



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

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

Dydd Iau, 24 Ionawr 2013
Thursday, 24 January 2013

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These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Mike Hedges	Llafur (yn dirprwyo ar ran Julie James) Labour (substituting for Julie James)
Alun Ffred Jones	Plaid Cymru The Party of Wales

Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
David Rees	Llafur Labour
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Alun Davies	Aelod Cynulliad, Llafur (y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeiadd) Assembly Member, Labour (Deputy Minister for Agriculture, Food, Fisheries and European Programmes)
Rob Halford	Pennaeth Cynllunio a Strategaeth, WEFO Head of Planning and Strategy, WEFO
Yr Athro/Professor Danuta Maria Hübner	Aelod o Senedd Ewrop a Chadeirydd y Pwyllgor ar Ddatblygu Rhanbarthol Member of the European Parliament and Chair of the Committee on Regional Development
Damien O'Brien	Prif Weithredwr, WEFO Chief Executive, WEFO

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

Chloë Davies	Dirprwy Glerc Deputy Clerk
Ffion Emyr Bourton	Dirprwy Glerc Deputy Clerk
Gregg Jones	Pennaeth Swyddfa UE Cynulliad Cenedlaethol Cymru Head of the National Assembly for Wales's EU Office
Siân Phipps	Clerc Clerk

Dechreuodd y cyfarfod am 1.30 p.m.
The meeting began at 1.30 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** I welcome Members and witnesses to this afternoon's session of the Enterprise and Business Committee. This meeting is bilingual, and headphones can be used for simultaneous translation from Welsh to English, or for amplification. The meeting is being broadcast and a transcript of the proceedings will be published. I ask Members to turn off their mobile phones. As usual, the microphones will operate automatically. In the event of the fire alarm sounding, could Members please follow the directions of the ushers?

[2] We have two apologies this afternoon: from Julie James and Dafydd Elis-Thomas. I thank Mike Hedges for being with us this afternoon; he has kindly agreed to substitute for Julie James.

Sesiwn Ddiweddaru: Cronfeydd Strwythurol Ewropeaidd Update Session: EU Structural Funds

[3] **Nick Ramsay:** We continue this afternoon with our look at European Union structural funds and the role of the Welsh Government in the negotiations. I am very pleased to welcome Professor Danuta Maria Hübner MEP, who is with us via the video link from Brussels. She is the chair of the Committee on Regional Development. I understand, Professor Hübner, that you would like to make a few opening comments. We have a number of questions for you, so if you and Members can be succinct throughout the proceedings today, that would help.

[4] **Professor Hübner:** Okay. I would be very pleased to explain briefly where we are with the preparations for the next edition of the European cohesion policy, which starts in 2014. Negotiations are taking place in the European Parliament on the one hand on the new regulatory framework, while, on the other hand, as you know, we do not yet have the decision of the council on the next multi-annual financial framework—the budget—for 2014-20. The role of the Parliament will also be very important in this process of deciding our multi-annual financial framework, because if, as we now hope, the council finally agrees on 8 February the budget for 2014-20, then the Parliament will have to give an opinion. This is called the consent procedure, and only if the Parliament says, ‘Yes, we like your proposal’ will we have a budget. If the Parliament, through a vote—in which we need an absolute majority—rejected the proposal coming from the council, then we do not have a budget, and that would be trouble for us all, because we will most likely have to embark on annual budgets, which would be death to the cohesion policy, or we will continue the negotiations, hoping to find an agreement before the end of this year. So, there is this uncertainty with regard to the budget.

[5] In the meantime, however, my committee, which is responsible for most of the regulations for the cohesion policy, has started the so-called trialogues, meaning negotiations with the European Council on the basis of the mandate that we voted for in the regional policy committee in the Parliament. We started the negotiations in July and have already reached an important part of the new regulatory framework agreement—we have partial agreement with the council—and just yesterday, in the committee meeting, we had with us Brendan Howlin, the Irish Minister for the cohesion policy, and he is also responsible under the presidency for the negotiations.

[6] The plan on the Irish presidency side and the Parliament side is to finish the regulatory framework negotiations by the end of the Irish presidency. It is a very ambitious plan, and it depends on whether we have the decision on the budget or not. If there is no budget decision, we cannot put figures into the regulatory framework and we cannot finalise the regulatory framework negotiations. So, there is a lot of uncertainty still, but we have this philosophy in the Committee on Regional Development that we do everything that we can. We go on with our work hoping that, at the end of the day, there will be a solution to everything. The major reliance for future policy as we see it in the Parliament is that it is important that we have a policy that strongly contributes to growth, jobs and competitiveness. In terms of our objectives, we are supporting the EU 2020 strategy, which you have probably heard of, while respecting the mission of the cohesion policy, which is the territorial, economic and social cohesion of the European Union.

[7] We strongly support what we call partnership. There will be new elements in the policy formalising the partnership and the participation of the local and regional authority, plus partners from civic society, academia and business being an important part of the decision making, implementation and supervision of the policy. Here we have already found a compromise with the Council. We managed to convince it to have a kind of code of conduct

for the partnership so that we have certain binding rules for the establishment of partnership relations for the policy.

[8] We are also supporting the new architecture, which is less important for Wales, because you will not be in transition, but we have three categories of regions where we as a Parliament support the new transition region category. We are basically also supporting the major objectives, such as the focus on energy efficiency, competitiveness and innovation—that does not come as a surprise, but although we are not yet negotiating on these priorities, we will find agreement, I think, with the Council. We have a very good spirit of co-operation in the negotiations, especially now with the Irish presidency, and it looks like it will go smoothly and rather quickly. There are of course issues on which we might diverge or where we have a lot of sensitivities in different political groups in the Parliament, so sometimes we have problems, but generally we are moving ahead. I think that, between the Commission, Council and Parliament, there is an understanding of the major mission for the policy in years to come, which is coping with the post-crisis situation—hopefully creating the basis for long-term growth and jobs.

[9] That is roughly where we are. We hope that we will complete the negotiations by the summer. All the risks that I mentioned at the beginning still exist there.

[10] **Nick Ramsay:** Thank you for those opening remarks, Danuta Hübner. Alun Ffred Jones, would you like to kick off the questioning? I think that most of the things that you were going to ask have been covered, but over to you.

[11] **Alun Ffred Jones:** Byddaf yn gofyn **Alun Ffred Jones:** I will ask a question in cwestiwn yn Gymraeg. A ydych yn gallu Welsh. Can you hear the translation? clywed y cyfiethiad?

[12] **Professor Hübner:** Yes, I can hear the English version.

[13] **Alun Ffred Jones:** Beth yw natur yr **Alun Ffred Jones:** What is the nature of the anghydfod sydd rhwng y Senedd, y Cyngor disagreement between the Parliament, a'r Comisiwn? Beth yw'r prif faterion sy'n Council and Commission? What are the main parhau'n broblemus? sticking points?

[14] **Professor Hübner:** At the beginning, with the Cyprus presidency, we had long discussions—I think there were 11 dialogue meetings—on the partnership agreement specifically, because the Parliament wanted to go much further in underpinning and strengthening the role of the partners, especially regional and local authorities. We wanted them in the policy as a special partner above all other partners, and the Council was quite stubborn in putting all the partners, including the local and regional authorities, into the same sack, with all due respect, with all the other partners—with civil society representatives, with academia, with businesses and with non-governmental organisations. We believed that the local and regional authorities should have a privileged position as partners for these policies. So, it took us quite a lot of time to finally agree. The biggest disagreement with the Council was that, in terms of the partnership agreement—which was negotiated at home between local and regional government and all the horizontal partners, and then approved by the Commission—the Commission and the Parliament wanted to have this entire partnership agreement as one document, which would be adopted by the Commission. The Council had some important arguments in fighting for a kind of split partnership agreement. Part of the agreement would be adopted by the Commission, which would mean that if you wanted to have a change you would have to go through a complicated procedure. A less important part of it would be just adopted at the national level, respecting the rules of codes of conduct for partnerships but without having the formal adoption of the Commission. That was about very specific territorial situations or state structures in the member states and in some specific

cities that member states did not want to be passed by formal adoption of the Commission.

