

MINUTES

Date 30 January 03
Time 9.00am – 12.30pm
Venue Committee Room 3, National Assembly for Wales, Cardiff Bay

Attendance

Members

Mick Bates
Alun Cairns
Andrew Davies (Minister for Economic Development)
Ron Davies - Acting Chair
Delyth Evans
Alison Halford
David Ian Jones
Elin Jones
Dafydd Wigley
Phil Williams

Constituency

Montgomeryshire
South Wales West
Swansea West

Caerphilly
Mid and West Wales
Delyn
North Wales
Ceredigion
Caernarfon
South Wales East

Officials

Emyr Roberts EPD
Nick Batey Broadband Wales Unit
Mike Phelps EcAD

In attendance

Ann Beynon British Telecom
Owen Evans British Telecom
Mike Parker Total Network Solutions
Eddie Piper Total Network Solutions
Prof. Mike Tedd Welsh Advisory Committee on Telecommunications
Neil Davies Independent Film Maker

Secretariat

John Grimes
Sian Wilkins
Debra Carter

Clerk
Deputy Clerk
Members Research Service

Item 1: Introduction, apologies, substitutions and declarations of interest.

1. In the absence of the Chair Ron Davies was elected to chair the meeting.
2. Apologies were received from Christine Gwyther and Christine Chapman. Delyth Evans substituted for Christine Chapman

Item 2: Broadband Policy in Wales

EDC 01-03(p1)

EDC 01-03(p2)

EDC 01-03(p3)

EDC 01-03(p4)

EDC 01-03(p5)

1. **The Economic Development Minister** introduced his paper saying that it was a factual update that outlined the major activities going on at present. He said that much was happening and welcomed the initiatives being taken by BT to upgrade exchanges and reduce prices. He referred to the progress being made at both the Wales and UK levels to increase the take-up of Broadband and the additional £15m he had secured for Broadband Wales, on top of the previous £100m.
2. Members discussed the definition of the term Broadband. From a technical point of view it was a method of transmitting data which allowed a high data transfer rate. However, in common parlance, the term had come to mean ADSL (Asymmetric Digital Subscriber Line) – with transmission in one direction of 512 kbs and in the other of 256 kbs or lower. It was debatable whether this was technically 'Broadband' but Members accepted that it had come to mean a type of product. However, Members also noted that this was a minimum level of transmission and it was important not to lose sight of the fact that much higher rates were possible - and were essential for applications such as the transmission of video material.
3. Ann Beynon said that at present BT (where it could) aimed to offer customers a choice of service, using copper wires, of from 512 kbs to 2 Mbs. She said she could not comment on the timing of BT offering SDSL as this depended on the results of tests that were currently going on. She emphasised that BT was

required to operate on a commercial basis, under OfTel regulations, and therefore could not subsidise services in order to increase demand.

4. Responding to a question on the aims of Broadband Wales, the Minister said that the target was to increase the availability of affordable terrestrial Broadband services in Wales by approximately 30%. This would mean 310,000 extra homes, and 67,000 extra businesses on line, over and above the growth that would be expected by 2007 due to natural market forces. The current rates were 63% at the UK level and 31% at the Wales level.
5. Reference was made to the need for a range of technologies to meet the different requirements for providing Broadband in different areas. The view was expressed that the Broadband Wales strategy should identify the technologies that were required in each area. Responding, the Minister said that such an analysis had been carried out and was given in the report Ubiquitous Broadband for Wales by Analysys. This identified where fibre or cable could deliver Broadband and where it would be necessary to look for other forms of delivery. He emphasised that the key to making provision available was the stimulating of demand.
6. Concern was expressed about the viability of businesses that had invested in Broadband and that it was important to ensure that they could meet the higher costs of installing it. The Minister referred to the need to evaluate the impact of Broadband. He also noted that costs varied and the importance of businesses understanding the ways in which they could benefit from the availability of Broadband.
7. Members noted that the cost of connection was critical to achieving a high take up of Broadband and asked how the Minister could ensure this was kept low. Responding, the Minister said that OfTel set the framework within which operators operated, and the Welsh Assembly Government could not exercise any direct influence on this and, indeed, he did not think it appropriate for them to do so.
8. Members expressed some surprise that all local authorities would be connected to the core network as soon as the end of March 2003 and that 50% of schools would be connected by the same time. But, if this could be achieved, then why was not Broadband available to all consumers. The Minister explained that the LifeLong Learning Network (LLLN) was essentially a core network into which authorities linked, using BT lines, and that this was technically relatively straightforward. Authorities are then responsible for rolling out the network to schools and other Lifelong Learning Centres, as well as their own offices and locations; using a range of available broadband point to point services. Cost and complexity can vary considerably, especially for rural schools. It was much more complex an issue to connect individual schools and particularly those in more remote areas.
9. Asked about the impact of state aid rules on the Assembly's efforts to promote Broadband, officials said that any form of subsidy must be offered on a fair and accessible basis and this operated via the public procurement rules. The DTI's state aid approval mechanisms were also used to ensure compliance.

