



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

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

Dydd Mercher, 22 Ionawr 2014
Wednesday, 22 January 2014

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Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

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

Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
Julie James	Llafur Labour
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)
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Geoff Harding	Arbenigwr mewn Cymorth ar Fasnach Rhyngwladol Expert in International Trade Support
David Long	Arbenigwr mewn Cymorth ar Fasnach Rhyngwladol Expert in International Trade Support
Graham Morgan	Cyfarwyddwr, Siambr Fasnach De Cymru Director, South Wales Chamber of Commerce
Yr Athro/Professor Max Munday	Cyfarwyddwr yr Uned Ymchwil i Economi Cymru, Prifysgol Caerdydd Director of Welsh Economy Research Unit, Cardiff University

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

Olga Lewis	Dirprwy Glerc Deputy Clerk
Claire Morris	Clerc Clerk
Ben Stokes	Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 09:17.
The meeting began at 09:17.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Nick Ramsay:** I welcome Members, our witness and members of the public to this morning's meeting of the Enterprise and Business Committee. I extend a warm welcome to Dafydd Elis-Thomas, who is back on this committee after a short respite, a short sabbatical. It is good to see you back. This meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 0. The meeting is being broadcasted and a transcript of the proceedings will be published. Could Members please turn off their mobile phones? There is no need to touch the microphones; they should operate automatically. In the event of a fire alarm, please follow the directions of the ushers. If there are any issues with the headphones, please let the Chair know. We have two apologies today from David Rees and Mick Antoniw, and no substitutions.

09:17

Ymchwiliad i Ddull Llywodraeth Cymru o Hyrwyddo Masnach a Mewnfuddsoddi: Sesiwn Dystiolaeth 1 Inquiry into the Welsh Government's Approach to the Promotion of Trade and Inward Investment: Evidence Session 1

[2] **Nick Ramsay:** The main aims of the inquiry are to explore how effective the Welsh Government's approach is to the promotion of trade and inward investment, and how well the Welsh Government works with its UK Government partners, namely UK Trade & Investment and UK Export Finance. I welcome our witness. Thank you for providing the written evidence. It is very good of you to be with us today to help us with our inquiry. Would you like to give your name and position title for the Record of Proceedings?

[3] **Professor Munday:** My name is Max Munday. I am director of the Welsh economy and research unit at Cardiff Business School.

[4] **Nick Ramsay:** Thank you for being with us today. We have a fair number of questions for you, so I propose that we go straight into those. The first question is from Rhun ap Iorwerth.

[5] **Rhun ap Iorwerth:** At least we have a fair bit of time with you, and we will go into various issues in detail in the next hour or so. I want to start in fairly general terms; we can look in more detail at the history of what has happened later, because I am sure that you will want to give some historical context, too. How important would you say is attracting inward investment to the Welsh economy, and how much of a priority should it be for the Welsh Government?

[6] **Professor Munday:** In my opinion, it is absolutely critical. There is a historical context for this going back very many years. The real drive to attract inward investment into Wales gained momentum during the early years of the first Thatcher administration, when Wales lost around maybe a third of its manufacturing employment just between 1979 and 1983. There was a capital availability gap at that time, and we needed inward investment to bridge that gap.

[7] I think that it is about more than that, though. I am going to talk about manufacturing to start with, but foreign manufacturing investment is particularly important, or has been particularly important, to the Welsh economy, not just because of the employment that it brings, but because of the stability that it brings. History shows us that the foreign manufacturing sector in Wales has tended to become more stable over time, as you might

expect from multinational firms. It brings employment, a gross value added contribution, and it creates productivity spillovers in the Welsh economy—largely through supply chain links, but also through selling to Wales and to the wider UK. So, I would argue that foreign investment is very important.

[8] One thing that I would like to clarify at the outset is that your terms of reference talk about inward investment, but I think that we need to be clear here that when we talk about the productivity spillovers and the advantages that you get from inward investment, very often it is the multinational firms that are important in creating those spillovers for regional economies. It does not necessarily matter whether they are from overseas or whether they are UK-based multinationals. So, when one is looking at marketing, if you are looking for those productivity spillovers from inward investment, the issue of ownership is—how can I put it—not necessarily important; that is, whether it is foreign or UK owned.

[9] **Rhun ap Iorwerth:** It is just the fact that they are not indigenous Welsh companies, because we do not have those kinds of companies.

[10] **Professor Munday:** Well—

[11] **Rhun ap Iorwerth:** Again, in general terms, given that we are looking at international trade as well as inward investment, how important is it for a nation like Wales to get a strong foothold in export also?

[12] **Professor Munday:** Well, we cannot get away from the conclusion that, very often, it is our foreign firms that lead our exports. They are a very important part of the basic sector in Wales. A legacy that we have been left with is that there may only be 10 or 15 companies that dominate Welsh exports, and most of those are foreign-owned companies. We have Tata at Port Talbot and its various subsidiary operations in Wales; General Electric; and Dow Corning. Those sorts of firms dominate our exports. The inward investment really forms part of our basic sector, if you like—it forms part of the sector, but it actually exports goods and services out of the Welsh economy.

[13] **Rhun ap Iorwerth:** I think that it is only 1,500 or so companies in Wales that export at all, is it not? How important is it that that number increases as well as the volume of what is exported?

[14] **Professor Munday:** It is absolutely critical that Welsh exports are maintained. Our exports are an indicator of our regional competitiveness. Welsh exports have been maintained fairly well during the credit crunch, over the period from 2006-8. Welsh exports have been maintained at a fairly high level, but we cannot get past the conclusion that one or two high-profile exits could now impact those export figures very heavily.

[15] **Rhun ap Iorwerth:** Which ones are you most worried about?

[16] **Professor Munday:** I would be particularly concerned at how environmental regulation might impact the operations of firms such as Tata at Port Talbot and the two refineries. The large refinery at Pembroke Dock, which produces around 10% of the UK's unleaded fuel, is now run by a Texan company Valero and is totally dependent on the refining margin—it is not an oil-drilling company—so anything that impacts on that margin, such as the tightening of environmental regulation, can tip the balance. Murco and Valero are both major exporters in the Welsh economy.

[17] **Nick Ramsay:** Thanks, Rhun. Dafydd Elis-Thomas is next.

[18] **Lord Elis-Thomas:** The Chair has asked me to ask some historical questions—I

suspect because I was there at the time. [*Laughter.*] In terms of the creation of the Welsh Development Agency and its effectiveness over a long period, politicians have had different attitudes towards this organisation. There are those who supported it at the beginning, those who opposed some of its activities, and those who wanted it abolished, and, having had it abolished, who want it back. How do you assess the effectiveness of the WDA during its period? Is it the context of overall economic performance and investment generally that made it effective, or did it indeed bring added value to Wales, which perhaps other agencies did not?

[19] **Professor Munday:** That is quite a difficult question.

[20] **Lord Elis-Thomas:** That is why I asked it, because I know you can answer it.

[21] **Professor Munday:** If you go back to the mid 1970s, it grew out of the Development Corporation for Wales, did it not? The Development Corporation for Wales stopped and then the WDA started. There is no doubt about it; I think the problem for the economist is that when we—. One of the pieces of work that I have tried to do in the past is to look at the determinants of inward investment across the UK regions and what the important factors are that contribute to success. So, we would look at such things as the role of transport infrastructure, unit labour costs, regional selective assistance, regional development grants and what have you, but also the presence of a strong, regional development agency. Now, it is very difficult to build a variable into your analysis for proxies for an organisation such as that, and, generally, I have to say, where economic analysis has tried to develop those variables, it has actually found very little effect. However, in spite of that, I think that the WDA did have a very important role to play. I do not want to talk about some of the other services that the WDA provided, but, in terms of marketing Wales overseas, and bringing foreign capital into the Welsh economy, it had quite an important role to play. Clearly, inward investment had peaks and troughs even when the WDA was operating, but, generally, I would argue that there was a positive effect.

[22] I think what the WDA achieved, particularly during that period between about 1980 and 1994, when Wales was attracting up to 15%, maybe 20% in some years, of the foreign manufacturing investment that was coming to the UK—so, it was a very successful period—was to offer a one-stop-shop. It was able to speed up the process, let us say, in various ways, and I think that ability to get everybody behind the bid was really important and, I think, valued by foreign firms. The other thing, again during that period between about 1980 and 1994, was that the WDA was quite successful, I think, in working with foreign firms, and some of the larger UK firms that were already in Wales, providing an after-sales service to them, and had a major role to play in attracting reinvestment from firms that were already here. So, my view, after the event, would be that the WDA marketing effort had an important role in attracting foreign capital, in particular, to the Welsh economy.

[23] **Lord Elis-Thomas:** Then, of course, the next question is whether—I will not use the word ‘quango’, because it is not a word we use these days—an arm’s-length agency of Government is more likely to do that more effectively than a Government department?

[24] **Professor Munday:** I think so. Several commentators have said that the WDA, because of the way it operated—it was a two-way street—insulated policy-makers and politicians from an element of risk. There was an element of entrepreneurial behaviour and risk-taking, which, I think, is a little bit more difficult in a more civil-service-oriented environment. So, I think that, for marketing and making the contacts, a more arm’s-length relationship between the Government and a promotion, marketing and branding agency is more valuable. Of course, that is being wise after the event. You do not know the counterfactual, of course, as to what would have happened had the WDA gone on. However, as I said, my view would be that it is more able to take risks when it is a little more distant

from the Government.

