficit, transport infrastructure spending should not be considered less important than other areas of spending. The UK Government and the Welsh Government must not consider reductions in infrastructure spending as an easy means of deficit reduction.

73. The UK Government and the Welsh Government must look creatively at ways to fund infrastructure projects. We call on the UK Government and the Welsh Government to examine how European Convergence Funding can be used to fund transport infrastructure improvements in Wales.

99 Ev w48

100 Ev w49

5 Promoting Wales abroad

74. We received a range of evidence about the importance that marketing a country overseas can have on investment decisions. Witnesses described how countries with an unknown or poor reputation would not be considered sound places to invest. In contrast, those countries that were viewed more positively would be looked on more favourably as places in which to invest.

75. Wales is a small nation located on the periphery of Europe and faces keen economic competition to attract skilled workers, tourists and inward investment, not only within the United Kingdom, but from Europe and further afield.

76. For around thirty years, the Welsh Development Agency (WDA) was responsible for encouraging business development and investment in Wales. It was abolished in 2006. Its international remit was transferred to the newly created International Business Wales (IBW), which sat within the then Department for the Economy and Transport. At the end of 2010 IBW ceased to exist as a separate entity and its activities were subsumed into the Welsh Government's Department for Business, Enterprise, Technology and Science.¹⁰¹

Current situation

77. UK Trade & Investment (UKTI) is the joint UK government department with lead responsibility for trade and investment. UKTI's aims and objectives are to:

- Deliver measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on innovative and R&D active firms;
- Increase the contribution of foreign direct investment to knowledge intensive economic activity in the UK, including R&D; and
- Deliver a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice.¹⁰²

78. The International Business Development Forum (IBDF) governs the way in which UKTI and the Devolved Administrations work together to manage the flow of inward investment. In written evidence to the Committee, UKTI stated that the aims of the agreement were to:

... maximise the amount of knowledge-driven FDI for the UK, to improve transparency and partnership working, to strengthen the UK Brand, avoid perceptions of wasteful competition and the risk of customer confusion, and to promote the more efficient use of public money across the network.¹⁰³

101 Previously, the Department for the Economy and Transport.

102 See <http://www.ukti.gov.uk/uktihome/aboutukti/aimsobjectives.html>

103 Ev 195

Concerns

79. Many of our witnesses expressed concern over the current way in which Wales was promoted overseas. We looked first at the role of UKTI, which works to promote the whole of the UK as a destination for inward investors. We were interested to seek assurances that in ‘selling the UK,’ Wales was not a forgotten region.

80. The Government has prioritised the need to rebalance the economy. We were interested to hear from witnesses how this would affect Wales. The Secretary of State for Business, Innovation and Skills, Rt Hon Dr Vince Cable MP, agreed that rebalancing was a “big strategic objective” but did not agree that setting targets and directing investment to the poorer areas was “the best way of doing it”.¹⁰⁴ Nick Baird, Chief Executive of UKTI, commented that UKTI did not prioritise any region but worked closely with the different parts of the United Kingdom “to showcase their particular advantages and attract investment in those directions”.¹⁰⁵ We compared this with the situation in Germany where there is a clear strategy to target investment to the poorer parts of the country. **We call on the Government to set out how it intends to re-balance the UK economy and how it will work with the Welsh Government to attract inward investment into Wales.**

81. In written evidence, UKTI described the process by which regions of the UK currently bid for prospective inward investment. Project information was shared through an electronic communications platform allowing Wales, Scotland and Northern Ireland and the regions of England to respond to potential projects. Propositions prepared by Wales and other regions were collated by UKTI and then passed on to the potential investor. The emphasis was very much on a particular region of the UK going after projects, rather than UKTI directing potential investors to any particular region.¹⁰⁶

82. Although the Secretary of State for Wales commented on the need to ensure that “Welsh strengths and capabilities are covered in our national offer by the UKTI”,¹⁰⁷ and Mr Baird recognised the need to be aware of the priorities of the Welsh Government in order that UKTI’s work was “supportive and complementary”,¹⁰⁸ Martin Phelan, Director of Investment Projects and FDI Transition at UKTI, admitted that this was not currently the case.¹⁰⁹ It is disappointing that these high-level priorities, identified by the Secretary of State for Wales and the Chief Executive of UKTI, have not been translated into effective action. It is similarly disappointing that in July 2011, there were no Welsh companies represented in the Prime Minister’s delegation to India, a key future market.

83. Many of the witnesses argued that there had been a lack of focus on marketing Wales overseas from the Welsh Government. Professor Garel Rhys of Cardiff Business School, expressed concern that repeated Welsh Government re-organisation had detracted from

104 Q 516

105 Q 453

106 Ev 193

107 Q 519

108 Q 465

109 Q 467

the task of selling Wales to the world, and described the current situation as one of “complete disarray”.¹¹⁰ Following the decision to disband International Business Wales, he noted that:

... there is no identifiable structure, no “peg in the ground”, no decision making: [...] Potential investors all too often feel that they are being shunted back-and-forth when they try to establish contact with the Welsh administration, and to no real effect. The experience has been described as horrendous.¹¹¹

84. Graham Morgan, Director of the South Wales Chamber of Commerce, commented that the Welsh Government had been “inward looking” for the past few years.¹¹² This was contrasted with the situation in Scotland where inward investment was “alive and kicking”.¹¹³ In written evidence, the Cardiff Business Partnership agreed that Wales is:

... arguably no longer seen as a place to easily invest because we fail to reach out and compete.¹¹⁴

85. UKTI officials in Germany commented that there had been little or no contact with Welsh Government representatives about potential investment opportunities in the past 18 months. The officials told us that this contrasted starkly with other UK regions such as Yorkshire and the West Midlands which had been active partners in attracting inward investment.

86. Witnesses also argued that there had been a decline in Wales’s visibility overseas. In its written evidence, the Welsh Government recognised that “global recognition and visibility as an investment location” would maximize Wales’s opportunity for attracting new inward investors.¹¹⁵ Witnesses were sceptical that this was being achieved, and in fact thought that Wales’s “brand” had been significantly reduced with the abolition of the Welsh Development Agency and several recent “rebranding” exercises. Mrs Parrott AM commented that, “International Business Wales did not step into its [WDA’s] shoes with any great degree of success”.¹¹⁶

87. Sir Terry Matthews, in oral evidence, spoke about the opportunity that events such as the Ryder Cup gave to raise Wales’s visibility to a global market.¹¹⁷ This competition, held in 2010, had had a worldwide audience of over a billion people, and it was calculated that the event generated £82.4 million for the Welsh economy.¹¹⁸ In talking about its impact, Mr Gibson, Wesley Clover, commented:

110 Ev w61

111 *Ibid.*

112 Q 40

113 Q 38

114 Ev 122

115 Ev w13

116 Q 413

117 Q 84

118 *Economic Impact Study of The 2010 Ryder Cup*, conducted by IFM Sports Marketing Surveys.