[15] Finally, we found an agreement, which is that we will have a split partnership agreement. We shifted a lot of issues from the second part that would not be adopted by the Commission to the part that would be adopted by the Commission. So, we thought that that was probably the best possible solution, given the disagreement. There is a disagreement within the Commission, especially, with regard, for example, to the support for enterprises where the Commission is very strict on only allowing support for small and medium-sized enterprises. In the Council and in the Parliament there have been some openings to support the large enterprises on some conditions, particularly when they are linked with the small and medium-sized companies, because we believe that the internationalisation now of small businesses in Europe is very important. There is a lot of experience that shows that if SMEs are together in clusters of some kind with bigger companies, then the big companies can facilitate the globalisation of the SMEs. So, there was a difference, but Parliament and the Council were on the same side. We finally agreed on opening, under some conditions, the possibility of large companies, in some situations, also having access to the structural funding.

[16] There is also a disparity between what the Parliament and the Council want with regard to earmarking or ring-fencing the social fund. In the Parliament, we are quite close to the Commission's position in deciding on the proportion of the European social fund out of the total funding that should be decided by the regulation; while in the Council there is more flexibility on this. Personally, I have a completely different view. I believe that it should be decided on the spot by the member states or by the regions as to how they want to divide the funds, but this type of thinking is held completely by the minority. Generally, there is now this belief in the Parliament, especially—but less so in the Council—that this decision should be made centrally.

[17] It is most likely that we will have such a situation where the amount that goes to the social fund will be decided in the regulation. However, some of us are still fighting for some flexibility because we have regions in Europe that are now jumping directly from the poorest regions, the convergence regions, where limited parts of the funding are allocated to the social fund because they had a harder type of investment in terms of needs, to the more developed categories where, all of a sudden, they will have to have more than 50% or 52% for the social fund while still needing a different type of investment rather than just training. So, we need some flexibility to allow some of the regions to better adjust the division between the social and the regional fund to their specific needs. This will probably be one of the most difficult issues that will stay open to the very end of the negotiations.

1.45 p.m.

[18] **Eluned Parrott:** Professor Hübner, I would like to draw a little on your experience from your time as the Commissioner with responsibility for regional policy. I believe that we have a lot to thank you for in terms of protecting cohesion policy for the future. However, if that area of funding was under pressure before the eurozone crisis kicked off, there is certainly some concern that it may be under even greater pressure in future. What do you think is the likelihood that we will see net contributors to the EU budget increasing that pressure and threatening the ability of the European Union to deliver its cohesion policies as they are at the moment?

[19] **Professor Hübner:** You have touched a very painful spot on Europe today. You might remember that, at the end of November, we had a summit hosted by Mr Van Rompuy, where the hope was that a decision on the budget would be made. The decision was not made and we will now have the next summit on 8 February with the hope that we will have a decision on the budget.

[20] In the proposal presented by Mr Van Rompuy in November, which was the fourth or fifth proposal from the moment that the Commission put the first proposal on the table in June 2012, there was already a serious cut in relation to cohesion policy as well. During the negotiations in November, during the summit and in the context of the so-called distribution of gifts to every member state—because it is usually part of the job of the president of the Council to offer someone something to keep everybody around the table—we were at the level of, more or less, €310 billion. Mr Van Rompuy added €10 billion during the negotiations through the policy. My feeling is that we will stay around this figure, which, of course, is not much less but substantially less than we currently have, which is €347 billion. So, it is less.

[21] There are countries whose national envelopes have been cut very seriously. There are very few that have seen an increase in relation to the current period. So, there has been pressure. However, after November, there was a general feeling and there were many statements to the effect, including statements made by Mr Van Rompuy—and I had a meeting with the British ambassador a week ago who also had the feeling—that if there are further cuts now to the level of the budget in February, they will not touch cohesion and agriculture, because agriculture was strongly protected by the French in the process, and it looks like all of the cuts that were to happen have already happened. So, if there are any further cuts, they will most likely go to the first heading of the budget, which is the Connecting Europe facility, which I do not think affects you at all, and, most likely, to research. However, we do not expect a really big, new cut to the budget.

[22] I think that there are some expectations on the German and the British side that there will be a further cut, but I do not think that it would be really substantial. What we have right now is a budget of €960 billion, in your language, over seven years, which in Poland would be trillions, probably, or the other way around, but there is less than €1 trillion on the table. If that goes further down, it would be rather unlikely that the Parliament would accept that, because our initial proposal was even bigger than the Commission's proposal—it was slightly above €1 trillion. The Council knows that it cannot go further down—maybe a little bit, but not much—to get the Parliament's consent and positive opinion. If there are further cuts, on the basis of everything that we heard from the politicians and the Council, it will not affect the cohesion policy anymore, because it was already cut: the first proposal of the Commission was below the current level; the second proposal of the Commission, due to a technical adjustment because of the changes of forecast, was a second cut; the Cypriots made a third cut to the proposal; and, Van Rompuy made a fourth cut to the proposal. So, I do not expect more cuts to this policy.

[23] In the meantime, there is a growing understanding that if Europe wants to do something as Europe on growth, the cohesion policy is the policy to use because it is a policy where we decide at the European level on the priorities, and you adjust those priorities to local regional needs. It is investment-type of money that comes from the European budget, so I guess that there is a feeling that we do not have that many policies that could bring about mid-term growth and jobs, and that allows me to be slightly optimistic in terms of not expecting more cuts.

[24] **Nick Ramsay:** Moving on to the role that this committee can play, Keith Davies has some questions on that.

[25] **Keith Davies:** Yn dilyn yr hyn y gwnaethoch ei ddweud yn awr y bydd yr arian efallai yn mynd i lawr, beth fydd rôl Senedd Ewrop o ran monitro a goruchwyllo gweithrediad rhaglenni'r cronfeydd
Keith Davies: Given that you have just said that the money will be reducing, what will be the European Parliament's role in terms of monitoring and overseeing the future implementation of the European structural

strwythurol Ewropeaidd yn y dyfodol ar gyfer 2014-20? Pa gyfleoedd allai fod i'r pwyllgor hwn a phwyllgorau eraill y Cynulliad i ymwneud yn uniongyrchol â'r broses gyda Senedd Ewrop, fel deddfwrfa yn siarad â deddfwrfa?

funds programmes for 2014-20? What opportunities could there be for this committee and other Assembly committees to engage directly in this process with the European Parliament, as a legislature talking to a legislature?

[26] **Professor Hübner:** It is a very difficult question, because on the one hand there is a clear increase in the role of the European Parliament in the process of deciding what the future policy will look like, because it is unlike previous legislatures—in 2005, when we had the negotiations, Parliament just gave an opinion on the regulations. We called it the 'assent procedure' at that time, according to the treaty. We now have a co-decision for all the regulations, and we have seven regulations for the cohesion policy. The Parliament is in co-decision, meaning that it is at the same level and on an equal footing with the Council as co-legislator. Our role in terms of deciding on what we will have as a policy is bigger, so your question is probably correct, because we should also try to find a bigger role for the Parliament in monitoring the implementation phase.

[27] This can be facilitated by the fact that there is a new element of the policy, which links the operational programmes, the priorities and the implementation of the policy with the so-called European semester, which is this whole process of harmonising and co-ordinating the national budgets of member states, and in which the Parliament also has a say. There is a regular report to the Parliament and the cohesion policy will also have to adjust its programme under the European semester procedure. If there is a recommendation from the European Commission and the European Council to change the priorities of investment in the national budget, this will also have an impact on the priorities of operational programmes of the cohesion policy. So, we also have this link that will also probably justify a bigger role for the European Parliament in supervising the policy.