09:30

[25] **Nick Ramsay:** To follow on from Dafydd's question, do you think that the WDA—you said, I know, that we do not know what would have happened—could work now, or do you think that it was one of those things that was right for its time and for the conditions of its time, and that we would need a different model now?

[26] **Professor Munday:** Time has moved on. Wales's competitive position has changed, particularly in the period after 1994. The WDA, in its marketing effort, particularly during that high-visibility period between 1980 and 1994, was, to some extent, pushing at an open door. I still believe that the WDA would have had a role to play after 2006 in terms of marketing Wales abroad. So, my conclusion would not necessarily be that it was just a creature of its time. Clearly, after 2000, there needed to be criticism and analysis of the role, but I think that the loss of the WDA brand, in particular, was, in hindsight, quite a major loss.

[27] **Nick Ramsay:** We touched on branding a fair bit in the answer to Dafydd Elis-Thomas's question. So, if we bring in Eluned now, I think that she has some questions on branding.

[28] **Eluned Parrott:** Yes, I do. Professor Munday, in research back in 2012, you raised what you described as a haphazard approach to marketing Wales abroad and difficulties associated with branding Wales. Could you expand on why you believe that approach has been haphazard and what the impact of that has been?

[29] **Professor Munday:** Well, the WDA was a strong brand; it was globally recognised. It is still globally recognised, ironically, is it not? Seven or eight years afterwards, the WDA is still a recognised brand globally. The research that we did in 2012 was led by my colleague, Dr Andrew Crawley, at the Cardiff Business School. He was looking at the scope of inward investment marketing in the Cardiff city region. The concern that came out of that report was about the number of organisations that were involved, mixed messages to potential inward investors, and inward investors not necessarily knowing where to go to; there was no one-stop shop, if you like. So, that was what I think we meant by a haphazard approach, and that was a finding from a series of interviews that we did with people who were involved in marketing Wales. In that growth period that I have spoken about, you got the impression that the WDA was a one-stop shop for inward investors. It may not have been for some of the other services, but it was a one-stop shop for inward investors; you could go there and you could get a solution quite quickly. I think that we have lost that, and now I am not sure that inward investors know where to go. If they are interested in a Welsh industry location, I am not sure that they know where to go to.

[30] **Eluned Parrott:** I think that it is interesting that one of the things that the new 'Just Ask Wales' campaign leads on is the perceived lack of bureaucracy here in comparison to other places. Do you think that that is an accurate and appropriate thing to be marketing as a selling point?

[31] **Professor Munday:** Sorry, I do not understand what you mean when you say a 'lack of bureaucracy'.

[32] **Eluned Parrott:** In the 'Just Ask Wales' marketing campaign, one of the adverts that was in a newspaper recently said, basically, that we are a bureaucracy-free nation, or a low-bureaucracy nation. Do you think that that is that accurate, and do you think that that is something that we ought to be marketing ourselves as?

[33] **Professor Munday:** The interviews that I have had with various inward investors—and I am talking across the spectrum: manufacturing, energy, in particular, and services—would not support that contention. Many of the people that I talk to who are prospective inward investors believe that we are fairly bureaucracy intensive. I think that has come very much to light in recent issues to do with energy-related investments—I am talking about conventional and renewable energy—in as much as anecdotal evidence would suggest that several large energy companies are probably looking for the door.

[34] **Eluned Parrott:** Right. With regard to that disparity between what is being sold and the experience of individuals when they try to engage with the system, what kind of impact will that have on the strength of, and trust in, the brand of Wales?

[35] **Professor Munday:** I think that the issue is that it is so competitive out there at the moment to attract inward investment of any description, whether it is in a key sector or not. Whatever inward investment it is, and whatever the quality of that inward investment, it is so competitive out there now that anything that is perceived to cause a problem—companies do look at the papers, they do look at the problems that other companies have had; perception is very important—and anything that causes a ripple can cause investment to go elsewhere. One of the problems that we have as analysts is that it is very difficult for us to go out to talk to foreign investors and UK inward investors who have had Wales on the job sheet as a potential location but have gone somewhere else, and to interview them and find out what the reason for that was—was it procedure, was it the grants offer, was it labour quality, was it labour productivity? Within the terms of reference of the inquiry, that might be one thing that might be of interest. Why is it? Have firms found the branding difficult? Have firms found that there is a bureaucratic surplus here? It is very difficult to find those companies and to interview them. I think that my colleague, Dr Andrew Crawley, spoke to a few when he did the report for Cardiff Business Partnership in 2012, but it can be quite difficult, because it often involves a foreign visit.

[36] **Eluned Parrott:** Fair enough. If I can just separate the practical issues from the branding, do you think that the people involved in selling Wales abroad and elsewhere in the UK have a clear idea of what it is that brand Wales represents?

[37] **Professor Munday:** I could not really comment on that.

[38] **Eluned Parrott:** Do you get the impression that they are drawing in the same direction and that there is an obvious strategic drive to try to attract inward investment here?

[39] **Professor Munday:** In as much as we have drifted towards this key sector focus in Wales, I would argue that that would lead to mixed messages for firms, and perhaps people involved in different key sector areas have very different ideas of what is required for the Welsh economy. That is all I could say on that, really.

[40] **Eluned Parrott:** Okay, thank you.

[41] **Rhun ap Iorwerth:** May I have your thoughts on what is the Welsh brand now in inward investment terms?

[42] **Professor Munday:** Hmm.

[43] **Rhun ap Iorwerth:** That is worrying. [*Laughter.*]

[44] **Nick Ramsay:** I was thinking the same.

[45] **Rhun ap Iorwerth:** Was there a Welsh brand at one point and, if so, what was it

then?

[46] **Professor Munday:** Historically, in that growth period, I would argue, it was a strong brand based on competitive unit labour costs, selling the message that, ‘Look, we have an assisted area close to large markets in the south-east; you are four hours from the tunnel.’ So, it was a brand based on labour availability and a high-quality workforce. I do not feel that message is getting through now.

[47] **Rhun ap Iorwerth:** Obviously, we have not moved geographically; we are in the same place. However, are those other factors still there but not being branded properly or have we lost some of the edge that we had back in the 1980s?

[48] **Professor Munday:** We have certainly lost some of the edge. That was inevitable, as the European Union has expanded to include places such as Bulgaria and Romania—and Poland, originally. We lost several labour-intensive elements of foreign manufacturing production to places like Poland and Czechoslovakia, as it then was, simply because they had lower labour costs. However, I think that it is important to stress that the Welsh offer back in the 1980s and 1990s was not just based on low labour cost; it was based, I believe, on competitive unit labour cost, where we adjust labour cost for productivity. The labour force here was productive, reliable and of high quality and we had several large firms here that underlined that. Those big-name firms like Sony, Panasonic, Hitachi and Aiwa came in and they underlined that you could work with Welsh labour and that Welsh labour was of high quality.

[49] **Rhun ap Iorwerth:** Do you think that that potential is still there, if it can be done properly?

[50] **Professor Munday:** I believe so, very much, yes.

[51] **Nick Ramsay:** I want to wrap up the issue of branding. We will go to Dafydd Elis-Thomas, then Eluned, then Byron. Then we will move on.

[52] **Lord Elis-Thomas:** [*Inaudible.*—in that situation. I remember some discussions with George Wright and so on, and the beginning of the Wales Trades Union Congress. Was that not a key factor as well?

[53] **Professor Munday:** Absolutely critical. Going back to 1974—it seems a long time ago now—those single-union deals that were brokered in the Welsh economy between Hitachi and the Electrical, Electronic, Telecommunications and Plumbing Union and between Yuasa and the Transport and General Workers Union, from memory, were quite ground-breaking. They showed that Wales was open for business and the WDA had a role in promoting and encouraging those arrangements.

[54] **Eluned Parrott:** Coming back to the issue of the brand offer, at that time it was strong, but, as you say, circumstances have changed and we are no longer necessarily the most cost-effective place to enter the European market. So, what should the brand offer be now?

[55] **Professor Munday:** I think that the brand offer should be based around the high quality of labour here and a willingness to do business. I also think that our brand offer should be based on fairly good infrastructure linkages to the rest of the UK. Where we undersell ourselves as a Welsh brand—the WDA did have a role in this—is around the quality of the living environment here for people. To some extent, winning inward investment is about convincing managers. They have to be thinking, ‘I am going to have to put expatriates in a region for the opening few years; are they going to be happy there?’ I think that the WDA

was very successful in promoting the benefits and advantages of living in Wales. I do not think that we make enough of selling our natural assets to inward investors. This is anecdotal, but, for example, the Irish development agency, back in the 1980s and 1990s, always made much play, when they were trying to market in Asia, of free membership of golf clubs, for example. So, you have to make the maximum use of the assets that you have.

[56] **Byron Davies:** Leading on from this—you have touched on it already in earlier questions—do you think that we need a new organisation to take forward trade and investment in Wales?

[57] **Professor Munday:** I think so, yes—

[58] **Byron Davies:** Where do you think that should sit?