I can think of no other event in Welsh history that has created such global awareness of Wales. [...] whether [...] in China or India, [...] people now know where Wales is. They know the Celtic Manor, they know Newport, and there is a huge brand awareness.¹¹⁹

However, both Sir Terry and Mr Gibson were aware that it was essential that such visibility was built on:

... one of the things we have to be very careful of is that it is not perceived as a finish line. After a big event like that, people often say, “Ah, we did it,” and then ease off, whereas if we consider it as a start line to rebuild the brand, it allows us to capitalise on this massive global awareness that we have created for the nation. If we just let it slip away, a lot of the effect will be wasted.¹²⁰

88. Mr Morgan noted that there was a lack of a clear message about what Wales could provide: “it is not that Wales has lost its competitive edge; it has not framed what its competitive offering is”.¹²¹ Mr Baird agreed that there was a need for a “really simple, compelling narrative about the specific and distinctive benefits of Wales”.¹²²

89. We are concerned that the Welsh Government has no dedicated trade promotion agency. Evidence suggests that the international recognition of Wales has suffered and that investment opportunities have been missed. We recommend a greater emphasis within the Welsh Government on the need to promote inward investment and job creation in Wales, with a dedicated and focused team for this purpose.

90. Wales operates in a competitive global environment. The Welsh Government must market Wales on the international stage more vigorously and must develop a clear narrative about the benefits of Wales that can be promoted to overseas markets. These include a growing university-industry partnership and innovation built on existing industries such as, aerospace, life sciences, manufacturing, specialist steel and tourism. In addition, Wales provides an attractive quality of life to prospective investors, with its coast and countryside and a rich cultural history.

Overseas offices

91. During the inquiry, we examined the merits and effectiveness of the overseas offices of the Welsh Government. These were established as a base from which to encourage investment into Wales and to provide opportunities for Welsh businesses to promote themselves to foreign markets. At the start of our inquiry, they ranged from an office of 12 staff in New York to an office staffed by one person in Amsterdam, who worked from home. During the course of this inquiry, the number of offices in operation fluctuated. However, it was very difficult to obtain up-to-date information on these offices from the Welsh Government’s website.

119 Q 83

120 *Ibid.*

121 Q 40

122 Q 488

92. Mr Massey questioned the effectiveness of the overseas offices in his report, *Review of International Business Wales*, in 2009.¹²³ However, Mr Baird felt strongly that there was a need for overseas offices, not only for the ability to deal directly with prospective investors, but also for symbolic reasons:

The existence of an office in a particular country, even if the embassy as a whole can do a perfectly good job in presenting Wales, has power symbolically, in terms of saying, “We really want your investment in Wales”.¹²⁴

Witnesses recognised that it was important that the overseas offices were focused and targeted important markets for Wales, such as America, Germany, France, China and India.¹²⁵

93. In New York, the Welsh Government is co-located with UKTI. Mr Baird argued that co-location strengthened “the ability of the Welsh Government Office to access the broader network”.¹²⁶ He congratulated the work undertaken by the office which was:

... fantastically active. It is a best of class performance out there, not just waiting for companies to come with their offers but going out, engaging with companies and seeking to attract them to the UK.¹²⁷

We were told that in addition to the office in New York, UKTI and the Welsh Government were also co-located in the United Arab Emirates. Lord Green commented that he was in favour of co-location as the offices could then “trade on each other’s strengths”.¹²⁸ He continued: “Putting two offices in two different parts of a city is not the best way to organise the effort”.¹²⁹

94. During our visit to Brussels we heard concerns that the role of the Welsh Government’s office was for policy gathering only, without a remit to attract inward investment to Wales. Indeed, staff told us that they currently did not have the capability to undertake this role even if they had wished to. Some witnesses emphasised that this situation was particularly concerning as Brussels was not only home to the major political institutions in Europe, but was also a European Business centre, with many companies locating their European head office in the city.

95. Many witnesses spoke about the importance of the Welsh Government developing its presence in London, one of the biggest markets in the world, and of the advantages of

123 Glenn Massey, *Review of International Business Wales (2009)*

124 Q 476

125 Q 468

126 Q 477

127 *Ibid.*

128 Q 519

129 *Ibid.*

building strong relationships with the London headquarters of global companies.¹³⁰ Mr Baird commented that there was clear evidence that:

... a good way into expanding inward investment in other parts of the UK is to have very good relationships with the London HQs as they try to develop and expand their engagement in the UK. [...] it is absolutely critical to be able to get to them fast.¹³¹

96. Overseas offices provide an opportunity for Wales to market itself abroad. There has been some upheaval in their locations and numbers in the past few years. This has been unfortunate and there should now be some stability in order for them to gain a visible profile in their host countries. In addition, the offices must be made more accountable and must ensure that they utilise their resources effectively. We call on the Welsh Government to publish a review of the operation of these offices and to provide a clear analysis of their effectiveness.

97. There is merit in the argument that the offices should be co-located with UKTI offices. Co-location would enable the Welsh Government to utilise the strengths and capabilities of UKTI. We recommend that the Welsh Government pursue this suggestion with UKTI.

UK Government relationship with the Welsh Government

98. An important element of effective marketing of Wales overseas is the relationship between the UK Government and the Welsh Government. As Professor Drakeford AM commented: “the effort to bring investment into Wales is not something that the Welsh Government can do by itself”.¹³² UKTI stated that the working relationship between UKTI and investment officials within the Department for Business, Enterprise, Technology and Science of the Welsh Government was “strong and positive”.¹³³

99. We were concerned therefore to learn that the relationship at Ministerial level may not be so positive. We were disappointed to hear from the Secretary of State for Business, Innovation and Skills, Rt Hon Dr Vince Cable MP, and Lord Green that neither Minister had met with the current Welsh Business Minister, Mrs Edwina Hart AM, despite attempts to do so. The Secretary of State for Wales also commented that, although she had sought regular meetings, the Welsh Business Minister had only agreed to a meeting every six months if she “consider[ed] that there [was] something we need to talk about”.¹³⁴

100. Although disappointed, we were not particularly surprised by the lack of contact between the UK and Welsh Government Business Ministers. On 14 June 2011, minded that the economy is central to the concerns of both Administrations, we invited the Welsh Minister for Business to an evidence session on the date of her choosing. Although her

130 Qq 418, 461, 545

131 Q 461

132 Q 397

133 Ev 220

134 Q 510

department had submitted written evidence to our inquiry, Mrs Hart rejected our invitation to give oral evidence, as did the Plaid Cymru spokesperson, Alun Ffred Jones AM. We subsequently held an evidence session on 15 September with the spokespeople on the economy from the Welsh Conservative Party and the Welsh Liberal Democrat party along with a Welsh Labour Party Assembly Member nominated by the First Minister.¹³⁵

101. We were very disappointed that the Business Minister for Wales chose not to give evidence to this inquiry. The Minister's decision was a grave discourtesy to the Committee and to Parliament.