[28] However, there is nothing in the current treaty that would tell us how we should organise our work, in terms of our co-operation with national parliaments and our role as an institution that represents citizens in the whole process of implementing European policies. So, we are building some new traditions, I would say. For example, next week, we will have a meeting at the European Parliament with national parliaments specifically on the European semester process. It is up to us to decide how we want to see it. What is sure is that we will be inviting Ministers, as we are now. The Committee on Regional Development has annual meetings on cohesion policies with national parliaments, normally in October. So, this tradition of working together will be developed. We may then work jointly on some other instruments. For the time being, we have only this.

[29] I would like to point to one issue where you could soon have a say, because the European Commission has also prepared regional state aid guidelines. It is a proposal, currently out to consultation with stakeholders, involving a regulatory decision by the Commission to put additional conditions and restrictions on regional policy. Even if we decide in the regulations that, for example, large enterprises can benefit from funds, the regional state aid rules may say that this can happen, but only in the poorest regions. So, no matter what we decide in the regulations, the decision of the Commission on the state aid rules can make the rules in the regulations empty. These rules should be discussed with the Commission at the Parliament next month, during the Committee on Regional Development meeting. I do not know how the British Parliament deals with this in relation to the National Assembly for Wales.

[30] **Nick Ramsay:** Joyce Watson has a question to ask you, Professor Hübner, and you can then continue.

[31] **Joyce Watson:** What are your views on the current engagement of the UK in the EU, in the context of the eurozone crisis, the multi-annual financial framework discussions and the UK Government review of the balance of competence, launched last September?

[32] **Professor Hübner:** This is a very difficult question. We are all frustrated, I must say, especially by the Prime Minister's speech yesterday. We are all reacting, and some of us think that it is good that we will finally have a referendum one day, albeit late, and everyone will see that the Brits want to be in the European Union. However, we are generally very frustrated by the fact that, in the dialogue between the authorities and the citizens, there is a tendency to present European integration in a way that we do not see as being justified or fair, especially in relation to the idea of repatriating competences and reducing the role of Brits in the European integration process even more, compared to the current period. As you probably know, we are rather unhappy here about what we heard from the British Prime Minister in his speech yesterday. We are also very unhappy each time we see that most of the member states would like to go forward, but the veto system is being used not only to say, 'If I veto, I do not want to participate,' but also to say, 'I do not allow you to go further'. We find this to be an error and a weakness of the decision-making process. Those are the negative arguments that were to be heard today and yesterday. In the budget negotiations, we have also probably blamed November's failure to find an agreement on the British Government. I do not know the extent to which our friends on the island deserve that or not. However, that is the impression that they make, and that makes some in the European Parliament unhappy and makes them look negatively at this process.

2.00 p.m.

[33] On the MFF, as you know, the tranche to reduce the budget was a movement in which the UK was very strong. However, it was not only the UK; we also had the net contributors. Practically every time we negotiated the budget, we had the same group of member states taking the same line on the budget. On the one hand, maybe you can understand that. On the other hand, nearly every day there are new things added to what Europe wants to do or must do together. The crisis shows that, individually, nobody is big enough to cope with it. So, every day, we have a new competence—

[34] **Nick Ramsay:** I think that you have answered that pretty fully. We only have a couple of minutes left, so I will bring in two more questioners, first Dave Rees and then Mike Hedges.

[35] **David Rees:** Professor Hübner, on that point, clearly the importance of structural funds to Wales is well known here. However, do the decision or comments yesterday, and the views that you were hearing in Parliament in Brussels today, have an impact on the influence that any UK position may have on the way in which structural funds will be worked and the negotiations that will be taking place in the process up until, hopefully, the summer?

[36] **Professor Hübner:** There is no link whatsoever between what the Governments say in the course of the negotiations and the final shape of the policy. There might be a situation where a Government that has been extremely critical has a problem in getting, during the last night of the negotiations, a kind of gift. As I said before, that is how things happen. In addition to what is in the rules that are agreed, there might be some additional money being given here and there to make everybody happy. So, I can imagine that, in such a situation, a Government that is extremely negative on the size of the budget might be in a more difficult situation to get any kind of gift, if there is a need for such a gift. However, everything depends on the rules. There are rules for all types of regions. So, in Wales, if west Wales and the Valleys is still the poorest region in the category of the less developed, then east Wales will be the more developed. There are rules for everything. You cannot just have individual treatment or negative treatment of anybody. So, I would not worry about this. Certainly, as I

said, if you are somebody who wants to have a smaller budget, then it is probably difficult to expect that your allocation would be bigger.

[37] **Mike Hedges:** I will move from Britain, or the UK, to Wales and the discussions on the future of European structural funds, of which Wales is a major recipient, and the future of the European Union in general. What do you think of the engagement of Wales? What more should we be doing?

[38] **Professor Hübner:** It is important to come to Brussels from time to time. I think that that is happening because I meet your Minister in Brussels. Also, I do not know whether you know it, but you are the only Assembly that is undertaking this exercise with me, which points to the importance that you give to this policy. That is a way for others to follow; not only with the Parliament, but also, I imagine, with the commissioner. That is what I hope you are doing, because we all need the information from the ground. Many people would be convinced only if they talked to real people—I mean ‘real people’ in the sense of politicians who are active locally or regionally. Then, because you know the specificities and you know the needs, your duty is to bridge what is happening in the European Parliament with the final beneficiaries on the ground. So, be in touch and say what you need, because those who are not participating in the discussions do not have the rights, usually. Just be active and say what your needs and specificities are. You have sent me the position. I also know about your Government document from last year on the principles and priorities. So, I know that you are getting ready. Now you must ensure, at home in Wales, that the Government—the Executive—really prepares your participation in the partnership agreement that the UK will be negotiating, because your contribution will be very important, and that you are working on your operational programme and the projects, because sooner or later the decision will be made on the budget and the regulations, and there is no need to delay the beginning of the new funding beyond 1 January next year. Now, you should just work and be ready.

[39] **Nick Ramsay:** With regard to what you just said, Danuta, would it be possible for the committee to attend one of the regional development committee meetings at some point?

[40] **Professor Hübner:** Absolutely, you can come. I do not really know how the system works in the UK, because I invited for the October meeting of the European Parliament and national parliament the committees that are in charge of yourself and European funding to participate in the October meeting of the REGI. There are also other meetings if you want to send somebody to listen. I invite Ministers to speak on policies so, if you also want to speak to the committee, let us know and we can arrange it. Maybe not immediately, because the agenda is very tight, but we can think about having you there too.

[41] **Nick Ramsay:** That is great, thank you. Bearing in mind what you just said about being in touch, we can certainly look into the process for that. Thank you, Professor Hübner MEP, chair of the committee on regional development, for your evidence today. It has been helpful and we will feed what you have said into our study of European Union structural funds and the role that the committee can play.

[42] **Professor Hübner:** Thank you.

[43] **Nick Ramsay:** We will take a short break.

*Gohiriwyd y cyfarfod rhwng 2.07 p.m. a 2.11 p.m.
The meeting adjourned between 2.07 p.m. and 2.11 p.m.*

Y Wybodaeth Ddiweddaraf am Gronfeydd Strwythurol Ewropeaidd gan y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd

Update Session with the Deputy Minister for Agriculture, Food, Fisheries and European Programmes on EU Structural Funds

[44] **Nick Ramsay:** I welcome our witnesses to this afternoon's session of the Enterprise and Business Committee. This session is intended to update the committee on the draft legislative proposals on EU structural funds 2014-20 and to follow up the recommendations we made in our report published in February last year.

[45] Welcome, witnesses, would you like to give your name and title for the Record of Proceedings?

[46] **The Deputy Minister for Agriculture, Food, Fisheries and European Programmes (Alun Davies):** Sure. My name is Alun Davies, and I am the Deputy Minister for Agriculture, Food, Fisheries and European Programmes. With me this afternoon are Damien O'Brien and Rob Halford.

[47] **Nick Ramsay:** I suggest that we go straight into questions, because we have a number of areas that we would like to follow up with you for an update. Alun Ffred Jones has the first question.

[48] **Alun Ffred Jones:** Prynawn da. Beth ydych chi'n meddwl yw'r rhagolygon o ran cael cytundeb yn yr uwchgynhadledd ar 8 Chwefror?