[59] **Professor Munday:** My view would be that it should sit outside of Government and that it should be at arm's length. This links to an earlier question. Obviously, setting up an organisation like that would involve stepping back. It is not going to be easy to redevelop the brand, but I fervently believe that inward investment is so important to Wales that we cannot leave this to chance. The evidence in my submission noted that we have lost ground consistently over the period 2006-12. We are losing out, not only to other parts of Europe, but to other parts of the UK. The time is right to set up a new institution that can take risks and develop a strong new brand for attracting inward investment to Wales.

09:45

[60] **Nick Ramsay:** That is a very good comment to go into our inquiry. That side of the room has had their say; it is over to you guys.

[61] **Keith Davies:** You have already said this morning that competition has intensified, but in your paper you also say that the level of funds available for grants and other types of assistance has fallen. The second major thing in your paper is that there is no analysis of the cost-effectiveness of what we have available.

[62] **Professor Munday:** This is something that I have whinged about for a long time. For example, as part of structural fund programmes—the European regional development fund and what have you—we undertake extensive evaluations of programmes to promote SMEs and entrepreneurship. I hope that I am not being unfair, but I rarely see an analysis that compares the cost effectiveness of promoting Wales overseas and bringing new firms in. There needs to be a comparison of the costs of doing that and the economic returns for Wales with the promotion of SMEs. I am not for one moment saying that we should not be trying to assist indigenous enterprise and assist SMEs that need help to export, but there needs to be a much more comparative analysis.

[63] The other thing, in relation to that, is that research at a UK level, particularly by academics such as Professor Storey at the University of Warwick, questions the efficiency of the work that tries to promote small-firm growth and increase entrepreneurship. When I look at that sort of research, I get quite alarmed, because the evidence base for the economic impacts of multinational firms on regions is quite strong. They are not perfect. Multinational firms will create problems for regions as well, but the evidence base for the economic impacts of multinational firms on Wales and Scotland is quite strong. My view is that the policies that can lead to an increase in that foreign capital need to be evaluated against policies that seek to promote the indigenous firm base.

[64] **Joyce Watson:** You talk about multinationals and we all understand the impact that they have if they put employment in an area where it does not exist, but there is also danger,

which we have all lived through, when they pull out—the all-your-eggs-in-one-basket scenario. It is not only those who are employed directly, but indirectly. How do you deal with the balance?

[65] **Professor Munday:** There is a stock and flow issue. You have to keep attracting new investment and encourage reinvestment by firms that are already here. I would be the first to admit that it is more serious than that. It is not just the danger of the investment pulling out and leaving a hole, because that can happen with indigenous large UK firms in Wales as well; it is a bit more than that. An issue for the UK economy as well as the Welsh economy is the technological dependence in some major sectors of technology growth. That is a real problem. I do not doubt that you can be left with a hole, but unfortunately, we are in a situation where indigenous firms will not fill the gap. So, yes, I do not doubt that foreign capital is associated with risks, but we cannot bridge the capital gap without this foreign capital.

[66] **Julie James:** On that point, and it was a very well-made point, are we not in danger of talking about all multinational firms as if they are the same? I represent Swansea West and we have Tata Steel, a massive inward investor there, and we also have Amazon. Both are multinational companies, but with rather a different effect on the economy—frankly, one of which I would like to encourage and I am not too sure about the other one.

[67] **Professor Munday:** That is a fair point. With the steel industry, you have a high level of earnings—indeed, 3,500 people may still be employed at the Port Talbot works—but that has a measurable impact on gross value added per capita in Neath Port Talbot and Swansea. It is big enough to have that. The steel industry also sub-contracts a lot locally—it buys a lot—so it is also characterised by employment output GVA multiplier effects in the local economy.

[68] Amazon is labour intensive and lower earning. It provides employment—maybe not of the same quality as Tata steel—

[69] **Julie James:** You could argue that it drives employment out of other sectors around it, as well.

[70] **Professor Munday:** Arguably, yes. Again, this is a potential problem with inward investment. Some of you will remember that when Nissan—which is up in north-east Wales now, making cars—was originally thinking about UK sites, there were two sites in Wales on the radar. One site on the radar was around Deeside. I remember that, at the time, local manufacturers were horrified that Nissan was even thinking of setting up in north-east Wales, because they knew that it would suck in labour from surrounding plants. You might remember that there were similar debates when Bosch set up in Miskin, because, you know, it has huge training budgets and very competitive wage rates. Local manufacturers were weary. However, from a Welsh economy perspective, we want well-paid, full-time jobs. Some of these foreign manufacturers can actually provide that.

[71] **Julie James:** If you were the Welsh Government and you were trying to evaluate whether to encourage a particular type of inward investment, what kind of evaluation do you think should be done for that?

[72] **Professor Munday:** The jewel in the crown is to try to attract foreign manufacturing, service or energy companies that will put headquarter-type operations in Wales. Historically, none of us has focused enough on this: the problem that Wales has because it does not have enough large businesses that are headquartered here. For example, you have Admiral Group plc up the road, which is pretty much headquartered here. You have UK directors sitting here. You have IQE plc in Newport. Largely, the headquarters of those global businesses are here. Of course, when you have the headquarters of businesses here, it can also increase the

stability of the plant, or the factory, or it could be the call centre, or whatever it is. So, there needs to be much more of a focus on getting those HQ-type operations. It is a very difficult thing to do. One of the issues might be corporation tax rates, but that is a completely separate issue. *[Laughter.]*

[73] However, when you get those HQ-type operations—this goes back to the question from Mrs Watson—one of the dangers with foreign manufacturing plants is that you only get certain functions. Typically, even when we go back to that growth phase between the 1980s and 1990s, you are getting production only; you are not getting research and development. Again, it would be a concern for members of this committee that we have low levels of research and development expenditure per capita, and business expenditure on research and development in Wales. If you get HQ-type operations, and you can promote a deeper functionality in your foreign manufacturing plants; you might get that research and development and engineering capability in your region. Going back to your question—I am sorry; I diverted a little bit—yes; there are very important differences in inward investment. Some inward investment contributes a lot more to the Welsh economy than other elements.

[74] **Nick Ramsay:** Joyce, do you have any further questions?

[75] **Joyce Watson:** Yes, I just want to look at support for exporters. We have sort of touched upon it, but I want to dig a little deeper. In your opinion, does the support offered by the Welsh Government help potential exporters to overcome any barriers and offer assistance in the appropriate way?

[76] **Professor Munday:** My conclusion would be that, currently, most of our exports in terms of a percentage of our total exports derive from firms that do not need any help, in as much as they are here to export to Europe. I would also argue that, very often, for many of our small and medium-sized enterprises that are also successfully exporting, the help is probably more in terms of export credit guarantees, which is what they require, and access to trade fairs rather than basic help, such as asking, ‘Have you looked at this market or that market?’. I think that they are quite able to identify the market opportunity, but once they have identified the market opportunity, it is about the financial underwriting of the risk, perhaps, and getting SMEs in particular out to things like trade fairs and to foreign countries to see the opportunities.

[77] **Joyce Watson:** Coming back to trying to link two things, you talked about inward investment and selling what Wales has to offer to bring expats here, but is there not also an opportunity here to link that with the brand that is Wales in terms of exporting and niche markets? It might not be a great market, but I am sure that it is fairly big. I have spoken to people who sell their products in terms of where they come from, rather than what the products are. Is there an opportunity here to do two things at the same time: to encourage people in, because Wales is unique, and to export that uniqueness?

[78] **Professor Munday:** You could certainly sell Wales as an export, but I am reminded of what I think was a WDA advertisement on ITV a long time ago now, with the branding of ‘Made in Wales’. It made quite a big play on that. I do not doubt that something can be made of that as part of the brand image.

[79] **Joyce Watson:** I want to go on to talk about trade missions, which you talked about. I want to ask you about your views on the Welsh Government’s programme of trade missions.

10:00

[80] **Professor Munday:** Again, I would be struggling there a little bit. The only comment that I would make would be that I believe that trade missions are important. I have only ever

been on one and it was a long time ago, but I certainly benefited from going on it in research and understanding terms. I found it to be one of the most valuable experiences that I have had during my academic life, to actually go with business people. This was a Japanese one quite a long time ago—16 or 17 years ago. Personally, I found it to be a very valuable experience. From speaking to the business folk who went there, they found it very valuable to go to trade fairs in Japan, to talk to Japanese firms and see how they were operating at that time and see where the competitive advantages were and to generate new sales leads. So, I believe that trade missions are important. Trade missions are expensive, but I believe that they play an important role. However, I would not really be qualified to talk about Welsh trade mission activity now. Perhaps those questions might be more appropriate for the people who you will see later in the day.

[81] **Joyce Watson:** Okay, thank you.

[82] **Nick Ramsay:** On that point, I was told by someone off the record recently with regard to trade missions that they can be incredibly useful, but that a lot depends on the planning that goes on in advance of them. If you just round people up three weeks in advance, put them on a plane and go there, you can learn a certain amount, but you are not actually going to get the sort of benefit that you would if you think a year or two years ahead.