102. Wales does not have sufficient resources to work alone in attracting inward investment to Wales nor the advantages that UKTI has in terms of resources and networks. With UKTI under new leadership, the Welsh Government must take this opportunity to re-engage with politicians and officials in the UK Government to maximise opportunities to attract inward investment to Wales and so improve the long-term prospects of the Welsh economy.

135 See Appendix - Correspondence between the Welsh Affairs Committee and Welsh Assembly Government Ministers

6 Looking forward

103. In July 2010, the then Welsh Assembly Government published *Economic Renewal: a new direction*, which set out its economic development policy.¹³⁶ It identified six sectors where WAG would focus its activities: ICT; Energy and environment; Advanced materials and manufacturing; Creative industries; Life Sciences; and Financial and Professional Services. During our inquiry some witnesses raised concerns with us about sectors that had been omitted, but which made a substantial contribution to the Welsh economy. We were encouraged that the Welsh Government listened to these concerns and subsequently included three new priority sectors—food and farming; construction; and tourism. We intend to conduct an inquiry into tourism later in this Parliament.

104. Witnesses expressed reservations regarding the Welsh Government’s economic sectoral approach. Professor Gripaios argued that “the public sector [was] terrible at picking winners.”¹³⁷ Professor Pickernell was concerned that in identifying targets, resources would be eliminated from other areas.¹³⁸ At a UK level, the Business Minister commented that: “we do not try to specify sectors in [...] such a detailed way”.¹³⁹ Lord Green agreed that the UK was a broad-based economy and that the Government should not be going out “with a general proposition that the UK is only interested in three or four or five sectors”.¹⁴⁰

We have heard concerns regarding the Welsh Government’s economic sectoral approach. We call for the approach to be reviewed after a sufficient period of time.

105. During our inquiry, we heard concerns expressed about the state of the Welsh economy. However, as the Secretary of State for Business, Innovation and Skills stated, there are areas where Wales has world-class companies, many of them created through inward investment: “aerospace, motor vehicles and life sciences among them”.¹⁴¹ Lord Green welcomed this existing base of major investment companies, highlighting that this was something “that is [...] reassuring to other inward investors”.¹⁴²

106. We also heard about the commitment of the current workforce in Wales. During our visit to Tata, Uday Chaturvedi, then Chief Technical Officer for Tata Steel Europe, spoke highly of the engagement the company had with staff. He welcomed their adaptability and willingness to work together to develop the company and to develop new skills. Mr Stevens from Admiral agreed that “Wales has been brilliant for us [...] there is a real buzz in the [Swansea office]”.¹⁴³

136 Welsh Assembly Government, *Economic Renewal: a new direction* (2010)

137 Q 34

138 *Ibid.*

139 Q 526

140 Q 527

141 Q 518

142 Q 524

143 Q 435

107. Industry representatives also spoke about the advantages Wales provided in terms of quality of life.¹⁴⁴ Sir Roger Jones told us that the WDA had considered the environment and quality of life to be a “big selling point”.¹⁴⁵ Mr Stevens stated that this issue was often overlooked but was “incredibly valuable” in promoting inward investment.¹⁴⁶ The English language was also listed as a factor in attracting inward investment.¹⁴⁷

108. In looking at how to improve the economic climate in Wales, we examined three issues that could, in the future, have an impact on economic growth in Wales: the establishment of a new development agency; taxation; and enterprise zones.

A new Welsh Development Agency?

109. Most witnesses acknowledged that there had been an internationally recognised “WDA brand”. In its 30-year history, the WDA was credited with helping to create hundreds of thousands of jobs and securing billions of pounds of investment. Many of our witnesses argued that one of its strengths had been its ability to take decisions quickly and to be “fleet of foot”.¹⁴⁸ Mr Gibson from Wesley Clover agreed that there was a need for an organisation in Wales to recapture the WDA’s “agility, its velocity, its ability to get things done quickly”.¹⁴⁹

110. In recognising the successes of the WDA, witnesses acknowledged that it was “far from perfect”.¹⁵⁰ Sir Roger Jones commented that, at the time of its abolition, it had poor leadership and needed reform, but was highly critical of the decision to abolish the WDA:

I stated publicly that it would take three years for WAG to realise its mistake, a further three years to decide what to do and three more years to implement change. This would sentence Wales to nearly 10 years in the wilderness in terms of industrial development. To this day, I stand by my prediction. We have seen expenditure in excess of £100 million per annum that has produced next to nothing in the form of outcomes.¹⁵¹

111. Most witnesses agreed for the establishment of a centralised development agency: a “smaller, more focused and independent body,” at arm’s length from government.¹⁵² The witnesses emphasised that such an organisation should be outcome-driven, where people were held accountable for results.¹⁵³

144 Ev 49

145 Q 267

146 Q 435

147 Q 49

148 Qq 43, 261

149 Q 124

150 Ev 159

151 *Ibid.*

152 Q 414, Ev 159

153 Q 305

112. The Chief Executive of UKTI told us the organisation had signed an incentivised private sector delivery contract with PA Consulting. Its role included taking the potential investor through the whole bidding process to taking goods to market, including support with taxation issues, grants, planning, and skills.¹⁵⁴ He argued that such a relationship with a company that was results-based, with target outcomes, “improved the quality” of UKTI’s performance.¹⁵⁵

113. The abolition of the Welsh Development Agency has reduced Wales’s visibility in the global market place. Nearly five years on from its abolition, the WDA brand remains one of the most recognisable of all Welsh brands. The Welsh Government must urgently consider how existing recognition of the WDA brand can be used to improve and increase Wales’s global identity.

114. We repeat our call for the establishment of a dedicated trade promotion agency, either sitting within the Welsh Government or as a private sector vehicle working in collaboration with the Welsh Government to drive inward investment projects into Wales. Such a body should have a mix of skills with an emphasis on private sector experience.

