

MINUTES

Date 28 November 02
Time 9.00 – 12.30am
Venue Committee Room, 1 National Assembly for Wales, Cardiff Bay

Attendance

Members

Mick Bates
Alun Cairns
Christine Chapman
Andrew Davies (Minister for Economic Development)
Ron Davies
Christine Gwyther
Alison Halford
David Ian Jones
Elin Jones
Dafydd Wigley
Phil Williams

Constituency

Montgomeryshire
South Wales West
Cynon Valley
Swansea West

Caerphilly
Carmarthen West and South Pembrokeshire
Delyn
North Wales
Ceredigion
Caernarfon
South Wales East

Officials

David Pritchard Director, Economic Development Department
Emyr Roberts EPD
Jonathan Price Economic Research Unit
Keith Parsons EPD

In attendance

Prof. Dylan Jones-Evans School for Business and Regional Development, Bangor University
Dr. Virginia Chambers Development Director, Technology and Innovation, WDA
Prof. Garel Rhys Chair, Economic Research Advisory Panel
Philip Evans Chair, Wales Tourist Board

Jonathan Jones
Steve Webb

Chief Executive, Wales Tourist Board
Director of Strategy, Wales Tourist Board

Secretariat

John Grimes
Sian Wilkins

Clerk
Deputy Clerk

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

1. The Chair reminded members that it was now necessary to declare an interest only when it related to a particular item. During the course of the meeting declarations of interest were made by: Dafydd Wigley who is Chair of the School for Business and Regional Development Advisory Board at Bangor University, Chair of the North Wales Techniquet Board, a board member of IP Wales and Chairman Elect of Ymddiriedolaeth Hybu Gwyddoniaeth Cyf; Phil Williams who is involved in an Objective 1 application at Aberystwyth University and is involved in some work funded by Research Council grants; Andrew Davies who is a board member of IP Wales and David Ian Jones who has a number of hotelier clients in receipt of WTB grants and also acts for the landlord of the WTB's North Wales Headquarters.

Item 2: Minister's Report

EDC 17-02 (p1)

EDC 17-02(p1a)

1. The Minister introduced his report with a brief oral update a copy of which is attached to his report.
2. Members raised several issues about the Chancellor's pre-budget statement of the previous day. There was concern that the proposed Enterprise Areas were to be based on the same wards as those for determining stamp duty relief. These were felt to be predominantly residential wards and it was suggested they had little relevance to providing increased business opportunities. The Minister said he would provide a paper for the Committee once the detail of the scheme became clearer. He added that 47% of the population in Wales was covered by the stamp duty exemption and 60% by Community Investment Tax Credit. Members urged him to press for flexibility to move away from any scheme geared towards residential wards. **[Action: ED Minister]**
3. A Member said that, based on the US experience, the proposal for Enterprise Areas confirmed that reductions in taxes on profit were the best means of

attracting business to an area. He urged the Minister to raise the issue of Corporation Tax being set at a Welsh level with the Treasury in their discussions on operating aids. The Minister reminded members that regulations on Corporation tax were constrained by State Aid rules.

4. It was noted that the recently produced UK National Action Plan for Employment 2002 had little reference to Wales in it. The Minister said that most of the report covered action in the education sector but agreed to provide more information to members. **[Action: ED Minister]**
5. There was some concern that in their current review of business support the DTI was likely to reduce substantially the number of schemes for small businesses and that this would have a knock on effect in Wales. The Minister said that he felt Wales was some way ahead of the rest of the UK in streamlining business support. He was however meeting the Chief Executive of the Small Business Service to look at ways to work together and to avoid any overlap in schemes. He agreed to provide more information on the DTI review. **[Action ED Minister].**
6. On PFI, the Minister said that the First Minister took a pragmatic view to leveraging in private funds where it provided value for money. He said that it was important for the private and public sector to work more closely together.
7. A Member asked whether the downward revision of forecasts for the UK economy in the Chancellor's pre-budget speech would have a differential impact in Wales. The Minister said that he did not believe that it would have the same effect and that Welsh growth could well be above the UK trend. He reiterated the statement he had made in previous meetings that the targets within A Winning Wales were designed for the long term transformation of the Welsh economy and he saw no need to revise them at present.
8. There was some discussion on the appropriateness of using GDP as a measure of economic performance. It was suggested that as it was difficult to have up to date figures, counting jobs would be a more useful measure. It was also suggested that measures of sustainability should be introduced. The Minister said that closing the GDP gap was not a specific target within A Winning Wales. However if all the other targets were met, and all other things being equal, it should have the effect of closing the gap. The Minister agreed to provide a paper giving further details on the appropriateness of alternative measures. **[Action: ED Minister]**
9. In response to questions the Minister confirmed that Ford's decision to change production from the V6 to I6 engine at Bridgend was purely in response to market conditions and was not related to capacity.
10. The Minister confirmed that a decision by Zurich concerning new jobs in Cardiff had been made before the announcement concerning job losses in North Wales. He agreed to involve constituency and regional AMs in any dealings he had with the company in this regard.
11. Members asked for more detail on the energy summit that was taking place later that day. The Minister said that its aim was to discuss the effects of NETA with the