[83] **Professor Munday:** Again, from my very limited personal experience, the one that I went on, as you might expect, because it was going to Japan—it was a long way to go—was very well organised, down to where individuals were going during the mission. Personally, I spent some time working with and collaborating with a Japanese bank while I was over there accompanying the mission. It was very well thought out and very well organised. Of course, it was assisted by the fact that the Welsh Development Agency had offices in Japan; it had offices overseas to help with the organisation. So, it was not just the Foreign and Commonwealth Office and embassy staff; the WDA had a presence out there.

[84] **Nick Ramsay:** Great. Joyce, do you want to continue your line of questioning?

[85] **Joyce Watson:** Yes. We have only just touched on tax-varying powers and the role that they could play in the future attraction of inward investors. Would you like to pass any comment on that?

[86] **Professor Munday:** Okay. First of all, as far as the academic literature is concerned, tax varying can have an impact on a country's or region's success in inward investment. I think that it is noted in my evidence that we undertook a review for the Welsh Government of foreign direct investment determinants, policy and location back in 2008-09. Part of that review picked up on the significance of the potential for tax varying. I think that it would have a role to play. The commonly cited case for this is Ireland with the low marginal corporation tax rate. The policy has been connected with some problems, but, even so, there is some evidence to suggest that that ability to keep corporation tax rates low has helped to encourage some headquarter-type functions into the Irish economy. So, I think that it is certainly worth looking at. My one caveat would be that, for Wales as a whole, whatever the tax rate is, we have very limited tools available in the Welsh economy to assess what the impacts would be of tax varying. We do not have the economic models available. Scotland is way ahead of the game in terms of tools to assess what might happen—

[87] **Nick Ramsay:** How do we get those models?

[88] **Professor Munday:** The basis for them, whether they are regional econometric models or computable general equilibrium models, is the input-output tables of a regional economy. Scotland has survey-based input-output tables and it uses those to develop what we call CGE models through which it can assess the impacts of tax varying. We are a little

behind the game in Wales. That is largely because—my unit produces input-output tables, but we have to do it off our own backs—there are no official statistics input-output tables for the Welsh economy—

[89] **Nick Ramsay:** You can have all of the tools that you want in the toolbox, to use the First Minister's phrase, but if you do not know what you need to do or its effects, that strikes me as a huge void.

[90] **Professor Munday:** It is a problem. We collaborate quite closely with colleagues in Scotland, particularly in Strathclyde University at the Fraser of Allander Institute and in Heriot-Watt University, on economic modelling issues and tax issues. We have got one or two papers out on it, but the economic modelling infrastructure that is available for Wales is not of the same quality as it is for Scotland, maybe.

[91] **Nick Ramsay:** Okay, we are into the last five minutes or so, and I know that Julie James has some questions that she wants to ask.

[92] **Julie James:** I just want to follow up what you said about the tax point, and that is becoming quite globally controversial—varying corporation tax. I wondered whether you thought that this was an apposite moment for Wales to get embroiled in the tax haven, corporation tax, or Amazon's production here, selling it through Luxembourg types of arrangements. My view is that the Welsh Government has enough problems without being involved in a global tax scandal.

[93] **Professor Munday:** I would maybe not go as far as that. Subtle variations in tax rates might not be associated with what you might call a race to the bottom, which I think is a concern. What I would stress, though, is that multinational corporations, generally, are well placed to minimise their tax burdens, very often through perfectly legal means. There have been several analyses undertaken of the Welsh economy that have looked at the tax take from subsidiaries that are based here, and it varies tremendously, whether it is a UK domestic firm, a French or German firm—some of these historical—or a Japanese firm. The tax take does vary. The argument would be that you might vary the tax rate, but you are dealing with a set of companies that are quite able to overcome domestic fiscal boundaries, because of the global nature of their operations. Legally, they can leap the wall and—

[94] **Julie James:** To be honest, that is exactly the point that I was making. Effectively, you cut the tax rate for everybody and the global companies that would normally produce the most income will just shift their operation abroad. I am sorry to mention the same company again, but we have a large Amazon warehouse in Swansea, paying no tax at all, practically.

[95] **Nick Ramsay:** No personal vendettas on this committee. [*Laughter.*]

[96] **Julie James:** It is not a vendetta; it is a conversation between Amazon, the UK Government and various other Governments. It is the same for Google, actually; I am not singling out one particular company. The point that I am making, though, is that if you are a Government looking at tax-varying powers, you surely have to take into account the fact that the companies that might produce the most income are the least likely to be affected by that.

[97] **Professor Munday:** I agree. I could not disagree with that point. I do not think that Amazon would be alone in minimising its tax take.

[98] **Julie James:** No, I was not suggesting for a single minute that it is—

[99] **Professor Munday:** However, its employees pay tax and they pay VAT, presumably, on their purchases of goods and services. So, while accepting the issue on corporation tax,

you have to look at the total Exchequer take from these companies, and a lot of that comes through the 23% income tax in the wage packet as well. So, you have to take an overall Exchequer view.

[100] **Julie James:** I take that point entirely, but because you mentioned corporation tax, I thought that it was worth getting that onto the table.

[101] **Nick Ramsay:** Okay. Going back to the issue of monitoring, which was very interesting to me, how useful do you think that the foreign direct investment figures produced by UK Trade & Investment are for monitoring the performance of the Welsh Government, given that these figures can include projects in which the Welsh Government had no direct involvement?

[102] **Professor Munday:** To be blunt, the sort of figures that we use for the analyst to monitor foreign manufacturing and foreign direct investment are almost completely—yes, okay—almost completely useless. For example, there was a headline last week where it was quoted that Wales has had a 191% increase in inward investment. Well, no, it has not. That assumption was based on a number of projects, or something like that, or a number of jobs; that is not the same as capital investment. Historically, it is difficult to—. There is a lot of foreign direct investment that occurs in Wales, and actually some quite big ones that drop under the radar, and we do not know anything about them. For example, when one company takes over another, for example when a foreign company takes over a domestic company, very often it will drop under the radar. It is very difficult to gauge the inward investment performance of the different regions of the UK—the regions, I think, submit numbers to UKTI on new jobs and safeguarded jobs, and we have to be very careful with those as well, because they are very often planned. It is the same with the capital investment—it is often planned.

[103] **Nick Ramsay:** So, the figures that are used can be misleading.

[104] **Professor Munday:** And you have to discount for what the outturn is. It is a concern that we do not really know the importance of foreign ownership to the Welsh economy. It is actually quite difficult to know how much of our manufacturing base is foreign owned. We do get some hints from the Office for National Statistics figures, but it becomes even more complicated when you look at the services industry sector. We do not know how much of our economy is in foreign hands.

[105] **Nick Ramsay:** That is extraordinary. I know that we are out of time, really, but, Keith Davies, do you have a final question?

[106] **Keith Davies:** You talked about UKTI earlier, and in your report you said that there had not been a real debate between the Welsh Government and UKTI. However, at the beginning of last year, I think, they developed a memorandum of understanding. Have things improved, or are they still as bad as they were when you wrote your report in 2012?

[107] **Professor Munday:** Neither my colleague nor I have done any research on that particular issue past 2012, so I would have to have a watching brief on that. I would say that a strong relationship with UKTI is important in terms of lead generation, so anything that can improve that relationship is very important. However, again, I go back to history. When you look at that big growth phase in inward investment in Wales after 1980, you will see that a lot of international firms just went straight to the WDA. They may be coming through internationals, but they come—

[108] **Nick Ramsay:** You have very neatly brought us full circle to the historical questions asked at the start by Dafydd Elis-Thomas. Finally, we are obviously looking at inward

investment; do you think that we are right to focus on that? Is the Welsh Government right to look to inward investment for the future, or, thinking outside the box, would it be better off focusing on indigenous Welsh businesses? I know that is a big question, but do you think we have the balance right?

[109] **Professor Munday:** My conclusion would be that currently there needs to be more focus on inward investment. I always tell my students that the amount of activity that is focused in the largest thousand global firms is increasing. Aggregate concentration is increasing. So, as a small economy you have to be working with those large companies.

[110] **Nick Ramsay:** Just suppose that we turned our back on inward investment, and said that we wanted to do everything ourselves, that would not—

[111] **Professor Munday:** That would be a big mistake.

[112] **Nick Ramsay:** Thank you very much, Professor Munday. That has been really helpful. Thank you for answering our questions so fully and frankly. We will send you a transcript of today's proceedings for you check and make sure that there are no glaring errors in there that you would disagree with. We will be reporting in due course and we will let you know about that as well.

[113] It is 10.15 a.m. and our next witnesses are due at 10.20 a.m., so I propose a short break of five minutes—or four minutes 30 seconds.

*Gohiriwyd y cyfarfod rhwng 10:15 a 10:22
The meeting adjourned between 10:15 and 10:22*

**Ymchwiliad i Ddull Llywodraeth Cymru o Hyrwyddo Masnach a
Mewnfuddsoddi: Sesiwn Dystiolaeth 2
Inquiry into the Welsh Government's Approach to the Promotion of Trade and
Inward Investment: Evidence Session 2**

[114] **Nick Ramsay:** Welcome back. We are continuing our inquiry into the Welsh Government's approach to the promotion of trade and investment. This is our second evidence session. I welcome our witness and thank him for agreeing to come in to give evidence to us today; it is very helpful. Would you like to give your name and position for the Record of Proceedings?