Alun Ffred Jones: Good afternoon. What do you think the prospects are of a deal being reached in the summit on 8 February?

[49] **Alun Davies:** Rwy'n cael fy nhemtio i ofyn pa bapur Sul rydych yn ei ddarllen. Rydych yn gofyn am y posibilïadau o gael cytundeb, ac rwy'n credu mai *speculation* yw hynny, a bod yn hollol onest. Mae'r broses hon yn cael ei harwain yn uniongyrchol gan Van Rompuy. Mae wedi cymryd casgliadau mis Tachwedd ac y mae wedi treulio llawer o amser yn trafod y rhain gyda'r gwahanol Lywodraethau. Felly, rwy'n tueddu i fod yn ychydig o *optimist*. Rwy'n credu bod angen dod i gytundeb ddechrau Chwefror. Fel dywedodd Danuta yn eich sesiwn blaenorol, heb gytundeb ar y gyllideb, nid oes modd dod i gytundeb ar unrhyw beth arall. Felly, mae goblygiadau peidio â dod i gytundeb mis nesaf yn fawr iawn, nid yn unig ar gyfer y Comisiwn a'r Undeb Ewropeaidd, ond ar gyfer pob un ohonom, a'r bobl sy'n dibynnu ar raglenni Ewropeaidd, o ffermwyr i bobl sy'n cael arian o dan ESF. Felly, mae'n hynod o bwysig bod cytundeb.

Alun Davies: I am tempted to ask what Sunday paper you read. You ask about the possibilities of reaching an agreement, and I think that it is speculation, to be completely honest. This process is led directly by Van Rompuy. He has taken the conclusions from November and he has taken some time to discuss those with the different Governments. Therefore, I tend to be a bit of an optimist. I think that there is a need to reach an agreement at the beginning of February. As Danuta said in your previous session, without agreement on the budget, there is no way of reaching an agreement on anything else. Therefore, the implications of not reaching an agreement next month are very great, not just for the Commission and the European Union, but for each one of us, and for those who depend on European programmes, from farmers to those who receive money under ESF. It is very important that there is an agreement.

[50] Rydym yn deall bod trafodaethau dwys yn digwydd ar hyn o bryd gyda Llywodraethau unigol, ac mae Van Rompuy

We understand that serious negotiations are happening at the moment with individual Governments, and that is being led by Van

yn arwain hynny, ac rwy'n mawr obeithio y bydd yn cyhoeddi cynigion gwahanol cyn bydd yr uwchgynhadledd yn dechrau.

[51] **Alun Ffred Jones:** A ydych yn cytuno â'r Athro Hübner ei bod yn edrych yn debyg na fydd lleihad yn y cronfeydd strwythurol? Credaf mai dyna roedd hi'n ei awgrymu.

2.15 p.m.

[52] **Alun Davies:** Dywedodd hi 'toriadau pellach'. Bydd toriadau, a bydd hynny yn ergyd i ni yng Nghymru. Felly, nid yw'n wir dweud na fydd toriadau o gwbl. Yr hyn rwy'n credu yr oedd Danuta yn ceisio ei ddweud yw eu bod wedi dod i ddiwedd y daith gyda'r toriadau ar y cronfeydd strwythurol a PAC. Nid oes sicrwydd ynglŷn â hynny. Gwn fod Llywodraeth y DU yn chwilio am oddeutu £50 biliwn yn ychwanegol mewn toriadau. Petai'n gwasgu hynny ac yn cynyddu toriadau o'r maint hwnnw, mae'n annhebygol y bydd cytundeb heb doriadau pellach i bob rhan o'r gyllideb. Cytunaf felly gyda Danuta bod angen cytundeb ar y gyllideb sy'n diogelu'r cronfeydd strwythurol sydd gennym.

[53] **Alun Ffred Jones:** I egluro, ac efallai nad wyf wedi clywed ei thystiolaeth yn gywir, a ydych yn gwybod beth yw natur y toriadau y'u cytunwyd arnynt, neu ble mae rhyw ddealltwriaeth arnynt, hyd yn hyn?

[54] **Alun Davies:** Rydym wedi modelu'r effaith ar Gymru o rai toriadau. Mae'r toriadau yng Nghymru yn seiliedig nid yn unig ar faint o gyllideb sydd, ond ar y cyfanswm o arian sydd ar gael yn y gyllideb a phob rhan ohono, ond hefyd ar y fformiwlâu sy'n dyrannu'r arian o'r gyllideb honno. Rydym wedi bod yn gwneud y gwaith hynny ers rhai misoedd, fel y gallwch ei ddychmygu. Cyhoeddwyd cynigion gwreiddiol ar gyfer y fframwaith ariannol amlfwydd yr ydym yn eu trafod hefyd, 18 mis yn ôl gan y Comisiwn Ewropeaidd, ac felly mae hyn yn waith rydym wedi bod yn ei wneud ers hynny. Felly, rydym yn ymwybodol o'r effaith bosibl ar Gymru.

[55] **Joyce Watson:** Good afternoon, Deputy Minister. I want to ask about the EU structural fund negotiations and your role, as Deputy Minister, and that of Welsh Government

Rompuy, and I sincerely hope that he will announce different proposals before the summit begins.

Alun Ffred Jones: Do you agree with Professor Hübner that it looks likely that there will not be a reduction in the structural funds? I think that was what she was suggesting?

Alun Davies: She said 'further cuts'. There will be cuts, and that will be a blow to us in Wales. Therefore, it is not true to say that there will not be any cuts at all. What Danuta was trying to say is that they have reached the end of the journey with the cuts to the structural funds and CAP. There is no certainty about that. I know that the UK Government is looking for something like an additional £50 billion in cuts. If it squeezed that and increased cuts of that size, it is unlikely that there will be an agreement with further cuts to all parts of the budget. Therefore, I agree with Danuta that there needs to be an agreement on the budget, which protects the structural funds that we have.

Alun Ffred Jones: To clarify, and perhaps I did not hear her evidence correctly, do you know the nature of the cuts that have been agreed on, or where there is some understanding on them, thus far?

Alun Davies: We have modelled the impact of some cuts on Wales. Cuts in Wales are based not only on how much budget there is, but on the total amount of money available in the budget itself and each part of it, and, also, on the formulae used to allocate money from within that budget. We have been doing that work for some months, as you can imagine. The original proposals for the MFF, which we are also discussing, were published 18 months ago by the European Commission, and so this is work that we have been doing since that time. So, we are aware of the possible impact on Wales.

officials, in influencing the triologue negotiations between the European Council, the European Parliament and the European Commission's negotiating teams in Brussels.

[56] **Alun Davies:** In terms of the Government's role, clearly we play different roles at different levels. I hope that we agree that the UK negotiating position as different United Kingdom administrations, and that is delivered by Ministers and officials. We have an office in Brussels, which works alongside UKREP—the UK office in Brussels—which has significant contact with the Commission and elected representatives in Parliament and elsewhere. So, we have a structural presence in Brussels. As Danuta suggested, I spend a considerable amount of time talking to decision-makers in Brussels, both in the European Commission, as she suggested—I was in Strasbourg before Christmas, meeting several parliamentarians and leaders of different committees and rapporteurs on different policy areas, and so, we have that direct contact—and I also attend Council of Ministers meetings as a part of the UK ministerial delegation, where we take decisions. It is not a matter of lobbying or influencing but of taking decisions at that forum. I will be attending the fish and agriculture council in Brussels on Monday.

[57] **Joyce Watson:** Do you have any particular concerns with regard to that progress and within those discussions that you would like to share with us?