10. Introducing the **BT Paper**, **Ann Beynon** said that the fibre network that was available in Wales was better than that in Sweden. She referred to the 33 exchanges which were already able to provide ADSL and said that 11 more would shortly come on line as a consequence of BT lowering the 'trigger levels' for connection. This would make ADSL services available to an additional 110,000 properties in Wales. She demonstrated the success of broadband demand stimulation partnerships in raising the use of broadband, most notably in Cardiff, and how BT was working with 8 local authorities across Wales to stimulate demand. From a BT point of view Wales could be seen as comprising 3 areas: Band 1, where exchanges were, or were about to be, enabled with ADSL; Band 2 where it might happen within 12-24 months and this could be accelerated by some subsidy to assist enhancing the exchanges; and Band 3 where currently there was little prospect of BT installing affordable ADSL within the existing regulatory regime without public sector intervention. A number of trials were underway to provide different technical solutions. This was the area in which public money should be focused. She concluded by saying that a key issue for the Government was to decide whether availability or competition was more important.
11. Members welcomed BT's paper which they considered to be the only document to provide a strategic analysis of the situation and future intervention required. They asked about how the Minister's strategy linked to the 3 Bands and commented that Broadband ought to be available, at least, in every business park in Wales. The Minister said that the 3 Bands underpinned his analysis and that there was a need for different approaches in different areas. He acknowledged the priority that should be attached to providing Broadband in business parks but said that, even within these, there were some where the type of industry in place meant the potential demand was in fact very limited.
12. There was some discussion of BT's role in respect of the optical fibre network and concern was expressed that, due to a lack of information, private contractors were unable to obtain access to it. Ann Beynon said that Internet service providers were well aware of the demand in an area and it was not possible for BT to conceal this information.
13. Members asked why it was possible to develop a network of all local authorities and yet not extend Broadband to all users in an area. Ann Beynon said that this was in part because some of the service was provided using copper wire. They were investigating ways to develop networks, and perhaps the use of mini exchanges, which might link more users in. They were also looking to develop wireless systems for areas where it was not practicable to lay fibre optic cables. BT estimated that some 70-80% of demand might be met by ADSL with the remainder utilising a mix of technologies including smaller exchange equipment, wireless and satellite. There was a range of options through which one could combine the various technologies, perhaps via a series of 'mini exchanges' acting as distribution points. One problem though was the fact that existing copper

connections linked back to telephone exchanges and it might not be easy to divert them to these mini exchanges.