major energy producers and he would report back to the Committee. He also agreed to advise members when TAN8 and the Spatial Plan were due to be published and said that it was important that the renewables debate focussed on low carbon production. **[Action: ED Minister]**

12. Members welcomed the Welsh Affairs Committee's report on Broadband but were disappointed not to have been involved at an earlier stage of the enquiry. The Minister said he had not yet read the report but would provide a response to it for the Committee at the following meeting. The Minister agreed to provide further information on the availability of fibre across Wales and a detailed plan of where the connections from the main backbone would be. Members suggested that an audit of the availability of optical fibre in Wales should be commissioned. The Minister responded saying that there was a large amount of fibre in Wales but at present much of it was not used. It was important to increase demand for broadband services and to use the public sector as a driver in this regard. He emphasised that the issue was not solely about connectivity and infrastructure but also about identifying a demonstrable use to business. **[Action: ED Minister]**
13. The Minister confirmed that the funding provided to Local Authorities to facilitate implementation of the Lifelong Learning Networks would be provided via the Grants for Education Support and training (GEST) scheme and would be ring-fenced ensuring that it could not be used for other services. A member commented that some Local Authorities felt they did not have sufficient funding to implement the Welsh Assembly Government's policies on broadband and asked that when the Minister provides his paper on broadband to the Committee he focuses on this area. The Minister agreed to feed this information back to the Minister for Finance and Local Government. **[Action: ED Minister]**
14. In response to questions concerning operating aids the Minister agreed to provide a paper for the following meeting detailing progress made in his discussions with the Treasury. **[Action: ED Minister]**
15. Members again raised the issue of the disproportionate effect of increased insurance premiums on Welsh businesses. The Minister said that the Chancellor had announced a formal review of the situation and he agreed to provide more information on this when it became available. **[Action: ED Minister]**
16. In concluding the discussion the Chair asked the Minister to provide his reaction to the Queen's speech as soon as possible. **[Action: ED Minister]**

Item 3: Research and Development

EDC 17-02(p2)

EDC 17-02(p3)