[115] **Mr Morgan:** My name is Graham Morgan. I am the director of both the South Wales Chamber of Commerce and the Mid Wales Chamber of Commerce.

[116] **Nick Ramsay:** Great. We have a number of questions for you. The first is from Byron Davies.

[117] **Byron Davies:** Good morning, Mr Morgan. I would like to kick off by asking you what importance the South Wales Chamber of Commerce attaches to trade and inward investment.

[118] **Mr Morgan:** It is of quite significant importance. In the most recent manifesto, which we released back in October, international trade was one of the four top priorities, both in terms of encouraging more Welsh businesses to look at opportunities to expand into overseas markets and also to find ways in which we could encourage inward investment. That is borne on the back of the fact that the quarterly economic surveys that we undertake have indicated that those businesses based in Wales that access markets outside Wales—whether in

the rest of the UK, Europe or the rest of the world—are doing significantly better than those businesses that are just Wales-based and Wales-focused.

[119] **Byron Davies:** Okay. Can you, perhaps, tell us about the relationship or involvement that the South Wales Chamber of Commerce has with the Welsh Government?

[120] **Mr Morgan:** I would say that it is probably a growing relationship. Back in 2009, when the South Wales Chamber of Commerce was launched on the back of putting together—

[121] **Byron Davies:** I am sorry, when was that? Did you say 2009?

[122] **Mr Morgan:** Yes, 1 December 2009. Until that point in time, Wales had been represented by a number of small chambers dotted around the principality. The board of the chamber then decided that, to have the critical mass, we needed to create a bigger organisation. This mirrored some of the stuff that was happening in Birmingham, Manchester, London and Bristol. We saw the opportunity to use the scale of the chamber within the UK and in overseas markets as an opportunity to increase our footprint, but at the same time perhaps play a bigger role in terms of interaction with the Welsh Government. We undertook a series of sessions back in 2009-10 linked to the economic renewal programme call for evidence at that moment in time. As a result of that, we constructed a strategy to try to see how we could fit with the Welsh Government and build bridges. In 2010, the support for international trade was disbanded for a period of years. Over the last 18 months, we have started to see that slowly build up, and we have regular interaction with different people within that team.

[123] **Byron Davies:** What sort of interaction?

[124] **Mr Morgan:** It is threefold, really. We have tendered and been successful in winning an international trade opportunities contract to deliver advice for those businesses entering the middle east and North America. So, from that perspective, we interact with those businesses on the issue of instructions or delivering on contracts. We have a contract in terms of northern Asia and a contractual relationship with elements of the Welsh Government, but where we are putting together some of our events programmes, particularly country or regional-specific programmes, we will usually go to them to say, ‘This is what we’re doing, is there anything that is going to physically interact or go across that?’

[125] What we find, and we have submitted written evidence on this point, is that it has been a bit of a moving feast in terms of who is responsible for what over the last 18 months, in particular. There is an underlying culture of trying to keep everything in-house, whereas in other parts of the UK we are seeing a far more hands-off and ‘let the chamber get involved in different things’ approach.

[126] I guess that the third bit of that jigsaw is our interaction when mission programmes are announced. We will immediately try to put a plan behind those missions, but it tends to be over a 12-month cycle, which does not allow for the right planning, if that makes sense.

[127] **Byron Davies:** Can you give me an idea of how the chamber is formed?

[128] **Mr Morgan:** It is basically a membership organisation constructed for its members on behalf of its members. It is a not-for-profit organisation.

[129] **Byron Davies:** How large is it?

[130] **Mr Morgan:** It has 1,153 full paid-up members as of Friday, and we have 700

affiliates. The affiliates would be the likes of Bridgend business forum, Caerphilly business forum, Monmouthshire chamber of trade and other organisations that choose to work with us on joint agendas.

[131] **Byron Davies:** Okay, thanks for that.

[132] **Nick Ramsay:** I like to have a good grasp of the figures. Rhun ap Iorwerth is next.

[133] **Rhun ap Iorwerth:** We are looking at inward investment and foreign share. The Welsh Government took the decision three years ago to bring it all in-house. What is your assessment of that approach? Is it working?

[134] **Mr Morgan:** The way that we have looked at these agenda items is that, in 2010, we formed the international trade panel, which some of you may be familiar with. It was constructed out of 23 businesses and professionals across Wales that have a vested interest in international trade and is chaired by Tim Williams of the Welsh automotive forum. I am happy to leave a copy of the launch document with you to look at. There are two aspects associated with that. From an inward investment perspective, it is still a confusing marketplace. What I mean by that is that not only is the Welsh Government seemingly vested with the role of trying to attract business, but, similarly, so are the local authorities. What you would perhaps expect, and what we have seen in other chambers in other countries, is one point of access and swift response. We have had indications that when an inquiry is received, there seems to be a lead lag time. When you have businesses floating around the globe looking for somewhere to set up a business, you need to have a very rapid response and a professional wraparound service. At this moment in time, we are not seeing that.

[135] **Rhun ap Iorwerth:** Evolution usually means doing things better. You tell us in your written submission that you see no evidence that the current approach is an improvement on what we have had in the past. Would you like to expand on that?

10:30

[136] **Mr Morgan:** At this moment in time we are not seeing benchmarking against what is happening in other parts of the UK. We looked at the ‘invest Swindon’ model as an example. That model has an arm’s-length function that seems to have a rapid response time and has been fairly successful in attracting opportunity. The second part of that is that while the speak is very much around, ‘We are working with UKTI,’ without any real representation of UKTI in Wales, there is an element of somebody else being responsible for it and we need to bring that in. A third element is that there are in the region of 700 subsidiary companies in Wales that have some form of overseas ownership, but what we do not seem to have is a robust relationship management of the people making decisions back at where the head office is. As a result of that, at times, we feel that those businesses have been lost from Wales because we are not managing the actual decision makers; we are managing what is on the ground.

[137] **Rhun ap Iorwerth:** Is it the fact that it is in-house and that that is not a model that works, or is it just the way that it is being done—be that in-house or at arm’s length—that is not as effective?

[138] **Mr Morgan:** The trade panel feels that there is a difference between what we could call the public sector mentality in the speed of response and the private sector speed of response, as well as in the way that the private sector would go about doing things. I guess that it is about where the ownership sits. There is a general view that it probably needs to be more inclusive and to allow the private sector to look at opportunities.

[139] **Rhun ap Iorwerth:** I will quote your written evidence again; you said that the,

[140] ‘Welsh Government International Team has been under resourced and lacking certain experience and professional knowledge’.

[141] That is pretty damning of what should be an important team, is it not?

[142] **Mr Morgan:** At the end of the day, absolutely. I think that what was lost in 2010 was a massive amount of experience—particularly country-specific experience. Some of that has risen back to the surface as private consultants were prepared to support. Indeed, this morning, I was looking at an introduction via one of those former employees to a contact in Argentina. We pick up these different things, but certainly there seems to have been a situation where we went from having massive experience over here—huge knowledge around the globe—to nothing. We are now back on a learning curve and, quite understandably, it is very difficult to share the knowledge of perhaps 300 people with a team that, 18 months ago, consisted of about five people. It has now doubled in size or in some cases tripled. It is part of that learning curve that the knowledge needs to revisit.

[143] **Rhun ap Iorwerth:** Okay. Thank you.

[144] **Nick Ramsay:** Keith Davies is next.

[145] **Keith Davies:** In your written statement, you say that it is impossible to explain to businesses what the Welsh Government is doing to support inward investment.

[146] **Mr Morgan:** At this moment in time, yes. Interestingly, we had a heads up on the release of the new website and telephone number. Ten days ago, when I contacted that number, it was being sourced by Business Wales and the person who answered the telephone told me that I would get a response within 48 hours. I guess that we are struggling to find out who is at the helm. I guess that if I draw a parallel with me, as director of the chamber, the buck stops with me and my details are on all of our websites. What we do not know is who is responsible, and—picking up on a point from earlier—what we also find is that we will be approached by different local authorities that are keen on generating inward investment opportunities for their patch and we are not clear on whether they are working in harmony with someone in the international trade team within the Welsh Government or whether they are working on their own. At times, that is partly because we just do not feel, or we cannot see, that there is a transparent joined-up understanding of who is doing what and how it is working.

[147] **Keith Davies:** What do you expect the Welsh Government to do to improve that situation?

[148] **Mr Morgan:** I think that it should be more inclusive. There is a range of organisations operating in Wales, including us, Enterprise Europe Network and some of the professional bodies, such as the body for accountancy in particular, that have a very keen interest and a lot of experience of bridging continents and bridging gaps. I will take one example: I have here a very good guide to international trade—this one happens to be from NatWest. However, we are not using some of the Wales based offices of, particularly Santander and HSBC, which have a fairly wide international footprint, to see how we can champion that cause and bring it into a consistent process so that people will be wowed by the service that they have had.

[149] **Keith Davies:** You also say in your paper that there are potential barriers to businesses that want to export. Again, what kind of support would you expect the Welsh Government to give to those potential businesses?