14. **Mike Parker (Groupe-Pathfinder Ltd)** spoke to the paper prepared by **Total Network Solutions Ltd**. He said that Broadband via wireless was one of a range of ways of delivering Broadband. He acknowledged the advantages of ADSL, particularly for use in the home, but considered it to be at the low end of the quality scale, particularly because it was not bi-directional. Wireless, on the other hand, offered high quality, high volume transmission in both directions.
15. He referred to the forthcoming auction of 3.4 GHz wireless access licences and their concerns about the way the areas within the UK had been designated by the Radio Communications Agency of the DTI. He also expressed concern that the allocation of these contracts was to be solely on the basis of the highest bid and that no regard was to be had to the type of service that would be provided. Indeed, there was no obligation on the successful operator to use the frequency.
16. **Neil Davies of Dai4 Films, an independent film maker** said that his business was to prepare video films for companies such as Channel 4 and ITV and for export. They were based in Wales but found it very difficult to do business here because of the lack of high volume Internet capacity. He referred to Digital Matrix, a consortium of 50 or so businesses involved in film making and which was working on some 30 projects. They had opportunities to sell to the world and wanted to operate from Wales. However, they needed the ability to move files, undertake distance editing and to network between companies. This was difficult to do in Wales and they still needed an office in London. The lack of the available technology meant that companies in areas such as the South East had a distinct technical advantage. And yet there was a clear opportunity for an industry to be created here.
17. **Mike Tedd, of WACT** spoke to his paper saying that there was no single solution to the Broadband needs of Wales and what was required was a range of technologies. ADSL was a reasonable compromise for many applications in populous areas but in remote ones probably only satellite would be suitable. However, there was a limit on the capacity available on this basis and it should therefore be reserved for areas of particular need. Wireless would be an important option in areas where 'near line of sight' could be achieved. This might allow one mast to serve the whole of Ynys Môn or relatively straight valleys like those in Snowdonia.
18. He echoed the concerns expressed about the auction for the 3.4 GHz frequency band. The regions had been constructed with no regard to the Welsh border. Mid Wales was included with much of the Midlands, Lincolnshire and the East Coast of England. North Wales was part of a region which also stretched to the East Coast of England and North Yorkshire. The fact that there was no service obligation meant that it would be possible for a successful bidder to provide services only in certain parts of England, and none in Wales. They might even provide none at all: perhaps to suppress competition or, merely, to see if the

value of the asset rose.

19. In response to a question about the impact of weather on wireless transmissions, Mike Parker said that rain did have an effect and it was important to design systems to take account of this. The key was the strength, rather than the volume, of the rain, and this could be compensated for by the power level with which the system was operated. Lower frequencies were less prone to influence by rain. He said that the situation was not the same as voice radio systems because these needed to operate inside buildings whereas broadband could generally rely on 'line of sight' transmission.
20. There was some discussion of the cost of different methods of transmission and a figure of £50 per metre to lay fibre optic was quoted. This was relatively expensive compared with wireless – but if cables could be installed when other construction work was being undertaken, such as happened when the A55 was built, there could be considerable savings.
21. Members expressed their very great concern about the arrangements for the auction for the 3.4 GHz licence. The Minister said that he had made representations to the DTI but without success. He said it was an understatement to say that he was disappointed by the announcement of the 'map' but he had heard it only in the last day or so. He said he would find out more about the reasons for the decision, and also why Scotland appeared to have had a more favourable outcome. He would report on this at the next meeting of EDC if not beforehand. He said he and the First Minister had both written to the Radio Communications Agency about this. Nonetheless, this was only one element of the Broadband Wales programme and did not fundamentally affect the overall strategy. **[Action ED Minister]**
22. Members indicated that, if the decision was now irreversible, consideration should be given to Wales making its own bid for the licences, perhaps with the WDA acting as an agent to subcontract its use to other operators.
23. Concluding the discussion, the Committee agreed the following action should be taken:
 - a. the Committee should express its extreme disquiet about the proposed 3.4 GHz licence areas and give its full support to the Economic Development Minister in his efforts to resolve this issue;
 - b. the Committee should ask the Secretary of State to take up this issue with the DTI; **[Action: Chair/Clerk]**
 - c. the Committee should alert Welsh MPs to the seriousness of the situation and urge them to make representations to the DTI; **[Action: Chair/Clerk]**
 - d. if it was not possible to change the basis on which the licences would be allocated the Minister should investigate options such as the WDA seeking to secure them, perhaps to offer sub licences to local operators, although it was recognised that this might be difficult for an area which extended outside of Wales; **[Action ED Minister]**
 - e. the DTI e-Commerce Minister, Mr Stephen Timms, should be invited to meet the