1. Professor Dylan Jones-Evans introduced his paper by highlighting some of the key points. He said that latest figures showed that private sector expenditure on research had fallen in Wales by 33% since 1999, compared to a rise of 11% in the UK. Wales now accounted for only 1.1% of total business R&D in the UK compared with 1.8% in 1999. The only UK region to spend less was the Northeast. Total research expenditure by Welsh Universities in 2000-1 was £71m. If Wales was to match the UK average per academic member of staff it would need to spend an additional £20m per year. To reach the Scottish average it would need to spend £32m. He contrasted these figures with the additional £6m announced in January by the Welsh Assembly for University Research in Wales. As regards the quality of the research, overall Wales appeared to perform well compared to the UK – but this was because of strengths in psychology, town and country planning, and civil engineering. In high technology areas Wales performed less well than the UK. He highlighted serious weaknesses in pure mathematics, applied mathematics and physics where Wales has only 3.2% of the total number of UK researchers.
2. His conclusion was that Wales' underlying problem was the lack of a 'science policy' and this was a view confirmed by his failure to find any reference to the term on the National Assembly website. He contrasted this with the approach in Ireland where the Government was openly committed to R&D and had allocated £1.6bn to it. He felt their approach was an example that Wales might follow but noted that the problem was not simply a question of funding, there was also a need to attract and retain more scientists in Wales.
3. Speaking to her paper, Dr. Virginia Chambers said that the WDA very much welcomed this debate and the recent Innovation Action Plan. She emphasised that investment in R&D is only realised and contributes to the economy when it is commercialised, i.e. converted to new products /processes through the process of Innovation. She said that the Agency operated a wide range of programmes to support innovation and R&D. These included assistance to develop new products, processes and services, to adopt new technologies, to create new technology based spinouts, to encourage links with academia, to protect IPR and to develop sectors and clusters. She specifically focussed on private sector investment in R&D and while there was clearly much work to be done her view was that the overall position was rather more positive than might be suggested from the official figures that were available. There was evidence that more SMEs were innovating and developing new products, services and processes. Where larger companies were carrying out R&D in Wales the expenditure was recorded at the headquarters. To make a difference in private sector investment in R&D would require an increased focus on R&D intensive sectors including biosciences, IT, software, automotive and aerospace.
4. In response to a question, Dr Chambers said that the 663 'new collaborations with

academic institutions' were genuine collaborative projects with academia including centres of excellence etc. She said she would provide some examples in the form of case studies which could be circulated to members. **[Action: Dr Chambers/Clerk]**

5. Professor Garel Rhys spoke about the work to date of the Economic Research Advisory Panel (ERAP) which he said had been set up following recommendations by EDC. He said this was the first such panel in the UK and a welcome and exciting development. It had already started work and was now consulting on its research programme for the next 3 years. As the paper showed, there was no shortage of areas on which they might focus and they considered it important that they pursued research that would lead to significant and practical results and which could lead into policies that were realistic and achievable.
6. He referred to the proposed programme given in the Committee paper which identified 97 projects that might be pursued and on which the Panel was seeking views. He stressed that they were not given in any order of priority. He said the Panel would welcome the Committee's views on priorities.
7. In the discussion, Members very much welcomed the papers and commented that the challenge was to find a way for Wales to make a 'step' change in its commitment to research. Professor Jones-Evans referred to the approach in Ireland and how the Government there had used Objective 1 monies to build up the capabilities of the Higher Education sector. He said the key was their co-ordinated approach to support from the billions of pounds available from Europe for R&D. He said these had been used to build up expertise in certain sectors and contrasted this with the practice in Wales of leaving it to individual colleges to apply for such funds. He emphasised the importance of adopting a co-ordinated approach and of eliminating the 'fragmented' research effort in Wales and its lack of critical mass. He added that it was important to recognise that scientific research was quite distinct from Innovation – without the former the later will run out of steam.
8. On a related issue, Professor Jones-Evans emphasised the need to ensure economic development across the whole of Wales. He thought it unfortunate that a lot of jobs involved in administering and managing the Structural fund programmes were located outside the Objective 1 area. In his view, for the programme to be effective, as much money as possible needed to be used to build capacity in the eligible areas. He referred to the example of Liverpool which had had to re-apply for Objective 1 status because of their limited success the first time around.
9. He was also concerned that, while the Single Programming Document recognised the importance of R&D, too much of the £41m allocated for this had been concentrated on technology transfer and commercialisation activities. In particular, he thought that support for Techniums should fall under the 'infrastructure' part of the programme as they were diverting too much money from the main R&D projects.