[150] **Mr Morgan:** I think that what we have at present in Wales—again, just to put you in the picture—is that any business that exports outside Europe needs some form of export documentation and the chamber of commerce provides that. So, in Wales, we have a monopoly, I suppose you could argue, but that does not mean to say that a business cannot actually use the Bristol chamber or the Birmingham chamber. As a result of that, we have a very good picture of which businesses are moving into which countries and that is instantaneous. So, to take one example: in the month of October, we have had an absolute record of documentation done for businesses moving in to the middle east Arab market. So, we have the barometer and we have constantly said, ‘Work with us’. If we have five new businesses going to the United Arab Emirates, for example, it is about looking at what products they are physically doing, which is clearly documented on the paper that we get, and then finding another 10 businesses that are doing something similar and seeing if we can get them in there. That is the joined-up piece that we are trying to undertake and then it is about linking it to things like trade missions and so on, but that is the bit that we do not feel at present is being fully exploited and used.

[151] **Keith Davies:** The first contributor to the committee’s work this morning talked about trade missions. He had only been on one, which was a few years ago, and he said how valuable it was and that he had gained a lot from it. Again, in your paper, you are saying that the current trade missions are set up only a couple of weeks before they go and that there are not enough people going.

[152] **Mr Morgan:** I think that the international trade panel that I mentioned earlier has looked at the trade mission programme, and I think there is a positive in that we have now got one again. So, from that perspective, that is a step forward. That said, we went from nothing for 18 months to having 56 announced in 2012-13, and in 2013-14, we originally had 64 announced. So, from nothing to that is quite a significant number, when you then compare with our data that show that there are about 1,400 internationally active businesses in Wales. What we are finding is that those that are already exporting, or already interacting with markets, tend to go solo, for want of a better description, and there is support available for that, so that is an important factor, but the big challenge at this moment in time is getting those businesses that have a good product or a good service to put their head above the parapet and look for the opportunity. By having a short-term trade mission programme and a lack of strategic alignment, you are not allowing businesses to plan because, with the best will in the world, if you are not currently exporting, to go into export is a 12 to 18-month programme at a minimum, to be perfectly honest. So, with an 18-month trade mission programme, people are more likely to go on them ill-prepared and are unlikely to get the results or, more importantly, those trade missions will not get populated.

[153] If we had a situation—and this is what we suggested previously—where, for the next five years, there was a mission going to the UAE, for example, every October, businesses could start to plan and we could populate towards that. However, more importantly, it is about how we also get an incoming mission from the UAE, so that we start to build a relationship with some of these key markets that we are seeing expanding.

[154] **Joyce Watson:** I want to explore that, because that does not sound very fleet of foot to me, which was your comment against the Government earlier on. I can understand that you would want to build long-term relationships because doing business, more than anything, is based on trust. Would you not say that there are two sides to this coin, and that trade missions that happen outside a five-year window frame are being fleet of foot in terms of trying to extract maximum value for new markets and building new relationships?

[155] **Mr Morgan:** If it was a bottomless pit and you had multiple businesses undertaking this, the answer to that would be, ‘Absolutely’. However, the point that I would make is the concept of less is more. Therefore, if I take the UAE as a very good example, and you look at

the growth of exports to the UAE from Wales from 2009, they have grown from around £200 million to £1.2 billion. So, it is clearly a growth market and we can see that the type of goods going to the UAE are everything from electric garage doors to ceiling tiles to ceramics. Therefore, as a market entry country, that would apply to any good business in Wales that has a good product or a good service. Conversely, if I look at the documentation that we have of products going into Israel, of the 17 companies that we identify, it is medical equipment that is being exported. That opens two questions. One is: are the Israelis only interested in bringing in medical equipment from Wales because that is the area that they are short on or need to fix? Secondly, and more importantly, is there a market for our electronic and engineering products? Why are they not going into Israel? How do we open those doors? It is about linking trade missions to what the statistics say, rather than what some folks have fed back to us, which is that it is a bit like, 'We haven't been to the Philippines for five years, let's go to the Philippines'. That may well be the right decision politically, but from a private sector, planned, structured approach it may not be.

[156] **Joyce Watson:** We are trying, with respect, to do a piece of research that really informs us. The things that the Government does have to be evidence based, as you have just said.

[157] **Nick Ramsay:** It is an inquiry rather than research.

[158] **Joyce Watson:** If you have some information that could back up the claim that the Government is going on trips because it has not been there before, the committee would welcome that.

[159] **Mr Morgan:** The only thing I would need to understand for that, because we do not have access to it, is how many businesses have been going on the trade missions that were announced in 2012-13 and what has been gained as a result of it. That is evidence or information that we can track and see as documentation when businesses have moved into markets. We know in most cases that they found those markets because their product has been identified or demanded, or they have gone on their own separate fact-finding opportunities, as opposed to automatically going on a mission. We can certainly do some more research on that. We have asked on many occasions, if we have had somewhere in the region of 80 to 100 missions, how many businesses have physically been on them and what has been the results. That is something that we do not monitor.

[160] **Nick Ramsay:** In terms of wider trade and inward investment issues, you are not happy with the data that the Welsh Government is collecting. Is there any change to that data collection that would really help? Is there anything specific that you would choose to make the monitoring better?

[161] **Mr Morgan:** There was a proposal that we submitted in 2010 for the ICE institute, the international centre of excellence, which, in fairness, the Minister for business supported. It is wound up in bureaucracy with the officials at this moment in time. That was a determination to say, 'We'll come to the party and we'll give you the hard evidence, which is data protected, of which goods are going into which countries'. We are happy to do that. I can tell you how many new exporters we have had going into Qatar or Malaysia over the last month. That may help or it may not, but we need to understand the other piece of the jigsaw of what is happening over here. That was a determined effort to say, 'Let's come together', as happens with many other European, and particularly middle east, companies where the chamber works very closely with the Government to try to use combined opportunity to build a strategy.

[162] **Nick Ramsay:** Julie James, did you have any further questions?

[163] **Julie James:** To follow that up, in your paper you talk about the increased use of private sector resources. Is that what you meant by that, what you have just been explaining?

[164] **Mr Morgan:** Absolutely. When there was an announcement, back in 2012, that there would be a UKTI person coming to Wales to help to develop that strategy, we offered them the use of our offices free of charge, so that we could start to build this unified structure. We work closely with the Enterprise Europe Network. The Bristol chamber, UKTI, the enterprise network and the chamber all sit in the same room. If they have an inquiry on inward investment, they can all work on it together. More importantly, if they are looking to populate a trade mission, they can physically contribute to that. The joined-up working is quite significant. The most recent commitment we have made, as of 1 January, is—as a result of Welsh Government support for the China-Britain Business Council not being in Wales—to offer them our offices in Newport free of charge, because China is a significant market. We felt that Wales would be deprived of that opportunity by not having a base here. We have meetings next week to finalise that and put the China-Britain Business Council banner above our door and put a programme of activities in place for 2014, which will allow any Welsh business to access experts on the Chinese market and the 13 offices that they have across China, compared to the Welsh one.

10:45

[165] **Julie James:** That sounds pretty positive to me. I have to say that your evidence sounded quite negative. So, do you feel that things are moving in the right direction, or—

[166] **Mr Morgan:** That is the initiative that we have taken from a private sector perspective in response to what our members want.

[167] **Nick Ramsay:** Rhun ap Iorwerth, do you have any further questions on this?

[168] **Rhun ap Iorwerth:** No, not on this.

[169] **Nick Ramsay:** Eluned is next, on marketing and branding.

[170] **Eluned Parrott:** The question of branding has come up on a number of occasions in other debates and inquiries. Could you tell us whether you believe that there is a coherent, consistent brand being put across showing what it means to trade with Wales?

[171] **Mr Morgan:** It certainly has not been voiced as an issue from our membership, by people who have been on trade missions or folks generally. I think that there is quite a consistent recollection of the fact that you could jump on planes anywhere in the world and see the WDA logo. I do not think that anybody in our membership or international trade panel has automatically said, ‘Let us go back to that place’, because I think that we have to move forward. From two inward missions that we have hosted—one from Mumbai, the SME Chamber of India, and one from Fraser county chamber in the States—people pointed out, ‘You have a unique flag; why do you not use it?’ So, that is the only thing that I would say about branding, to be perfectly honest.

[172] **Eluned Parrott:** The kind of brand attributes that we have used in the past are things such as, for inward investment, being a relatively cost-effective place to enter the European market; that was one of the key selling points. What kind of key selling points does Wales have to offer now that some of the former eastern bloc countries have joined the EU?

[173] **Mr Morgan:** One example would be a group that we had in from Slovakia, where there is one equivalent of an enterprise zone. Slovakia has absolutely championed that one location, and been very consistent and singular in what it physically wanted to achieve. From

the debates that we have had around the chamber councils, depending on which part of Wales you are in, people have a different view about what is unique. We have a skills base, particularly in the manufacturing and electronic industry, which is under huge pressure at present, because we do not have the right follow-through in terms of youngsters taking engineering, electronic and ICT subjects to continue to feed what have been fairly successful businesses. Therefore, from the skills perspective, there is a competence in Wales, on which we need to build.

[174] The one thing that comes out loud and clear is proximity to the south-east marketplace and access to the world via Heathrow. We are facilitating a session on Heathrow on 6 March, to look at how we physically help those who land in Heathrow on business to consider turning left to Wales, rather than turning right to London. That is something that we have to build as a joined-up nation, so to speak.