[58] **Alun Davies:** As I suggested in answer to Alun Ffred Jones, I have considerable concerns about the potential impact on Wales of the current budget negotiations. The UK Government is suggesting that we need to see further cuts to the Van Rompuy proposals. That would impact on Wales significantly. I can see a potential loss to Wales of £1 billion. I will be writing again to UK Ministers later today to underline again the importance of the UK negotiating position for us. It is not helpful, when you have a country like Wales, which requires and needs a number of different funding streams from the European Union, to have the UK Government having a policy that currently appears to be an extra £50 billion-worth of cuts to Van Rompuy's proposals, which in themselves represent a significant cut. If you take all of those different issues together, you can see Wales losing £1 billion-worth of funding from the European Union in the next few years. That would be a disaster for our economic programme, for people who are currently benefiting from European programmes, and for our ability to invest in growth and jobs across the country. I hope that the UK Government will recognise that Wales's national interests are not served by the games that we saw the Prime Minister playing yesterday, or by a negotiating position that does not take sufficient heed of the needs of Wales.

[59] I spoke to a Minister of State in the Department for Business, Innovation and Skills yesterday; and I will be writing on the same issue to Ministers in the United Kingdom Government later today. It is important that the United Kingdom Government recognises the potential damage to Wales from some of these negotiating positions.

[60] **Byron Davies:** That was quite interesting, Deputy Minister. If we are talking about disasters, we could talk about how the money that we have had so far has been spent, I suppose. I am particularly interested in how you arrived at this figure of £1 billion. Could you substantiate that?

[61] **Alun Davies:** If you look at the impact of where we are at the moment, you will see that the allocation would be done on the basis of the proportion of GDP as a proportion of overall EU GDP. The United Kingdom, as a member state, is less prosperous, relatively so, than it was seven years ago. I will ask my official to correct me if I get this wrong, but our GDP figures have fallen from around 123% of overall EU GDP to approximately 109%. So, that would mean that following the same allocation process, as was followed seven years ago by Tony Blair, we would receive an additional £400 million. In terms of the current negotiating position, which has been followed by the United Kingdom Government, seeking a

cut in real terms in the budget, plus a change to the allocation, or the way that the money is allocated—the allocation formula—could lead to another £400 million or so. I seek confirmation from Damien on whether I am correct on that. When you take in the cuts to the CAP budget, you very quickly reach £1 billion. That would impact on communities across the country. It would impact on the communities that I represent in my constituency in Blaenau Gwent, and it would also impact on constituencies across the whole of rural Wales. It would have a considerable impact on communities across the face of the country. That is not something that I believe that we can risk at the moment.

[62] I believe that we should be looking at increasing the UK allocation, where possible, to ensure that we are able to continue to invest in jobs and growth. That is my priority, and it is the priority of this Government. Ironically, when we are in some of these negotiations in Brussels, it is also the position of the United Kingdom Government. My concern is that, when we come down to the formula that we use for the allocation of structural funds in this case, we use a formula that benefits the United Kingdom and that we argue for a formula that benefits and protects Wales. At the moment, we see the United Kingdom arguing for and supporting a formula that would actually damage UK and Welsh interests. That is not good for us; it is not good for any of us around this table today, no matter what political party we support. I hope that we will be able to unite. In terms of the question that Mike asked in your previous session as to what this committee can do to support the Welsh Government in its work in arguing the Welsh case, this committee could say very clearly that it wants to see an allocation formula that is fair to the UK and Wales, and fair in terms of ensuring that poor regions, wherever they happen to be located across the European Union, do not lose out as a consequence of the decisions taken.

[63] **Eluned Parrott:** Obviously, in that context, Deputy Minister, your liaison as part of the UK is extremely important. How would you characterise your discussions with the UK Government at present?

[64] **Alun Davies:** I hope and I think that my relationship with individual Ministers in the United Kingdom Government is very good. As you know, I attend joint ministerial committee meetings on Europe on a regular basis. The Foreign Secretary chaired the last meeting, and we had a good conversation about the needs of Wales. Some of the issues are ones that we have discussed this afternoon. I spoke yesterday to a Minister in BIS to underline the point that I have just made about the allocation formula, and I shall be writing to him, with a copy to other Ministers in the United Kingdom Government, over the next day or so to reinforce the points that we are making in meetings.

[65] I must say that the support that we receive from the Foreign and Commonwealth Office and from the United Kingdom Permanent Representation to the EU is excellent; it is first rate.

[66] **Eluned Parrott:** In formalising that, what is the state of play at the moment with regard to the UK partnership agreement and, in particular, the Welsh input into that?

[67] **Alun Davies:** The Welsh input is moving according to plan. You will be aware that I made a statement on this matter to the Assembly two weeks ago, and I shall formally launch a consultation on how we put programmes together in the next week or so—a week today, in fact, in Llandudno. So, the Welsh part of that is moving along very smoothly at the moment, and we are meeting all the targets, the timescales and the milestones that I hoped and trusted we would.

[68] As it happens, I spoke this morning to one of the senior officials in London who is dealing with the UK side of things, and she was very optimistic that they had cleared some of the roadblocks that they had on their side, so that they would be able to meet their targets as

well.

[69] **Eluned Parrott:** Can you tell the committee exactly what the legal status of that agreement is in the context of the overall devolution partnership working, if you see what I mean? What kind of power does that agreement hold?

[70] **Alun Davies:** It is the agreement between the member state and the Commission for the delivery of these programmes. It is a fundamental document that outlines how programmes will be delivered in the next seven-year period. So, it is a very significant document. There will be a Welsh chapter in there, which will be written by us. We have been working very well and closely with BIS on how that is to be taken forward, and I think that we now have broad agreement and understanding on both sides as to what is happening there.

[71] It is a document of fundamental importance. Without it, we will not receive any funding and we cannot move forward to run programmes. It is therefore absolutely essential to what we have. However, I have no reason to believe, after the conversation I had this morning, that we have any real difficulties with this at the moment.

[72] **Alun Ffred Jones:** Gan fynd yn ôl at y ffigurau a nodwyd gennych yn gynharach, dywedasoich petai Llywodraeth y Deyrnas Unedig a'i chynghreiriaid yn cael eu ffordd, mi allai Cymru golli hyd at €1 biliwn. Ai hynny a ddywedasoich?

Alun Ffred Jones: Returning to the figures that you noted earlier, you said that if the UK government and its allies were to get their way, Wales could lose out by up to €1 billion. Is that what you said?

[73] **Alun Davies:** Punnoedd.

Alun Davies: Pounds.

[74] **Alun Ffred Jones:** Mae hynny'n waeth. Beth yw hynny fel canran o'r arian Ewropeaidd presennol sy'n dod i Gymru, yn fras? Chwilio am ryw syniad wyf fi.

Alun Ffred Jones: That is worse. What is that as a percentage of the current European funding that comes to Wales, roughly? I just want a rough idea.

[75] **Mr O'Brien:** At the moment, in structural funds, we receive £1.8 billion. The calculation, based on the Van Rompuy proposals, is that we could lose several hundred million—probably something in the order of £700 million and £800 million. It would be a significant reduction in the overall amount of structural funds coming to Wales. Most of that would bite on west Wales and the Valleys.

[76] **David Rees:** Deputy Minister, you talked previously about the partnership agreement, but it is operational programmes that will be on the ground. How far along are we with the preparation of those operational programmes, so that they can get up and running immediately?

[77] I understand the difficulties currently ongoing with the dialogue with regard to the conclusion to the structural funding situation, but are you on the way there, and do you have contingency plans should the deadlines that Professor Hübner identified as being possible for the summer be delayed?

[78] **Alun Davies:** We are where we want to be, and we are where we planned to be in the preparation for the next round of programmes. During my last appearance before this committee, I outlined where we anticipated being and gave a timescale. We have reached all the milestones on that timescale. I took a paper to Cabinet before Christmas, I made a statement to the Assembly earlier this month, and we have launched a consultation that will be completed at the end of April. I will then take decisions and announce those to the Assembly before the summer recess.

2.30 p.m.

[79] So, we have a clear timescale in Wales for the development of our next round of programmes and our ability to deliver those programmes. We are where we want to be. I asked Graham Guilford to come in to review how we deliver programmes. He has given me an initial draft of his interim report, which we have discussed, and he is now working on his final report, which I expect to be with us by the end of this term. That will be published, so people will have an opportunity to review that. So, the work that we had hoped to put in place—the reviews, the analysis and the proposals—is all in place now and is progressing according to our ambitions.