10. There was a broad discussion on how to take the fruits of academic research to the market place. It was generally recognised that many academics wished to focus solely on research issues and, regardless of this, were not always well suited to run a business. On the other hand, if only a small number of academics took projects through to commercialisation there would be a significant benefit for the economy.
11. There were a number of other relevant factors here. First, science generally had a poor image and students were often discouraged from pursuing it as a career. This was contrasted with the situation in Germany where scientists, and particularly engineers, were held in highest regard by people in industry.
12. There was also a reluctance amongst some academics and inventors to share 'their' projects – but this was often necessary to attract financial support and the business expertise necessary to ensure successful commercialisation. Professor Jones-Evans said that he thought a major step forward would be for all Masters courses to require students to take a module on entrepreneurship. Students might also be required to include a section on commercialisation in all theses. It was also necessary to develop more entrepreneurship centres in universities. He said that in his experience there was money around for the development of new ideas - the real problem was the lack of demand for it.
13. Various other ideas were discussed. Tax support to attract R&D was important but mainly because this was available in other countries and without it Wales was likely to lose out. There was also a need to ensure Welsh Universities exploited Intellectual Property Rights – and, indeed, just to recognise that they had these and that they had commercial value.
14. Professor Jones-Evans referred to a proposal to create a Welsh bursary scheme offering around £15,000 pa to students to come to Wales. For £2.5m this might attract 50 of the best young European scientists to Wales and, while such a scheme had been prepared, it had not gone forward because they had been advised that the EC was opposed to support for pure research. The Minister said that if he was forwarded details of this he would investigate what had happened. **[Action: Professor Dylan Evans-Jones/ED Minister]**
15. Dr Chambers said that following the transfer of Smart and Spur to the WDA they were reviewing recent performance with these schemes and had evidence that companies supported by them had continued to invest in research and development. It had also resulted in an increase in their turnover. She agreed with the need to encourage and assist academics in taking their ideas forward to commercialisation. She touched on the need for universities to employ an industry liaison officer to assist as the bridge between research and business. She noted that in many cases small businesses do not easily identify where research could assist the development of their business.
16. Professor Rhys said that the terms of reference for the Economic Research Advisory Panel were given to it by the First Minister and the Welsh Assembly Government and it was for them to agree its work programme. The Panel's

outputs were to advise both the Government and Committees amongst which EDC was clearly a key player. It therefore had a very important role to play in the development of the Panel's work. On the question of clusters, he commented that these were not new concepts. Until recently Wales' economy had focussed on a 'cluster' based on iron, steel, slate and railways. This had been very successful until these industries collapsed. The move to a more diverse economy might make for greater resilience but inevitably meant it was not so easy to benefit from 'economies of scale'.

17. Responding to some of the points, the Minister said he very much welcomed this debate and the Committee's involvement in it. He reminded members that at the next meeting they would be discussing his Innovation Action Plan. He said that from a business's perspective the key question was how to instil a change of culture into a company. He referred to examples where this had happened and said that his policies were aimed at helping companies develop the skills and the capacity necessary to innovate and expand. While he recognised that many academics had no desire to translate their ideas into commercial propositions, there were some that did and there was a need to provide them with support and encouragement. While he did not disagree with many of the comparisons with Ireland, he noted that the Irish 'miracle' had been achieved without the strong science base and that it was only now that they were looking to develop a coherent and co-ordinated policy on science. The challenge facing Wales was, with 13 higher education institutions, to develop a critical mass that would allow the country to move forward.
18. Summing up the debate, the Chair thanked all the participants for their papers and for taking part in what she considered to be a very useful discussion on a very important issue. She referred to the forthcoming discussion on the Innovation Action Plan which was scheduled for the following meeting and said she would also include time for a short discussion at that meeting on how the Committee might contribute further to the debate on a science policy. She said she hoped the Minister might come forward with a paper on this for the Committee to discuss. She said also that consultation on the ERAP draft research programme ended in January and that she would arrange a further discussion at EDC on 16 January at which members could give their views to allow a co-ordinated response to go forward from the Committee.

Item 4: Wales Tourist Board – half year review

EDC 17-02 (p6)

1. Philip Evans opened the discussion outlining the achievements that the WTB had made against their targets so far this year – pointing out that the additional

resources available, particularly from Europe, contributed significantly to those achievements. He also highlighted the effectiveness of the 'Big Country' advertising campaign which, research showed, had been more effective than that of any other UK region.