Taxation

115. Fiscal devolution has been debated within Wales for a number of years. In 2008 the Welsh Government established the Independent Commission on Funding and Finance for Wales (the ‘Holtham Commission’) to review the funding and finance of the Welsh Government. The final report concluded that the Welsh Government should seek discussions with the UK government and the other devolved administrations about the feasibility of devolving corporation tax.¹⁵⁶

116. The UK Government is currently examining devolving corporation tax in Northern Ireland, and in October 2011 established a joint ministerial working group to examine the issue. While the Welsh Government has commented that it would not actively seek the devolution of corporation tax, it commented that it would expect the power to be offered to Wales if it was given to one of the other devolved administrations.¹⁵⁷ In a statement to the Senedd, Rt Hon Carwyn Jones AM, First Minister for Wales commented that devolving corporation tax could potentially provide “a powerful tool to promote economic development”.¹⁵⁸

117. In October 2011, the UK Government announced the establishment of the Commission on Devolution in Wales. In Part I, the Commission would look at the “case for the devolution of fiscal powers to the National Assembly for Wales, and recommend a

154 Q 448

155 Q 450

156 Independent Commission on Funding & Finance for Wales, *Fairness and accountability: a new funding settlement for Wales* (2010)

157 “Wales will seek corporation tax cut if Belfast allowed to”, *Western Mail*, 18 June 2011

158 RoP, 21 June 2011, National Assembly for Wales

package of fiscal powers that would improve the financial accountability of the Assembly, and which are consistent with the United Kingdom's fiscal objectives".¹⁵⁹ The Government expects that the Commission will report on Part I in the autumn of 2012.

118. During our inquiry witnesses expressed differing views on the use of tax-varying powers by the Welsh Government to attract inward investment. Dr Ball expressed strong support for tax-based incentives.¹⁶⁰ Mr David Rosser, Regional Director of CBI Wales, noted that tax levels were a current barrier to investment in the UK and that, while flexibility could be an attractive opportunity for Wales, any change needed to be set against consequences that might arise from "breaking up the current unified system".¹⁶¹

119. Mrs Parrott expressed concern that the devolution of corporation tax could result in a "high profile policy clash between different nations of the United Kingdom, and there could be a 'price war' between them".¹⁶² Katherine Bennett, Vice President and Head of Government Affairs at Airbus, emphasised the importance of a "good package of business support measures" rather than focusing on one tax versus another.¹⁶³ Leighton Davies, Financial Director of GE Aviation, agreed that corporation tax should not be viewed as the "be-all and end-all".¹⁶⁴

120. The independent Commission on Devolution in Wales will examine the devolution of fiscal powers to the National Assembly for Wales. We urge the Commission to consider the evidence submitted to our inquiry on this matter. The Committee will monitor closely the work of the Commission in this area during this Parliament.

Enterprise zones

121. The 2011 budget, presented by the Chancellor of the Exchequer, Rt Hon George Osborne MP, on 23 March 2011, announced plans for 21 nationwide enterprise zones in England. Under the Chancellor's plans, these would provide cheaper business rates, superfast broadband and lower levels of planning control. Responsibility for the decisions of the establishment of enterprise zones in Wales is a matter for the Welsh Government.

122. In September 2011, the Welsh Business Minister identified the preferred locations for the first five Enterprise Zones in Wales. They would be at: Cardiff Central Business District—with a particular focus on the Financial Services sector; Ynys Mon—focused on the energy sector; Deeside—with a focus on the advanced manufacturing sector; St Athan—with a focus on the aerospace sector; and Ebbw Vale—with a focus on the automotive sector.¹⁶⁵

159 HC Deb, 11 October 2011, col 25WS

160 Q 22

161 Q 50

162 Ev 182

163 Q 354

164 Q 355

165 "Edwina Hart announces Welsh Enterprise Zones", Welsh Government press notice, 20 September 2011

123. While many witnesses welcomed the establishment of enterprise zones, concerns were expressed about the possible adverse effect on Wales of enterprise zones across the border, in cities such as Bristol and Liverpool. When we raised this issue with the Secretary of State for Business, Innovation and Skills, he did not see it as a cause for concern. Instead he commented that, “If Bristol is able to develop as a very successful growth pole in the south-west of England, I would have thought that that would have benefits for Wales”.¹⁶⁶ The Secretary of State argued that lessons had been learnt from the 1980s when enterprise zones encouraged companies to move from one part of the UK to another. He concluded that, “enterprise zones are much more likely to be successful if they attract inward investors from overseas”.¹⁶⁷

124. The Secretary of State for Wales expressed concern that following the initial announcement of the location of the enterprise zones in Wales, there had been little information since. She noted that there “was a danger of England getting ahead”.¹⁶⁸ **We welcome the decision of the Welsh Government to establish enterprise zones in Wales. The make-up and focus of the enterprise zones will clearly be a determinant of their success. Some nine months since the Chancellor’s announcement, the Welsh Government has provided little detail of its plans. We urge the Welsh Government to clarify, without delay, how and by when it plans to implement enterprise zones.**

166 Q 539

167 Q 543

168 Q 544

Conclusions and recommendations

Development of Inward Investment in Wales

1. In the early 1990s, Wales was one of the top performing areas of the UK for attracting inward investment. The country benefited from the employment and economic well-being that inward investment brought, as more traditional industries declined. However, by 2009, the country had become one of the worst performing areas of the UK and much of the economic benefit of earlier investment had disappeared. (Paragraph 18)
2. Wales was slow to adapt to the changed conditions for attracting inward investment. In particular, successive governments reacted too slowly to the emerging competition from Eastern Europe and Asia. In addition, Wales's competitiveness compared with other areas of the UK deteriorated markedly. The UK Government and the Welsh Government must work together to reverse this decline. (Paragraph 19)
3. Traditional approaches, such as grants and low labour costs, can no longer be relied upon to attract inward investors. The development of the knowledge economy has changed how countries attract investment from overseas. The Welsh Government must think innovatively about how to exploit this opportunity and develop a cogent economic strategy to maximise potential gains. In addition to developing domestic business growth, the Welsh Government must reassert the importance of inward investment in its economic policy. (Paragraph 25)

Education

4. Failure to improve the skills of young people in key areas will contribute to continued economic decline in Wales. We recommend that the UK Government and the Welsh Government renew their efforts to promote science and engineering in Wales. In particular, both Governments must address negative perceptions among young people of science subjects and should promote links between businesses and schools from the earliest possible age. (Paragraph 34)
5. We welcome and recognise the work that is currently undertaken by companies to engage with schools. This must be encouraged and expanded. We recommend that the Welsh Government place more emphasis in the school curriculum on the importance of business and industry, including trying to locate a higher proportion of work experience placements within them. The future economy of Wales depends on a well-educated and highly-skilled workforce. (Paragraph 35)