[80] On the wider context of your question, we had hoped that there would be a new MFF agreement last November, but, clearly, that did not happen. We hope, expect and anticipate that that agreement will now be reached in February. As Danuta outlined in her contribution earlier, the legislation has been agreed to a great degree. It certainly feels easier on the structural side than it does on either the CAP or the fisheries side; there is no doubt about that. There is broad agreement and consensus on most of the major issues, it is fair to say. As such, I hope that we will be able to move fairly rapidly to agreement on the legislation and adoption of the legislation. The Irish presidency has stated that it wishes to adopt all the legislative instruments by the end of its presidency in June. If it is able to meet that deadline, I anticipate that we will be able to meet all of our deadlines in Wales and be in a position to initiate new programmes in January next year. Not all those matters are within our gift or ones over which we have either control or influence.

[81] So, we are in a situation in which we have achieved our goals, our ambitions and our timetables, but we are now dependent on others to a great extent. If all of those agreements are reached according to the timescale, we will be able to run our programmes from 1 January next year. If we are not in a position to do so, we will have to understand the reasons for that and the position that we are in in January next year. We do not know that at the moment. On the agriculture side, we are looking at the potential for transitional arrangements. We are not currently doing that on the structural side, but our ambition, as I have outlined to the committee on a number of occasions, is to integrate these funds so that we will be able to have a multifund approach to different programmes. Our ability to do that will be impeded if all the funds are not available to us next year. So, we will have to review the situation. I hope that we will be in a position to understand that in the summer term.

[82] **David Rees:** I understand that situation, and you have clearly indicated that any review that you will undertake will follow the council meeting on 7 and 8 February and the consequences of that meeting. You also have a review of WEFO and its management—my colleague will come in in a second. Where are we with that and are we in a position to look at the management of programmes that are to start in 2014?

[83] **Alun Davies:** The review that Dr Guilford is leading is a positive exercise to ensure that we have a strong evidence base and have identified the lessons learned for future programmes. As I said, I meet Dr Guilford on a regular basis to review the progress of that review. I have seen, and we have discussed, his interim report; we did that before Christmas. I expect his final report and recommendations in March this year. I will publish that report and make a statement to the Assembly in March to enable Members to understand what he is saying. I find it difficult to comment in any further detail on that report, prior to seeing what he says in his final report, but it has been a very positive and good exercise. I have enjoyed the conversations that I have had with Dr Guilford and I very much look forward to what he has to say when he publishes his report.

[84] **Mike Hedges:** I am almost Janus-like because I am on both the Finance Committee

and the Public Accounts Committee. In summary, the view of the Finance Committee is that we need a faster, less rigorous monitoring and application process so that money can be got at quicker, but whenever something does not work out, I know from sitting on the audit committee that it demands the auditor general to have an investigation, with a report, and that action should be taken. Do you find that a problem—that we want to do both things?

[85] **Alun Davies:** I welcome the work of all the Assembly's committees and the contribution made by all Members to that work.

[86] **Nick Ramsay:** That is a very diplomatic answer.

[87] **David Rees:** I will move on to Horizon 2020. I got the impression from Professor Hübner, when she mentioned the cuts, that the research budget—and I am assuming that that is where Horizon 2020 will come in—will be one of those cut if there are to be further cuts. What is your view on that? Is the Welsh Government looking at how we can mitigate those cuts once we reach 2020? We are focusing on greater involvement in that.

[88] **Alun Davies:** I think that you are absolutely right. That is a very real danger. Sometimes, when you listen to some of the commentary on these matters in the media, it seems as if there is some huge administration budget that can be easily cut with no impact in the real world. The reality is that, if you are going to make the sort of cuts that some member states have been describing, and saying that they want to see, then that will mean cuts to real programmes that will have a real impact. My fear is that we will reach agreement next month, and there will be some cosmetic cut to an administration budget somewhere, in order for someone to have something to discuss at the press conference, but the real, serious cuts will be in both Horizon 2020 and Connecting Europe—two programmes that can have a very real impact on the future competitiveness of the different territories within the European Union. Last week I was at Cardiff University speaking to people about this, and Horizon 2020 has the potential to be a very significant programme in terms of driving forward research, development and innovation across the European Union, and driving forward collaboration between different research institutions, ensuring that we have an industrial base, which is in itself based upon very high levels of research and knowledge transfer. That can be impacted seriously by significant cuts to Horizon 2020, and at the same time the Connecting Europe facility is one that really can bring the continent together. I know that Members here have spoken about the electrification of the north Wales line—really very significant and important projects that would unite the continent and enable the freer exchange of goods and movement of people, making the single market a reality in terms of our ability to communicate with each other. That could well be a victim of this drive for austerity, which, as we hear from the International Monetary Fund today, has not exactly benefited the economy of the United Kingdom.

[89] **David Rees:** I accept all of that. Let us assume that it goes ahead; apparently, the requirement is an innovation strategy, with smart specialisation built into it, both of which I know the Welsh Government is working on. How far down the road are we on the innovation strategy and the work being done by Dr Healy and Professor Morgan on smart specialisation?

[90] **Alun Davies:** This is being led by my colleague Edwina Hart. In terms of where we are at the moment, we are, again, meeting our targets and milestones, and we expect the smart specialisation strategy to be subject to peer review in March.

[91] **David Rees:** What about the innovation strategy?

[92] **Alun Davies:** Smart specialisation is a part of that. I think that we had this conversation back in September when we talked about the ex-ante conditionalities. Among those pre-conditions—which I find a far easier term to use—was the establishment of an

innovation strategy and smart specialisation strategy. That is work that, as I say, Edwina has been leading. I think that this committee is taking an interest in that. It will be peer-reviewed in the next few months and I assume that it will be published as a part of the documentation that we will be required to submit as part of the partnership agreement.

[93] **David Rees:** I have one final point on that. Will you be looking for a target regarding what you can get from the funds? We understand that higher education research is performing below the level at which it should be performing. Are you going to set targets for HE institutions regarding the levels of funding from Horizon 2020 that you expect them to hit, regardless of the level of the budget?

[94] **Alun Davies:** We want HE and business to ensure that we have a far closer integration with Horizon 2020 and other structural funds budgets. As a part of that, we want to have a very clear focus on outcomes. One of the conversations that Mike might remember we had at the Finance Committee was that focus not simply on the outputs that come out of these programmes, which we are able to control, understand and count, but also focus on the outcomes that are then created by those outputs. One of the things that we have been negotiating, debating and discussing over the past 18 months or so has been the way in which we measure those outcomes. Going back to the main structural funds, what we want to see is very easy to describe, but it is perhaps less easy to measure.

[95] When I think of my constituency, I want to see far better life chances and life opportunities for people who live and grow up there. That is a very easy thing to describe, and for the investments that we are making—such as the announcement that we made before Christmas regarding the dualling of the A465, the investment in the railway and the investment in the Learning Zone—you can create all of those outputs in a particular geography or community, but how do you then measure the impact of those outputs on that community and the people living in it? One of the things that I really want to focus on, and this goes back to some of the questions that Byron has asked on a number of occasions, is the way in which you then measure, prove and demonstrate the causal link between that investment and subsequent changes within that society, population or community. Those are some of the questions that we have been trying to answer. Sometimes, Eluned and I have these conversations across the Chamber. I do not think that there is any disagreement on the ambition and the vision; I think we all agree on that. It is about how we get there and whether we are getting there at all. That is the question that you might ask. We need to be able to demonstrate that, not only are we making these investments in these particular projects and that these particular projects are then having this impact, but that that impact is then changing communities.

[96] **Nick Ramsay:** Deputy Minister, may I just confirm something that you said a couple of sentences ago? Did you say that there were concerns that austerity measures would see the pulling back of projects such as the electrification of the north Wales line, or were you talking about the south Wales line?