Committee to explain the reasoning behind the decision. **[Action: Chair/Clerk]**

24. Following the discussion on the papers, Members agreed that the Committee should aim to prepare a report summarising the findings of their investigations into Broadband and their views on the key policy issues. **[Action: Chair/Clerk]**

25. It was noted that in the time available, this would need to be a relatively short report. Members indicated the key issues that they would wish it to address were:

- the need to take a strategic approach to the development of Broadband and one aimed at making it available to a high percentage of the population and based on a mix of technologies;
- the need not to be over-ambitious and a recognition that, in the short term at least, ADSL offered valuable opportunities;
- the balance between competition in the sector and the availability of the service. The role of the public sector should be to ensure the availability of a service, particularly in the Band 3 areas;
- the importance of being clear on which technologies were most suitable in which areas and in what timescale;
- that customers in Bands 1 and 2 were likely to have their needs met through market forces and that the crucial issue was to provide support for as much as Band 3 as possible in order to close the gap in as many areas of Wales as possible;
- the need to stimulate demand at all levels.

26. Concluding the discussion, the Minister noted that his paper was essentially an update on an action plan designed to counter market failure. The lowering of the trigger levels by BT was a step in the right direction and he hoped that further market and political pressure would continue to make improvements. He said that much of the detailed information sought by the Committee had been addressed in the original Analysis report. He welcomed the Committee's focus on the subject and said that his officials would be pleased to work with the Clerk in preparing a report.

Item 3: Economic Development Minister's report including quarterly economic reports

EDC 02-03(p6)

EDC 02-03(p7)

EDC 02-03(p8)

1. The Minister said that the report concerning Selsa which had been delayed was merely a progress report.]
2. Members expressed concern that the data contained within the papers provided

by the Minister showed that the rate of increase in jobs was far lower in the Objective 1 areas than those in the rest of Wales. There were also increases in the number of jobs in the public sector whilst the manufacturing sector was losing jobs and members questioned the sustainability of such a trend. The Minister said that the sectoral changes were similar to those in other parts of the UK and that increased spending in the health sector had inevitably led to more jobs. He added that previous LFS surveys had shown a greater increase in employment in the Objective 1 areas.

3. The Minister explained that the Alcoa plant which was due to close in Swansea was not the part of the company that had received an RSA grant last December. The grant was in respect of the rolling mill which was a separate part of the Company. Without the RSA grant it was likely that jobs would have been lost in the rolling mill as well as the extrusion facility which was now due to close.
4. The Minister clarified the quote in his report concerning his intervention over the Dry Dock gate at Milford Docks. He said that the issue had been brought to his attention and officials had then spoken to the WDA who negotiated with the company
5. There was a discussion concerning the availability of gas at Milford Haven. The Minister said that he considered it crucially important to introduce a wider supply of gas to West Wales but he understood that this would only be possible if the pipeline were extended to Milford Haven. He and the First Minister had been involved in a range of discussions with companies and the WDA about this. Reference was also made to the opportunities for gas exploration in West Wales and the possible need for additional resources on-shore. It was suggested that the Minister might obtain further briefing on this.

Item 4: Members Research Service

1. Debra Carter said that the Assembly Review of Procedure had identified the need to increase research services to committees. Following research of the facilities offered in Scotland, Northern Ireland and the London Assembly and a large recruitment exercise, most staff were now in post and the service was able to offer briefing to committees, some of which had already been used by the Economic Development Committee.
2. The Committee welcomed the enhanced service and said that they had been pleased with the briefing they had received so far. The Clerk asked members to let him know the topics on which they would like additional briefing.

Item 5: Minutes of previous meeting

EDC 01-03 Minutes (Draft)

EDC 02-03 Action Outstanding

1. The Minutes of the previous meeting were agreed as a true record.
2. **12 June (Item 3.3); 10 July (Item 6.4); 14 Nov (item 2.8).** Members asked that these outstanding items were included in the Minister's next written report.
3. **WTB Statutory Registration Scheme.** Officials explained that it would not be possible to provide further details on the cost of operating the scheme until they knew which option would be likely to be adopted.

Committee Secretariat