Further and Higher Education

6. Partnership working between universities and industry will play a crucial role in Wales's future prospects and is a key factor in attracting companies to Wales. We believe that there is an urgent need to tailor university courses to business needs in Wales. We welcome the work that has been undertaken at institutions such as Swansea University, Bangor University and Glyndŵr University, and the links they

are developing with major multinationals such as Tata, Rolls Royce and Airbus. The Welsh Government should explore how these schemes could be emulated at other universities. (Paragraph 44)

7. We heard evidence that Wales has a poor record in capturing research funding. In addition, much of the knowledge gained from research is lost because it is not used in a practical sense. There is a clear need to ensure that research capabilities are matched by the ability to change ideas into new and innovative products and services for the market place. We urge the UK Government to make it clear how it proposes to close this “innovation gap” and to ensure the future prosperity of the Welsh economy. (Paragraph 50)
8. The European Convergence Programme has proved to be a valuable investment route for Welsh universities. However, universities in Wales must not limit themselves to focusing only on Convergence funding and must examine wider opportunities for securing European funding. They must work to maximise the value from funding across all R&D income streams and look to take advantage of all European funding opportunities. (Paragraph 51)
9. We welcome the collaborative approach that has been increasingly adopted by Welsh universities. We encourage them to continue to pursue this approach, not only within Wales but also to develop successful partnerships with overseas institutions. (Paragraph 52)
10. We welcome the work that is being done by Welsh universities internationally and encourage them to develop this further. There is a real opportunity to use alumni to increase awareness of Welsh universities and the work they produce, and to help develop links between industry and government with Welsh universities. (Paragraph 56)
11. UK Trade & Investment (UKTI) must ensure it is aware of the potential offered by universities in Wales and that it communicates these to prospective inward investors. We call on UKTI to clarify how it aims to support the work done by Welsh universities. (Paragraph 57)

Transport Infrastructure

12. We are concerned by evidence that the quality of transport links in Mid and North Wales and the connectivity between the rest of Wales and England deters overseas investment in parts of Wales. We welcome the strong East-West focus in the Welsh Government’s new transport plan. We intend to conduct an inquiry into transport connectivity between Wales and the rest of the UK and the Republic of Ireland during this Parliament. (Paragraph 61)
13. We welcome the Government’s commitment to the electrification of the Great Western Main Line to Cardiff. We believe a strong economic case has been made for electrification of the line to Swansea and we welcome and support the Secretary of State for Wales in calling for it to happen. We call on the Government to announce plans to extend electrification of the Great Western Main Line to Swansea at the earliest opportunity. We also welcome the Secretary of State’s commitment to

develop a business case for the electrification of the South Wales Valleys lines. (Paragraph 64)

14. The Great Western franchise will be renewed in 2013 for a period of 15 years. We call on the Welsh Government and the Wales Office to use the opportunity provided by the franchise negotiations to ensure the greater frequency of train services between England and Wales, so that opportunities for attracting inward investment are maximised. (Paragraph 65)
15. Currently the maximum gauge clearance accommodates some mainland European gauge vehicles but does not maximise the traffic potential. We call on the Government to consider enhancing the gauge to W12, which would enable Wales to compete for new freight traffic and would allow the movement of additional European rail traffic. We also call on the Government to ensure that railway lines are maintained to route availability standards. (Paragraph 68)
16. We call on the UK Government and the Welsh Government to recognise the importance of ports to the economy of Wales. Both the UK and Welsh Governments should, in their responses to this Report, set out how they are promoting investment in this area. (Paragraph 71)
17. We have heard evidence that poor transport infrastructure can have a detrimental effect on the levels of inward investment. Transport infrastructure has been under-funded by the UK Government and the Welsh Government for a number of years. While we recognise the UK Government's commitment to reducing the national deficit, transport infrastructure spending should not be considered less important than other areas of spending. The UK Government and the Welsh Government must not consider reductions in infrastructure spending as an easy means of deficit reduction. (Paragraph 72)
18. The UK Government and the Welsh Government must look creatively at ways to fund infrastructure projects. We call on the UK Government and the Welsh Government to examine how European Convergence Funding can be used to fund transport infrastructure improvements in Wales. (Paragraph 73)

Promoting Wales Abroad

19. We call on the Government to set out how it intends to re-balance the UK economy and how it will work with the Welsh Government to attract inward investment into Wales. (Paragraph 80)
20. We are concerned that the Welsh Government has no dedicated trade promotion agency. Evidence suggests that the international recognition of Wales has suffered and that investment opportunities have been missed. We recommend a greater emphasis within the Welsh Government on the need to promote inward investment and job creation in Wales, with a dedicated and focused team for this purpose. (Paragraph 89)
21. Wales operates in a competitive global environment. The Welsh Government must market Wales on the international stage more vigorously and must develop a clear

narrative about the benefits of Wales that can be promoted to overseas markets. These include a growing university-industry partnership and innovation built on existing industries such as, aerospace, life sciences, manufacturing, specialist steel and tourism. In addition, Wales provides an attractive quality of life to prospective investors, with its coast and countryside and a rich cultural history. (Paragraph 90)

22. Overseas offices provide an opportunity for Wales to market itself abroad. There has been some upheaval in their locations and numbers in the past few years. This has been unfortunate and there should now be some stability in order for them to gain a visible profile in their host countries. In addition, the offices must be made more accountable and must ensure that they utilise their resources effectively. We call on the Welsh Government to publish a review of the operation of these offices and to provide a clear analysis of their effectiveness. (Paragraph 96)
23. There is merit in the argument that the offices should be co-located with UKTI offices. Co-location would enable the Welsh Government to utilise the strengths and capabilities of UKTI. We recommend that the Welsh Government pursue this suggestion with UKTI. (Paragraph 97)
24. We were very disappointed that the Business Minister for Wales chose not to give evidence to this inquiry. The Minister's decision was a grave discourtesy to the Committee and to Parliament. (Paragraph 101)
25. Wales does not have sufficient resources to work alone in attracting inward investment to Wales nor the advantages that UKTI has in terms of resources and networks. With UKTI under new leadership, the Welsh Government must take this opportunity to re-engage with politicians and officials in the UK Government to maximise opportunities to attract inward investment to Wales and so improve the long-term prospects of the Welsh economy. (Paragraph 102)