[97] **Alun Davies:** I do not think that I mentioned either of those in that context. I mentioned austerity in the context of the IMF comments today on the UK economy.

[98] **Nick Ramsay:** I am glad that you clarified that. I thought that you had said—

[99] **Alun Davies:** I think that the Record will show that I mentioned austerity in the context of what the IMF said today about the current management of the UK economy and the opportunities to review the management of that economy.

[100] **Nick Ramsay:** I would imagine that projects like the electrification of the south Wales line would be broadly welcomed by—

[101] **Alun Davies:** Of course they are. Nothing I say, Chair, should be in any way interpreted as criticism of that or any other project. Criticism of George Osborne—

[102] **Nick Ramsay:** Is that a stand-alone comment?

[103] **Alun Davies:** Yes, for now.

[104] **Eluned Parrott:** I would like to return to the subject of measurement and demonstrating impact and outcomes rather than outputs. You have quite rightly said that we have discussed this on many occasions, and one of the things that we discussed in a debate around a year ago was whether or not you would pilot some measurement techniques for demonstrating outcomes during this round of structural funds so that you can implement the most effective of those measurement techniques as a tool in the next round. Have you done that?

[105] **Alun Davies:** Are you asking whether we have done that in this round?

[106] **Eluned Parrott:** Are you trialling measurement techniques for outcomes over outputs in this current round?

2.45 p.m.

[107] **Mr O'Brien:** Yes, we are. We are doing this through participant follow-up surveys and follow-up surveys with businesses. We gather a lot of information on outputs, and we publish that information regularly. We are also keen to get to grips with the outcomes in the programme. For instance, under the European social fund, our follow-up surveys shows that if you compare the experience of participants who have benefited from ESF support with those that have not, there is a 20% greater opportunity for those individuals to be in employment 12 months after they have completed their training programmes. That shows that the European programmes are having a clear benefit in terms of the sustainability of employment.

[108] **Eluned Parrott:** Would you be prepared to share that methodology with the committee so that we can understand the approach that you have taken?

[109] **Mr O'Brien:** Absolutely, and all of our evaluation reports are published on the WEFO website. We have also carried out surveys with businesses to try to get a better understanding of how the investments can improve the competitiveness of businesses. This is very important work for us, because the next round of European structural funds is very much outcome-focused. If any Members have had the opportunity to look at the consultation document, I hope that that comes through, because we start from a position of looking at what outcomes we want to achieve, and we work back from that in terms of the types of interventions that are most likely to deliver those outcomes.

[110] **Eluned Parrott:** What work have you done on gap analysis to identify the places where interventions are missing, or where there are breaks in the system or breaks in the chain of opportunity?

[111] **Mr O'Brien:** I hope that we have done a fair amount of that in the preparation of the documents. There is a section on each priority that draws on socioeconomic analyses and also an analysis of the contribution of those policies based on the evaluation that is available to us to address the outcomes that we hope to achieve. What we have tried to do in the consultation document is to highlight those opportunities and gaps.

[112] **Eluned Parrott:** How much of the programme budget for individual programmes do

you spend on assessing and measuring success?

[113] **Mr O'Brien:** We have a technical assistance budget that represents about 2% of the overall programme. A proportion of that is spent on funding an evaluation programme. We have a dedicated research and evaluation team within WEFO, who are all professional staff. I can provide the committee with the exact figure for the amount that we spend centrally on that evaluation.

[114] In addition to that, every project that receives funding in excess of £2 million is required to commission external evaluation. I do not have the figures for that, but I can certainly provide you with the details of the central budgets.

[115] **Eluned Parrott:** I was interested in having a general outline to give us an idea of what kind of weighting is placed on that. Thank you.

[116] **Kenneth Skates:** Could you give an indication of what discussions have taken place with regard to the role of national contact points within Horizon 2020, and whether there is a prospect of any NCPs being based in Wales?

[117] **Mr O'Brien:** The UK Government is undertaking a review of the current arrangements for FP7, with a view to determining whether they are fit for purpose with Horizon 2020. The Welsh Government is feeding into that review, and we are attending a series of workshops. The likelihood is that there will be a procurement exercise, and that the specialist contact points will be subject to procurement. We will want to encourage organisations in Wales to avail of those opportunities. At the moment, as you will know, there are no specialist contact points in Wales—they are all mainly in England, and some are in Scotland. We would hope that our universities and others will take an interest in those opportunities. In addition to that, we have a regional contact point, which is now based within the Welsh European Funding Office.

[118] **David Rees:** I have two questions, hopefully, on the synergies that might exist between Horizon 2020, structural funds and other aspects. Professor Hübner alluded to it slightly, but do you have any information on how well that progress is going? Are there closer synergies between these programmes?

[119] **Alun Davies:** As a general answer to your question, the policy approach that this Government is taking is that we want to integrate and simplify the management, administration and access to funding streams from the European Union. I do not think that it is any exaggeration to say that we have led that work in the United Kingdom and that the United Kingdom itself has, in many ways, led that work across the European Union. We have been very clear that we want to see the experience of people who are trying to access this funding to be one that is as straightforward and streamlined as possible. In order for us to achieve those ambitions we need the legislative framework that enables us to do that. So, for example, we need common regulations, common audit requirements across different funds, and the ability to bring funds together. So, we need the legal text that enables us to do that. We need the statutory framework that enables that to happen. I am confident that, in terms of common strategic framework programmes, the structural funds that we are talking about here, as well as pillar 2 of CAP, we will be able to do that. I do have some confidence in that from the discussions that we have had with our friends and colleagues in the European Union. If we are able to do that we will, I hope, have a portal that will enable people to access the funding dependent on what they need funding for, rather than access—as they do today—the different funds themselves. Really, we need to take all of the wiring out of the public side of much of this, so that we deal with all of that internally, and we then enable the population to access funding as they require it. Graham Guilford's work will be informing this and how we go about it. Hopefully, we are making the sort of preparations that will enable integration to take

place very easily. We, in the Government, will need to change the way that we operate, and we are in a position to do that. We need the certainty of the statutory framework within which we will operate to enable us to move forward on that. I hope that we will have that certainty within the next six months or so.

[120] I hope that we will be able to bring business and higher education together. I want us to be able to have the sort of impact with these funds that will enable us to build, if you like—not just commercialise knowledge, but actually fund and build new projects based on research, development and innovation. That is where our ambition lies. When you see some of the work that Edwina has been leading on in terms of a science strategy, the innovation strategy, and smart specialisation, a lot of that will be far clearer for the committee.

[121] **Mr O'Brien:** I would just add one other aspect to that, if I may. Under the current programmes, I suppose that we have invested the structural funds in developing capacity within organisations, higher education institutions and businesses, and our hope that framework programme 7 would be used to fund the research itself has not been realised to the extent that we would like. Under the next round of programmes, in addition to physical capacity we need to give more attention to people capacity, making sure that we have the research staff to make best use of these opportunities. We propose in the consultation document that we use some of the structural fund money to help businesses and other institutions to access the funding. That would include support with bid writing and engaging with partners. So, it involves building up the people capacity as well as the physical capacity.

[122] **David Rees:** You mentioned earlier the possibility of the connectivity programmes, clearly those are transnational programmes, as is the Atlantic strategy. How is Wales approaching those various transnational strategies and are we getting heavily involved in them? This is a chance for you to tell us about the Atlantic forum this morning, as well.

[123] **Alun Davies:** I enjoyed it, thank you very much. I spoke for 20 minutes this morning; I do not know whether you want me to speak for 20 minutes this afternoon as well.

[124] **David Rees:** Not that long, no.

[125] **Nick Ramsay:** Please refrain from that. [*Laughter.*]

[126] **Alun Davies:** I can see that the clerk does not want that. In terms of the—

[127] **Nick Ramsay:** We only have five minutes left, so that would make my time management difficult.