[175] I think that the bit that is missing is what we physically stand for. A number of locations around the world have unified their forces—everybody talks the same speak, so to speak, and everybody is talking about the same thing. I just do not think that that is happening here at present. One example that I would cite is Denver, Colorado, where the chamber of commerce and the world trade centre have united to give a fairly positive message: ‘This is why you have come to Denver—it is in the middle of the United States, and we are open for business. If you want to physically set up here, here is an easy access plan. You can have rate reductions, you will have superfast broadband and you will have support from academia. This is what makes us famous.’ I think that that is the bit that is missing. We have all of the components, but it does not come in a package.

[176] **Eluned Parrott:** Do you think that, perhaps, there are too many different small organisations, agencies and competing interests involved now in the marketing of Wales abroad to be able to deliver a consistent message? Or, do you think that, actually, the problem is that we are not really iterating what that core value is?

[177] **Mr Morgan:** I think that it is primarily that we are not iterating what the core value is. When you scrape beneath the service, there are not that many organisations that are truly ramping up the international agenda, as it affects Wales. To be perfectly honest, if you go outside the chamber and, to an extent, the Enterprise Europe Network, you will find that very few other represented bodies have detailed information and knowledge and connectivity overseas. I think that that is the important point that is quite often missed, particularly from the chamber’s perspective. There is a chamber of commerce of some shape or form in every country of the world. You have international chambers of commerce that have 12,000 members, and quite a significant footprint. That is the bit that I do not think that we are looking into, and coming to the party to say, ‘This is what is on offer in Wales, and this is what you get by coming here’.

[178] **Nick Ramsay:** Did you have another question, Eluned?

[179] **Eluned Parrott:** I just wanted to ask one more question. You touched upon entering the south-east, if you like, and treating it in some way as a market. We are two hours from one of the world’s biggest cities, so there is obviously a market there that we need to tap into. Do you think that the new ‘Just Ask Wales’ campaign is likely to have a demonstrable impact on the amount of investment that we are able to attract from the south-east of England?

[180] **Mr Morgan:** If nothing else, I think that it is a campaign that is a step in the right direction. It is certainly what we have asked and advocated for a number of years. We need something to get behind. I think that we need to make sure that, behind that surface, it is not just smoke and mirrors, but that there will actually be someone who will respond. I would advocate, from all of the interaction that we have with private business in this current market,

that its speed of response is absolutely critical, as are very good turnaround times. When someone comes to Cardiff, Newport, Swansea, Wrexham, north Wales or mid Wales, someone has to drop everything and make that person feel special. That is simple, basic relationship-building.

[181] **Nick Ramsay:** I will now turn to Rhun ap Iorwerth, and then to Dafydd Elis-Thomas and Joyce Watson.

[182] **Rhun ap Iorwerth:** You have outlined what we need: in a way, we need a speedy system, a joined-up system, bringing in the private sector, and giving the chambers a role, but it needs to be co-ordinated in some way by a central body, and the Government has taken the decision that it should be in-house. Do you think that it might be useful to have an arm's-length body—an agency, as it might have been in the past—outside of Government, doing that, getting that done right, and selling it in the right way?

[183] **Mr Morgan:** Whether it is an arm's-length body or a formalised consortium, either of those are models that can actually be leveraged.

[184] **Rhun ap Iorwerth:** Both outside Government and—

[185] **Mr Morgan:** Yes. It can be a mutual one. I think that the absolute model is that the DNA of the organisation, or that body, is speed of response, but also protecting what you have in terms of making sure that there is a very clear relationship structure with those businesses that exist in Wales. Increasingly, when I go around, particularly mid Wales, and ask big businesses how they are being supported, it is usually a fairly bland answer, if that makes sense. So, I think that we need to get that working to a higher degree. We also need to be thinking about chasing the money—for want of a better phrase—to see which parts of the globe are actively looking to expand. Clearly, at this moment in time, money is coming out of the middle east and China. We are looking for businesses that are actively trying to grow to see Wales as a destination for their European headquarters.

[186] **Rhun ap Iorwerth:** This is the new, dynamic, international business organisation that I think you called for in recent documentation of yours. That is the body that you envisage.

[187] **Mr Morgan:** Yes. In the modern world, speed is of the essence. You have superfast broadband, and you have digital communication coming our way quickly. We need to use that, not only for businesses in Wales—and bodies in Wales communicate overseas—but also to attract tourism. So, a number of dynamics are coming this way fast. I guess that touching upon tourism would make us look at where that fits in internationally because, very often, I think that it gets parked over here. However, in reality every other major economy links tourism to its international activity.

[188] **Nick Ramsay:** Speed is of the essence and we move on to Dafydd Elis-Thomas.

[189] **Lord Elis-Thomas:** I am not sure that I represent speed. [*Laughter.*] I represent history in these matters, because I worked with the Development Board for Rural Wales and the WDA way back in the 1970s and 1980s. It is distressing for me to hear you say—and I cannot disagree with you—that there are firms out there that would like more support but are not getting a response. Is it part of the problem that Team Wales sees itself mainly as a public sector organisation in the way that it functions, and is seen as that by people in the business?

[190] **Mr Morgan:** I guess that the observation from the outside looking in—and I have not had the benefit of sitting inside, so that is difficult—and the words that come out from when we interact with businesses that interact with the public sector is 'bureaucracy', 'red tape' and

the idea of making sure that you have done everything right. As a result, it becomes driven by a paper system. You may want to deliver an output, but you have to get your house in order first, and sometimes that does not happen. I am not advocating in any way the other extreme, where you are flying by the seat of your pants but, conversely, there are times when you have to move swiftly to get the right impact. That is clearly the dilemma when you are dealing with public sector funds.

[191] **Lord Elis-Thomas:** We have sat in this room—a number of us—talking to energy companies, and renewable energy especially. The line about Wales not being open for business is one that is continually repeated. Is that a feeling across other sectors as well, do you think?

[192] **Mr Morgan:** You mentioned mid Wales. There are a number of businesses in mid Wales that have arrived in Wales because of the WDA and the mid Wales board, and those are businesses that would be anchored in the middle of England. So, we have had a success rate in the past that has attracted roles and jobs. I think that, at times, the cheap process jobs clouded the fact that there were some very good jobs that came in at the same time. I think that you have to go back to look at what the reason was for those businesses physically coming here initially. One good example: we were with CastAlum up in Welshpool the week before last, and it has an order book full until 2018. That was original inward investment, and it is doing a fantastic job. There are many examples of that, but I think that, again, at times, they feel that the bureaucracy of moving forward is quite significant and that, if they could have a bit more speed of response or a bit more of a practical response, they might increase what they are doing. That is the dilemma very often: the need to tick the boxes and fill in the paperwork against what the opportunity is.

[193] Conversely, I can also cite the example of a business based just outside Blaenau Ffestiniog that started moving saddles into the middle east. They made the enquiry; we moved, just like that, and they were on a plane with a couple of saddles to deliver. So you do see that speed of response happening. I would also cite one other example. A business based in Ammanford was looking to expand into France. We made contact with the Versailles chamber of commerce, which has 50,000 members, and within four hours it had been invited over there on a free flight to look at the five sites that they had earmarked for it. That is what I call speed of response.

[194] **Joyce Watson:** That is all good; those are great examples and I am pleased to have them, especially since they are all in my area. However, we do have to do performance monitoring and reporting and ensure transparency, and you mentioned that in your paper. You argue that the Welsh Government should do more of it so that it can quantify the effectiveness of the trade and inward investment activities. So, in order for that to be achieved, what exactly, in terms of data and performance monitoring, would you like to see the Government look at?

[195] **Mr Morgan:** I guess that at the heart of what we considered when we pulled the international trade panel together was the issue of what was the strategic evidence of success. I guess that we saw that at that moment in time in three clear dynamics. One was how to increase the number of businesses that are internationally active. Therefore, if we can arrive at a quantifiable base, how do you see that grow by 5% year on year over a 10-year period, because that is one figure that would be very indicative of whether we are penetrating businesses. The second was how you encourage existing exporters to go into new markets. You would see that by an increase in their actual market penetration or, should I say, their turnover. I guess that the third bit was that, if we have 700 businesses that are technically inward investments at this moment in time, how do you put some real figures behind that and how it grows?

[196] This bit around transparency that we have not been able to get to the bottom of is what good looks like or what we are trying to achieve, if that makes sense. So, putting that into a grid and reporting against it was, technically, what the international centre of excellence document was all about, whereby we, Enterprise Europe Network or anyone else who has statistics—and, more recently, UK Export Finance is a good example of where a resource has been brought into Wales and Wales has got someone in Wales, rather than relying on someone coming in from Birmingham or Bristol—ask how you then pull that information together to say that this is moving forward. We feel that that is the way in which you create the right movement about this and you get confidence. At the end of the day, moving into a new market in Wales or in the UK is hard, but moving into an international market is a lot tougher. So, if you can get them to see the progression and that movement, that is the way in which you will be able to influence more people to have a look at the opportunities.

11:00

[197] **Joyce Watson:** Finally, if I may, Chair, and quickly, there have been a lot of questions about marketing and Wales as a brand. A lot of people have been critical, and some have been supportive. As an organisation, have you asked your members about this, or have they come up with what they think that it should be?