Looking forward

26. We have heard concerns regarding the Welsh Government's economic sectoral approach. We call for the approach to be reviewed after a sufficient period of time. (Paragraph 104)
27. The abolition of the Welsh Development Agency has reduced Wales's visibility in the global market place. Nearly five years on from its abolition, the WDA brand remains one of the most recognisable of all Welsh brands. The Welsh Government must urgently consider how existing recognition of the WDA brand can be used to improve and increase Wales's global identity. (Paragraph 113)
28. We repeat our call for the establishment of a dedicated trade promotion agency, either sitting within the Welsh Government or as a private sector vehicle working in collaboration with the Welsh Government to drive inward investment projects into Wales. Such a body should have a mix of skills with an emphasis on private sector experience. (Paragraph 114)
29. The independent Commission on Devolution in Wales will examine the devolution of fiscal powers to the National Assembly for Wales. We urge the Commission to

consider the evidence submitted to our inquiry on this matter. The Committee will monitor closely the work of the Commission in this area during this Parliament. (Paragraph 120)

30. We welcome the decision of the Welsh Government to establish enterprise zones in Wales. The make-up and focus of the enterprise zones will clearly be a determinant of their success. Some nine months since the Chancellor's announcement, the Welsh Government has provided little detail of its plans. We urge the Welsh Government to clarify, without delay, how and by when it plans to implement enterprise zones. (Paragraph 124)

Annex A

Attendees at the roundtable discussion at GE Aviation: 6 December 2010

Philip Allen, Station Manager, RWE npower

John Bevan, Consultant, Sony

Adrian Button, Managing Director, GE Aviation Wales

Bill Claire, Director for Public Affairs, General Dynamics

Robert Dangerfield, Communications Manager, Tata Steel in Wales

Leighton Davies, Financial Director, GE Aviation Wales

Geraint Evans, Compliant and Business Relations Leader, GE Aircraft Engine Services Ltd

Mike Greenway OBE, Senior Commercial Consultant, Cassidian

Gerald Kelly, General Manager, Sony

Dean Mason, Sales and Marketing Director UK, Thales

Graham Morgan, Director, South West Wales Chamber of Commerce

David Muxworthy, Director, Home Telehealth

David Ott, Site Manager and Managing Director, Dow Corning Ltd

Ken Poole, Director, PricewaterhouseCoopers LLP

Stuart Porter, Senior Manager for Public Affairs, General Dynamics

Wayne Preece, Business Development Director for National Security and Resilience, Thales

Chris Sutton, Partner in Charge, King Sturge LLP

Phil Thomas, Account Executive covering Government and Public Sector in Wales, Fujitsu

Andy Wallace, MJL Group

Annex B

Visit to Berlin and Düsseldorf, Germany: 14–16 February 2011

Monday 14 February

Economic briefing from Simon Gallagher, Head of the Economic Section, British Embassy.

Meeting with Gebhardt von Moltke (former German Ambassador to London), Chairman, Deutsch-Britische Gesellschaft.

Tuesday 15 February

Meeting with Johann Metzner, Head of Transport Policy Europe, and Steve Pryce, DB Schenker, Deutsche Bahn AG.

Meeting with Philipp Braun, and Ulrich Schmitz, Head of Corporate Representative Office, ThyssenKrupp AG.

Meeting with Felix Neugart, Deputy Divisional Director and Beke-Maria Stöver, Division International AHK, Deutsche Industrie & Handelskammertag.

Meeting with Dr Robert Hermann, Managing Director, German Trade and Invest (GTAI).

Wednesday 16 February

Briefing from Deryth Rowley, Head of Inward Investment & Business Intelligence, Sylvia Ann Tunmore, Head of Trade & Central Co-ordination Unit, and Rhiannon Lewis, Business Development Manager, Technologies, UK Trade & Investment (UKTI)

Meeting with Katya Bartsch-Wünschel, Head of Strategy, Business Development & Stakeholder Management. E.ON, and Richard Tuffill, Chief Financial Officer, Horizon.

Meeting with Petra Wassner, Managing Director and Micheal Kordus Head of Section for Europe & North America, NRW INVEST

Meeting with Frau Gödecke, Vice-President, NRW-Parliament, and Herr Keymis, Vice-President, NRW-Parliament.

Visit to Tata, Port Talbot: 5 April 2011

Tour and informal discussions with Uday Chaturvedi, Chief Technical Officer for Tata Steel Europe, Andy Dunbar, Director of the Margam Coal Project, Jon Ferriman, Operations Director, Kevin Bygate, Director of SPECIFIC (Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings), Robert Dangerfield, External Communications Officer for Tata Steel in Wales and David Ollier, Public Affairs Manager.

Visit to Airbus, Broughton: 30 June 2011

Tour and informal discussions with Katherine Bennett OBE, Vice President, Head of Political Affairs, Steve Thomas, Government Affairs Executive, Rob Williams, Head of Wing Assembly Operations, Graham Davidson, Production Development (A350), Kate Riley, Training Advisor, Raj Mistry, Industrial

Strategy Manager, Gary Griffiths, Apprenticeships and Vocational Competencies Training Manager, John James, Works Convenor, and Professor Richard Day, Glyndŵr University.

Visit to First Great Western: 14 July 2011

Informal discussions with Mark Hopwood, Managing Director, Sue Evans, Director of Communications, Russell Evans, Head of Network Strategy, John Pockett, Manager for Wales, and Jane Jones, External Relations Manager.

Visit to Brussels, Belgium: 6–8 September 2011

Tuesday 6 September

Briefing from Sir Kim Darroch, UK Permanent Representative to the EU.

Meeting with Martin P. Jones, Counsellor for Competitiveness and Markets, UK Permanent Representation to the EU.

Wednesday 7 September

Briefing from Jonathan Brenton, British Ambassador to Belgium and Inge Haeldermans, UKTI representative.

Meeting with Glenn Vaughan, Executive Director, British Chamber of Commerce.

Meeting with Marion Dewar, Member of Cabinet Quinn, Cabinet for Research and Innovation, European Commission

Lunch hosted by Kay Swinburne MEP, and Derek Vaughan MEP.

Meeting with Davyth Hicks, Secretariat for the European Parliament Intergroup for Traditional Minorities, National Communities and Languages, and Antoni Torras i Estruch, Government of Catalonia Delegation to the EU.

Meeting with Philip Lowe, Director General, Directorate-General for Energy, European Commission.

Dinner hosted by, Andy Lebrecht, UK Deputy Permanent Representative. Guests included: Stéphane Bourgeois, Head of Regulatory Affairs, European Wind Energy Association, Richard Ivens, Director for International Affairs, European Atomic Forum, and Georg Zachmann, Bruegel.

Thursday 8 September

Meeting with Gregg Jones, Head of EU Office, National Assembly for Wales.