[128] **Alun Davies:** Okay; message received. The Atlantic strategy is one of the things that we have tried to push in our discussions with European Union representatives. I spoke this morning and opened the event in Cardiff—it is a UK event being hosted by Wales—where a number of Atlantic-facing member states are looking at how we increase collaboration and co-operation, and learn from each other in different fields. I had a very good conversation with one of the Portuguese representatives about how they have been able to invest in a coastal strategy in Portugal, which has transformed some of its coastal communities, some of which are very similar to ours. I hope that that level of knowledge transfer, learning, collaboration and co-operation is something that we can drive through the European Union. It is one of the things that is sometimes overlooked in terms of what we can achieve as a whole. Some of the conversations that we have had about the European Union over the last few weeks and months in the United Kingdom have been extraordinarily inadequate and short-sighted, because they have all been based on some of our great structural issues, without considering the impact that that learning and collaboration can have on individual communities and different countries.

[129] I was pleased to welcome the Atlantic area strategy event to Cardiff today. I visited our friends across the water in Ireland in the autumn to discuss how we develop the Ireland-Wales programme. We have great opportunities here to lead thinking in the European Union. There is management of the Irish Sea, a relatively small body of water with a number of different governments either side; all of us know each other very well—St Patrick spoke Welsh. We know each other, we have lived together, we are friends and we will be friends next Saturday, no doubt. So, we have opportunities here, which we should be exploring and developing. The work that has been done in our universities on some of the marine issues between our two countries has been absolutely fabulous—really good—and I want to see great opportunities to drive that forward in the next few years. So, I think that we have the opportunity to build synergies between our different countries and to make some real strong gains for our different coastal communities. We have the opportunity to drive forward research using the knowledge that we have as a whole between different territories.

[130] One of the less-discussed parts of the CAP reform process is about the agricultural co-operation and innovation partnerships. We can do that in Wales; we can really push that very hard, and I would like us to be able to see that. So, I think that there are a number of different fields and areas in Wales, where we can not only broaden and deepen our relationship with the European Union institutions, as I think that we should and as the First Minister suggested yesterday, but, at the same time, we can be a policy and thought leader within the European Union. By doing so and having very positive engagement with our friends on the European mainland and elsewhere, we can begin, in Wales, to accrue far greater benefits than simply the transactional arrangements and relationships that all too often we discuss.

[131] **Nick Ramsay:** You have made that point fully, Deputy Minister. I think that Keith Davies has wanted to ask a question for the last 10 minutes and it would be remiss of me not to allow him to do so.

3.00 p.m.

[132] **Keith Davies:** Rwy'n mynd yn ôl rai misoedd yn awr, pan oeddwn i'n ymweld â Phrifysgol Abertawe, oherwydd yr oedd wedi cael £60 miliwn o fanc buddsoddi Ewrop. Beth yw'r dyfodol yn mynd i fod? Beth sy'n mynd i ddigwydd i fanc buddsoddi Ewrop a chynlluniau ariannol benthyciadau eraill dros y blynyddoedd nesaf? A oes pwyslais gwahanol yn mynd i fod? Roedd David Rees yn sôn am wyddoniaeth, ac yn y blaen, ac roeddem yn trafod yr arian y bydd y gorllewin a'r Cymoedd yn ei golli efallai. Mae pethau'n gweithio'n weddol dda ar hyn o bryd, ond beth yw'r dyfodol yn mynd i fod? A yw pethau yn mynd i newid?

Keith Davies: I am going back some months now, to when I visited Swansea University, because it had received £60 million from the European investment bank. What will the future hold? What will happen to the European investment bank and the loan finance schemes and the other loan schemes over the coming years? Will there be a different emphasis? David Rees talked about science, and so forth, and we discussed the money that west Wales and the Valleys may lose. Things are working fairly well at the moment, but what will the future hold? Will things change?

[133] **Alun Davies:** Rwyf yn tueddu i gytuno gyda chi, Keith—rwyf yn credu bod y rhaglen bresennol yn gweithio'n dda, ac rydym wedi trafod ac anghytuno ambell waith ar y math o raglenni sydd gennym yng Nghymru a'r effaith maent yn eu cael ar gymunedau gwahanol. Bydd Mike yn cofio

Alun Davies: I tend to agree with you, Keith—I think that the current programme is working well, and we have discussed and disagreed at times on the types of programmes that we have in Wales and the impact that they have on different communities. Mike will remember the

tystiolaeth y Comisiwn pan ddaeth i roi tystiolaeth i'r Pwyllgor Cyllid. Roedd yn hael iawn ei ganmoliaeth i Gymru, gan ddweud bod Cymru yn 'exemplar' ar draws yr Undeb Ewropeaidd, ac rwy'n credu bod hynny'n wir. Yn y trafodaethau a gefais gyda'r comisiynydd polisi rhanbarthol pan ddaeth yma ym mis Ebrill y llynedd, roedd yn dweud yr un peth—roedd yn *impressed* gyda beth welodd ef, a daeth draw i Port Talbot ac Abertawe ar ei ymweliad er mwyn gweld y math o fuddsoddiad rydych wedi bod yn ei drafod y prynhawn yma. Felly, mae gennym enw da nid dim ond yn y Comisiwn, ond hefyd ar draws yr Undeb Ewropeaidd. Roedd Danuta wedi awgrymu hynny yn ei thystiolaeth y prynhawn yma.

evidence of the Commission when it came to give evidence to the Finance Committee. It was very generous in its praise for Wales, saying that Wales was an 'exemplar' across the Europe Union, which I believe to be the case. In the discussions that I had with the regional policy commissioner when he came here in April of last year, he said the same—he was impressed with what he saw, and he went to Port Talbot and Swansea on his visit to see the type of investment that you have been discussing this afternoon. So, we have a good reputation not only in the commission, but also across the European Union. Danuta suggested that in her evidence this afternoon.

[134] Rwyf yn mawr obeithio y byddwn yn gallu defnyddio'r enw da a'i ddatblygu drwy gyfrannu mwy i'r undeb, ac nid dim ond edrych ar yr Undeb Ewropeaidd fel banc ac fel ffordd o gael arian, ond hefyd edrych ar beth y gallwn ei gyfrannu yn y ffordd rydym yn trafod a datblygu polisi. Credaf fod gennym gyfraniad i'w wneud i ddatblygiadau cymunedol ar draws Ewrop.

I very much hope that we can use and build on that good reputation by contributing more to the union, and not only look at the European Union as a bank and a way of getting money, but also consider what we can contribute as well in the way in which we discuss and develop policy. I believe that we have a contribution to make to community developments across Europe.

[135] **Keith Davies:** Diolch i chi am y gwaith rydych yn ei wneud. O'r hyn rwyf yn ei weld, rydych yn mynd i Frwsel yn ddigon aml a'u bod yn gwybod yr hyn sy'n digwydd yng Nghymru.

Keith Davies: Thank you for the work that you are doing. From what I see, you go to Brussels often enough and they know what is happening in Wales.

[136] **Nick Ramsay:** You stole my closing remarks there, Keith.

[137] **Alun Davies:** That is all right, Chair; you can put them in the report. [*Laughter.*]

[138] **Nick Ramsay:** Do Members have any further questions? I see that no-one does. I thank the Deputy Minister, Alun Davies, for being with us today; it has been a very helpful session. I also thank Damian O'Brien and Rob Halford for coming to provide support.

[139] **Alun Davies:** I would just like to say, Chair, as we come to the end of this formal session, that, over the next few weeks and months, we will be involved in quite intensive conversations with our colleagues in different institutions of the European Union. The Government is very happy to give briefings to the committee on those conversations as those negotiations continue, particularly on some of the financial aspects that we discussed earlier. If the committee wishes to take up that offer, I would be very happy to give briefings to the committee on some of those matters over the next few weeks and months.

[140] **Nick Ramsay:** Is the committee happy with that? I see that it is. I hope that your relationship with the UK Government on behalf of Wales continues to be productive, Deputy Minister.

[141] **Alun Davies:** It is always productive and very happy.

[142] **Nick Ramsay:** This session of the Enterprise and Business Committee is closed.

Daeth y cyfarfod i ben am 3.04 p.m.
The meeting ended at 3.04 p.m.