2. Members congratulated Philip Evans on his recent re-appointment as Chair. They felt that there was an impression that they were starting to 'sell Wales' but were still concerned with Wales' profile overseas. Philip Evans said that the WTB was currently spending more in the US promoting Wales than the BTA were spending on promoting the whole of the UK.
3. Jonathan Jones confirmed that they had recently delivered their Cultural Tourism Strategy, on which they had consulted widely, to the Minister and were awaiting a response. They were also currently developing a Sports Tourism Action Plan and were encouraging sporting governing bodies in Wales to bid for events. They said that they currently gave priority to supporting events that were designed to extend the tourism season and agreed to provide a written answer in response to a member's specific question about support for a specific event. **[Action: WTB]**
4. There was some concern amongst members about links between the WDA and WTB, which they felt, could be more productive. It was noted, for example, that the WDA's adverts on British Airways made no mention of visitwales.com. WTB shared their concern and were being encouraged to develop stronger strategic relationships with bodies like the WDA.
5. The WTB shared some of the members' concerns about the recent changes in the role of the BTA. They felt that it was important to negotiate a fair share of the targets and had met the BTA to discuss these. The final negotiations, however, lay with the Minister. Members agreed to write to the Minister in support of a 6% target for Wales for the BTA] **[Action: Clerk]**
6. It was noted that the WTB had not met their targets for bookings under the new Destination Management System (DMS). Philip Evans said that they had had over 2000 visitors to the website but only 200 had used it to make a booking. He said that as the website allowed a visitor to access the tourist operator directly it was difficult to assess how many people had made bookings as a result of visiting the site. The WTB had provided one day IT training for over 800 operators but it was still difficult to get small businesses to accept e-commerce, something which was not just an issue in the tourism sector. He had no evidence to suggest that access to broadband was a particular problem. A member suggested that the WTB might consider including the use of DMS as a criterion for their rating scheme.
7. On the difficulties faced in travelling around Wales using public transport, the WTB said that its availability was beyond their remit but it was their role to ensure that sufficient information was available for people to plan their journeys.
8. Philip Evans said that while he acknowledged the tourism industry had lost a lot of its market as a result of the foot and mouth outbreak, the increase in holiday spending of 11% over the same period of the previous year indicated that they were fighting back. Nonetheless, they were still playing 'catch up'.

9. Jonathan Jones said that a major priority in extending the tourism 'product' was to find ways to extend the 'season'. He cited the example of a company that had used a Section 4 grant to install an indoor heated swimming pool and this had now extended their season considerably. He added that where they felt a business should be open all year-round, they would withhold a grant if the business were not able to meet this commitment.
10. The WTB agreed that the recent increases in employer liability insurance were causing great concern amongst tourist operators and that some businesses would close because of it. Philip Evans said that costs had risen by 2000% in some cases. The WTB were to write to Lloyds but they acknowledged that this was a commercial decision that the WTB had little influence over.
11. Reference was made to the WTB's priority to promote 'green tourism'. They said that the environment was one of the most important factors in attracting tourists to Wales and they also outlined their work with the Green Sea Partnership to improve the quality of beach facilities. On the issue of on-shore wind farms they said that they had not undertaken detailed research on the effects of wind farms on tourism. They were aware that recent research in Scotland had found that there was no major effect but they acknowledged that at some point they would probably need to carry out their own research, maybe as part of their regular visitor surveys. They said that they were not against wind farms which were sited in appropriate areas.

Item 5: WTB Quinquennial review

EDC 17-02 (p7)

1. In view of the shortness of time the Chair suggested that Members forward comments on the review to the Clerk via e-mail. She said that she hoped members would support her view that Section 4 grants should be retained and asked that members also make individual representations to the Minister on this subject.

Item 6: Minutes of previous meeting

EDC 16-02 Minutes (Draft)

EDC 17-02 Action Outstanding

1. A Member said that he felt the record of the discussion on Structural Funds from the last meeting did not accurately reflect his concern regarding decommitment and asked that the following paragraph be inserted in the minutes. *'It was stressed by a member that the total allocation of European funds over the whole*

range of European Programmes was falling seriously behind the Indicative Financial Allocations agreed in the SPDs and unless this gap was closed in the near future there would be substantial decommitment at the end of 2004.'

2. A Member said that point 8.2 in the minutes of the meeting on 14 November did not accurately reflect what was said regarding significant policy announcements being brought to the Committee from the Minister. The Chair agreed that the Clerk would review the tape of the meeting. **[Action: Clerk]**

Committee Secretariat