Meeting with Steven McGregor, Head of Office, Andrew Aggett, Deputy Head of Office, and Liz Cassidy, Policy Officer Research and Innovation, Welsh Government EU Office.

Appendix

Correspondence between the Welsh Affairs Committee and Welsh Assembly Government Ministers

Letter from the Chair of the Welsh Affairs Committee, House of Commons, to Edwina Hart AM, Minister for Business, Enterprise, Technology and Science

19 May 2011

Dear Mrs Hart,

Oral Evidence: Inward Investment in Wales

I am writing on behalf of the Welsh Affairs Committee to request that Christopher Munday appear before the Committee on the afternoon of Tuesday 7 June at 3.15p.m in connection with the Committee's inquiry into Inward Investment in Wales. The Committee would particularly like to hear from Mr Munday about the Wales Investment Strategic Partnership, while the session as a whole will examine infrastructure issues and how they affect inward investment decisions in Wales. Thank you for consideration in this matter.

Yours sincerely

David T.C. Davies
Chair, Welsh Affairs Committee

Letter from Edwina Hart AM, Minister for Business, Enterprise, Technology and Science to the Chair of the Welsh Affairs Committee, House of Commons

25 May 2011

Dear David,

Welsh Affairs Committee

Thank you for your letter of 19th May 2011 requesting that an Official in my department, Mr Christopher Munday, appears before the Committee. I understand the Committee wish to discuss the Welsh Investment Strategic Partnership as part of a session examining infrastructure issues and how they affect inward investment decisions in Wales.

The issues that the Committee are examining are matters that fall within the devolved responsibilities of Welsh Government and specifically within my Ministerial Portfolio. As a consequence I do not consider it appropriate for any of my officials to participate in the Committee's inquiry.

Edwina Hart

Letter from the Chair of the Welsh Affairs Committee, House of Commons, to Edwina Hart AM, Minister for Business, Enterprise, Technology and Science

14 June 2011

Dear Edwina,

Welsh Affairs Committee Inquiry: Inward investment in Wales

Thank you for your letter dated 25 May regarding the appearance of Mr Christopher Munday before the Welsh Affairs Committee. I note that Mr Munday agreed to appear before the Committee before you took up your current ministerial position and that you do not consider it appropriate that he give evidence on this occasion.

The purpose of this letter is twofold. First, I would like to congratulate you on your appointment as the Minister for Business, Enterprise, Technology and Science in the Welsh Government and to wish you every success in your new role. Second, I am writing to invite you, in your capacity as Business Minister, to give evidence in public to the Committee in connection with our inquiry into Inward Investment. As you will be aware, one of the Committee's objectives in this inquiry is to examine how effectively the Wales Office supports the Welsh Government in attracting inward investment to Wales. As the Welsh Government Minister responsible for Business, the Committee consider it would be very beneficial to our deliberations for you to appear before us to give evidence. I am also writing to Leighton Andrews AM to invite him to give evidence at the session.

The evidence session will take place in Cardiff at the National Assembly for Wales on Thursday 15 September from 10.30 am. I would be grateful if your office could inform Committee staff that you are able to attend.

David T.C. Davies MP
Chair, Welsh Affairs Select Committee

*Letter from the Chair of the Welsh Affairs Committee, House of Commons,
to Leighton Andrews AM, Minister for Education and Skills*

14 June 2011

Dear Leighton,

Welsh Affairs Committee Inquiry: Inward investment in Wales

I am writing to invite you, as the Minister for Education and Skills, to give evidence in public to the Committee in connection with our inquiry into Inward Investment. As you will be aware, two of the Committee's objectives in this inquiry are to examine how well the Wales Office and the Welsh Government are working together in attracting inward investment to Wales and the role of the Education sector in working with business to stimulate investment. As the Welsh Government Minister responsible for Education and Skills, the Committee consider it would be very beneficial to our deliberations for you to appear before us to give evidence. I am also writing to Edwina Hart AM to invite her to give evidence at the session.

The evidence session will take place in Cardiff on Thursday 15 September from 10.30 am. I would be grateful if your office could inform Committee staff that you are able to attend.

David T.C. Davies MP
Chair, Welsh Affairs Select Committee

Letter from Edwina Hart AM, Minister for Business, Enterprise, Technology and Science to the Chair of the Welsh Affairs Committee, House of Commons

16 June 2011

Dear David,

I refer to your letter of 14th June 2011 inviting me to give evidence to the committee on 15th September.

I will not be attending.

Edwina Hart

Letter from Leighton Andrews AM, Minister for Education and Skills, to the Chair of the Welsh Affairs Committee, House of Commons

4 July 2011

Dear David,

Thank you for your invitation to give evidence in public on 15 September to your inquiry on inward investment in Wales.

I highly value the work of the Welsh Affairs Select Committee and believe that it plays an important role in our democratic process. However Inward Investment issues are the responsibility of the Minister for Business, Enterprise, Technology and Science and it would therefore be inappropriate for me to attend.

Yours,

Leighton Andrews AC / AM
Y Gweinidog Addysg a Sgiliau
Minister for Education and Skills

Formal Minutes

Tuesday 31 January 2012

Members present:

David T.C. Davies, in the Chair

Stuart Andrew	Karen Lumley
Guto Bebb	Jessica Morden
Geraint Davies	Mr Robin Walker
Jonathan Edwards	Mr Mark Williams
Mrs Siân C. James	

Draft Report (*Inward Investment in Wales*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 124 read and agreed to.

Annexes and Summary agreed to.

A Paper was appended to the Report.

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

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

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

Written evidence was ordered to be reported to the House for publishing on 25 January, 15 March, 4 April, 10 May, 7 June, 30 June, 15 September 2011.

[Adjourned till Tuesday 7 February at 9.20 am]

Witnesses

Tuesday 8 March 2011

Page

Dr John Ball, Lecturer of Economics, Swansea University, **Professor David Pickernell**, Professor in Economic Development Policy, University of Glamorgan, and **Professor Emeritus Peter Gripaios**, University of Plymouth Ev 1

Mr David Rosser, Regional Director, CBI Wales, **Mr Roy Thomas**, Director, Cardiff Business Partnership, and **Mr Graham Morgan**, Director, South Wales Chamber of Commerce Ev 8

Tuesday 15 March 2011

Sir Terry Matthews OBE, Chairman, and **Mr Simon Gibson OBE**, Chief Executive Officer, Wesley Clover Ev 17

Monday 4 April 2011

Professor Richard Davies, Vice-chancellor, **Professor Iwan Davies**, Pro Vice-chancellor, **Dr Grahame Guilford**, Consultant Commercialisation, Swansea Bay Science and Innovation Campus, and **Dr Weixi Xing**, Director of the China Centre, Swansea University Ev 30

Peter Sishton, Manager for Wales, e-skills UK, **Stuart Bailey**, Manager for Graduate and Apprentice Development, Cassidian Systems Ltd, and e-skills UK Wales Employer Board Member, **Aled Davies**, Skills Director for Wales, Energy and Utility Skills Limited, **Toni Eastwood**, Director of Academy and Talent, and **Neil O'Doherty**, Head of Retail HR, Operations, Morrisons Ev 37

Tuesday 7 June 2011

Professor Stuart Cole, Professor of Transport, University of Glamorgan, **Mr Alec Don**, Chief Executive, Milford Haven Port Authority, and **Mr Ian Jarman**, Environmental and Legislation Manager, Owens (Road Services) Ltd Ev 44

Tuesday 14 June 2011

Sir Roger Jones OBE Ev 56

Mr Glenn Massey Ev 62

Thursday 30 June 2011

Ms Katherine Bennett OBE, Vice President, Head of Political Affairs, and **Mr Steve Thomas**, Government Affairs Executive, Airbus, **Mr Leighton Davies**, Financial Director, GE Aviation, and **Mr Tim Wheeler**, Industrial Participation Specialist, Boeing Ev 68

Professor Michael Scott, Vice-Chancellor and Chief Executive, **Mr Tony Hawkins**, Managing Director, Glyndŵr Innovations and **Mr Andrew Parry**, Executive Adviser to the Vice-Chancellor and Head of Corporate Communications, Glyndŵr University, **Ms Karen Padmore**, Business Development Manager and **Mr James Goodman**, Programme Development Manager, Bangor University Ev 74

Thursday 15 September 2011

Professor Mark Drakeford AM, Welsh Labour Party, **Eluned Parrott AM**, Welsh Liberal Democrat Shadow Minister for Enterprise, Transport, Europe and Business, and **Nick Ramsay AM**, Welsh Conservatives, Shadow Minister for Business, Enterprise and Technology, National Assembly for Wales Ev 78

Mr David Stevens, Chief Operating Officer, Admiral Group plc Ev 86

Tuesday 8 November 2011

Mr Nick Baird, Chief Executive, **Mr Martin Phelan**, Director, Investment Projects and FDI Transition, and **Ms Kirstyn Boyle**, Head of Strategy and Business Partnerships, UK Trade & Investment Ev 91

Monday 5 December 2011

Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills, **Lord Green of Hurstpierpoint**, Minister for Trade and Investment, Department for Business, Innovation and Skills, and **Rt Hon Mrs Cheryl Gillan MP**, Secretary of State for Wales, Wales Office Ev 99

List of printed written evidence

1	Dr John Ball, Swansea University	Ev 111
2	Professor Emeritus Peter Gripaios, University of Plymouth	Ev 114
3	Professor David Pickernell, University of Glamorgan	Ev 116
4	CBI Wales	Ev 119
5	Cardiff Business Partnership	Ev 121
6	Swansea University	Ev 125
7	e-skills UK	Ev 138
8	Energy & Utility Skills (EU Skills) and the National Skills Academy for Power (the Skills Academy)	Ev 141
9	Wm Morrison Supermarkets plc	Ev 145
10	Professor Stuart Cole	Ev 147
11	Owens (Road Services) Ltd	Ev 154
12	Milford Haven Port Authority	Ev 155: Ev 159
13	Sir Roger Jones OBE	Ev 159
14	Airbus	Ev 160
15	GE Aviation Wales	Ev 163

16	Professor Siân Hope, Bangor University	Ev 164
17	Glyndŵr University	Ev 172
18	Eluned Parrott AM	Ev 178
19	Nick Ramsay AM	Ev 182
20	Admiral Group Plc	Ev 185
21	UKTI and Wales Office	Ev 187: Ev 219
22	Rt Hon Mrs Cheryl Gillan MP, Secretary of State for Wales, Wales Office	Ev 218: Ev 222

List of additional written evidence

(published in Volume III on the Committee's website www.parliament.uk/welshcom)

1	RWE npower and RWE npower renewables	Ev w1
2	Professor Robert Huggins and Professor David Brooksbank, University of Wales Institute, Cardiff	Ev w3
3	Pingar LP	Ev w8
4	General Dynamic UK	Ev w9
5	Welsh Assembly Government	Ev w11
6	German Industry UK	Ev w15
7	South East Wales Economic Forum	Ev w16
8	Professor David Blackaby, Dr Stephen Drinkwater, Professor Philip Murphy, and Dr Catherine Robinson, School of Business and Economics, Swansea University	Ev w16
9	King Sturge	Ev w26
10	Freight Transport Association	Ev w32
11	Scottish Development International on behalf of joint venture partners: Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise	Ev w34
12	Associated British Ports	Ev w47
13	Tata Steel Europe	Ev w50
14	E.ON	Ev w57
15	Renewable UK Cymru	Ev w58
16	Professor Garel Rhys CBE, Cardiff University Business School	Ev w61
17	Brazilian Embassy, London	Ev w62
18	Nuon Renewables	Ev w63

List of Reports from the Committee during the current Parliament

Session 2010–12

First Special Report	Welsh prisoners in the prison estate: follow up: Government Response to the Committee's Ninth Report of Session 2009–10	HC 398
Second Special Report	Wales and Whitehall: Government Response to the Committee's Eleventh Report of Session 2009–10	HC 399
Third Special Report	Cross-border provision of public services for Wales: follow up: Government Response to the Committee's Tenth Report of Session 2009–10	HC 419
First Report	The implications for Wales of the Government's proposals on constitutional reform	HC 495
Second Report	The proposed amendment of Schedule 7 to the Government of Wales Act 2006	HC 603
Third Report	The Severn Crossings Toll	HC 506
Fourth Special Report	The implications for Wales of the Government's proposals on constitutional reform – Government's Response to the Committee's First Report of Session 2010–11	HC 729
Fourth Report	The future of the Newport Passport Office	HC 590
Fifth Special Report	The Severn Crossings Toll: Government Response to the Committee's Third Report of Session 2010–11	HC 837
Sixth Special Report	Proposed Legislative Competence Orders relating to Organ Donation and Cycle Paths	HC 896–I
Seventh Special Report	The proposed amendment of Schedule 7 to the Government of Wales Act 2006: Government Response to the Committee's Second Report of Session 2010–11	HC 918
Fifth Report	S4C	HC 614
Sixth Report	Pre-appointment hearing with the Government's preferred candidate for the Chairman of the S4C Authority	HC 1061–I
Seventh Report	Representation of consumer interests in Wales	HC 1558–I