[198] **Mr Morgan:** We have not asked that specific question. What we have had a debate around, quite significantly last year and the year before, is whether a Welsh-based business, when it goes into market, talking about being from Wales or from Great Britain. There has been quite consistent feedback that, on the back of the Olympics and the royal activities over the last three years, businesses found far more benefit in being under the Great Britain umbrella. Many businesses have reported back to us that if they are bidding for a contract in Australia, Malaysia or Indonesia, it is the quality of their product that is most important, first and foremost, not necessarily where they come from. So, there is a disconnect between whether the Welsh flag is going to win them a business opportunity or whether it is their product and being from Great Britain. That is one of the bits that we are currently considering.

[199] **Joyce Watson:** Okay, thanks.

[200] **Nick Ramsay:** May I thank our witness, Graham Morgan, the director of the South Wales Chamber of Commerce, for being with us today? You were very helpful and very succinct. We will be feeding your comments into our inquiry and we will let you have a transcript of today's session to check.

[201] **Mr Morgan:** Did you want to see this document or any of the documents that I referred to?

[202] **Nick Ramsay:** Yes, I am sure that Members would like that. You may distribute them. Thank you.

[203] Our next witnesses are joining us in seven minutes' time, so I propose that we have a short break.

*Gohiriwyd y cyfarfod rhwng 11:02 a 11:10.
The meeting adjourned between 11:02 and 11:10.*

**Ymchwiliad i Ddull Llywodraeth Cymru o Hyrwyddo Masnach a
Mewnfuddsoddi: Sesiwn Dystiolaeth 3
Inquiry into the Welsh Government's Approach to the Promotion of Trade and
Inward Investment: Evidence Session 3**

[204] **Nick Ramsay:** I welcome our witnesses to this morning's meeting of the Enterprise and Business Committee, where we will be following through with our inquiry into the Welsh Government's approach to the promotion of trade and inward investment. This is our third evidence session. Thank you for agreeing to be with us today. We have a number of questions for you, but, first of all, would you like to give your name and position for the Record of Proceedings?

[205] **Mr Long:** My name is Dave Long. I used to work for the Welsh Government on international trade and inward investment. Currently, I am self-employed, providing business advice for various organisations. Can I just say that the agenda classes us as experts, which I think is probably a bit grandiose? It is probably more the case that we are experienced in providing international trade support, as opposed to knowing the complete ins and outs.

[206] **Nick Ramsay:** We like to flatter our witnesses. *[Laughter.]*

[207] **Mr Harding:** I am Geoff Harding. I worked with Dave for very many years in a similar capacity, delivering trade support to Wales-based businesses, organisations and academia. Yes, there are thousands of experts on international trade in Wales, mostly working in the companies, so it was our job to help them to export.

[208] **Nick Ramsay:** Great, thank you. As I said, we have a number of questions for you. The first is from Julie James.

[209] **Julie James:** I just wanted to ask you to expand a bit on the things you said in your paper about your views of the current arrangements. That is a good starter for 10 for you.

[210] **Mr Harding:** What we need to do is qualify almost everything we say by saying that we can only rely on what we know, and a lot of that is anecdotal. The only real way to have that precise evidence, as I think I heard Graham say earlier on, when he was asked a question about evidence—all the evidence is there, but it needs to be extracted from within. However, I think the key question that was asked is this: is the support being provided at the moment better, worse or about the same as it was under the previous benefactors, whether that was the Welsh Development Agency, WalesTrade International, or International Business Wales? What has been left out of all of this, of course, is the three years of flexible support for business, which also encompassed international trade and investment, when it was devolved into the sector teams. So, anecdotally I would say that the answer is that these services have been provided better in the past than they are now. There are lots of reasons for that. The organisations were, by their nature, bigger. There is no issue at all with the fact that the numbers of people in international trade and investment teams—the people who are directly involved in that—are tiny in comparison with what they might have been 15 or 20 years ago. What you have seen with some of the information that we have managed to extract is that there seem to be green shoots of recovery, but, listening to some of the previous speakers, it is clear that there have been, as I describe it, some lost years, where support to business has been diluted—that is probably the word that I would use.

[211] **Mr Long:** I agree. The thing to bear in mind when looking at the current set-up in the Welsh Government is that in the heyday of WalesTrade International, we were actually employing 101 people who were purely involved in international trade. This was using funds from both the Welsh Assembly Government, as was then, and also a successful bid to Europe

for Objective 1 money. So, in effect, we had an office in every one of the 22 local authorities in Wales, which meant that we could provide a very personal service. Our front-line advisers were able to get to know their companies very well, but I think that this is one of the things that have been lost. Everybody nowadays gets directed to the call centre and fed into the system, for want of a better phrase. It is very difficult to establish from the information that we have been able to get directly from the Welsh Government—as opposed to what we hear anecdotally, because, not surprisingly, we still keep in touch with ex-colleagues—whether there is that element of ongoing relationships with companies. It is not at the same level. The services are not at the same level and, again, a lot of that comes down to funding. We also had a hiatus and lost several years. We made it quite clear in our contribution that, certainly in our opinion, it was with the creation of International Business Wales that international trade support in Wales started to decline, as opposed to what has happened since ‘Economic Renewal: a new direction’. So, in our opinion, there is certainly a lot of catching up to do.

11:15

[212] **Julie James:** Are there any strengths and benefits to the current approach taken by the Government?

[213] **Mr Long:** Now that it has worked out the system that it wants to pursue, it can build on some of it. However, I agree with the previous witness that it really needs to engage with the other sectors in Wales, such as the chambers and academia. There seems to be a feeling at this point in time that the Welsh Government is trying to do too much itself instead of opening it up and having really strong partnerships outside the Government itself.

[214] **Julie James:** What about the emphasis on inward investment, as opposed to support for indigenous firms, if you like? Do you believe that the balance is right there?

[215] **Mr Harding:** What I will say—and, in all fairness, Dave and I have almost exclusively worked in the international trade arena—is that there have always been some very high-quality people working on the inward-investment side. You could sit any number of groups of people who were involved with International Business Wales in front of you and you would probably get a similar reaction, certainly from the trade side, that the strategy was to focus very much on inward investment. Trade was seen as being the icing on the cake. We are now in a time when trade is vital. It was vital then, so, strategically, we went way too far down the road of focusing not just on inward investment per se. However, the circumstances have changed dramatically since, if you like, the heyday of the Welsh Development Agency. It was difficult to make that point as aggressively as we would have liked, because there was domination by ex-WDA staff under the new structure of inward investment. Many of them were very capable, but, equally, many of them had little hands-on experience of the trade role. That engendered a situation where trade started to dilute for many years. As I said, under flexible support for business, both of those organisations were hamstrung in terms of providing what you would like to believe was a genuine support system to Welsh business.

[216] **Julie James:** It is a difficult balance, is it not?

[217] **Mr Harding:** Yes, absolutely.

[218] **Mr Long:** The thing to bear in mind, of course, is that if you are looking for major changes in the Welsh export performance, inward investment is vital, because it is the large companies that make the most difference. The role of WTI and IBW tended to be further down the ladder because of EU restrictions et cetera regarding how far larger companies could be supported. However, although the figures are smaller, it is all part of building up that picture of Wales as a world-class nation from a business point of view. The correlation needs to be between inward investment and international trade. Certainly, previously, when the

WDA was courting companies to come to Wales and establish themselves here, part of the team that went along with them was WalesTrade International, so that we could explain, 'Once you are established in Wales, this is the support that we can provide for your outward trade perspective, because, clearly, you are not coming here purely to trade with Wales'. It was all part of the equation and it is very difficult, with regard to what is seen from the Government now, to see that that tie-in is as strong now as it used to be.

[219] **Julie James:** So, we are trying to get the companies here, but we are not giving them the assistance to export their goods into Europe, for example. Is that what you are saying? Or are you saying that we could do that better?

[220] **Mr Long:** I think that we could do it better—it is about doing it better, so that the inward investment offer and the international trade offer, when it comes to inward investment, are tied together much more closely than we seem to be seeing at the moment.

[221] **Julie James:** Okay. Thank you.

[222] **Nick Ramsay:** Rhun ap Iorwerth is next.

[223] **Rhun ap Iorwerth:** I know that there are more questions to come on the kind of data that might be useful for measuring the success of where we are now, but, in terms of what we already have, you have made some freedom of information requests to try to put together a picture. What did you glean from the responses? We have read them and thank you for the information.

[224] **Mr Long:** Well, we did not glean as much as we had hoped, in all honesty. We were grateful to get a response, because it was quite tight to get the freedom of information request in in time to get the information out prior to the deadline for contributions to be submitted, so, we got as much as we could by then. I think that what we were looking for is that, certainly previously—. One of the major step-changes when the Welsh Government—or the Welsh Assembly Government, as it was then—created WalesTrade International, was that, whereas previously we published figures about the number of trade missions that we had taken overseas and the number of events that we had held in Wales, we changed that around completely so that our key drivers and key targets were the amount of business physically won by Welsh companies, the amount that they had in the pipeline that we could continue to help them with, and how much of that we could help them to convert into additional orders, and how many new exporters were created, that is, companies that we would help take from being a non-exporting company into being a company getting its first order and, hopefully, that we would be able to maintain as an exporter. So, we turned it around and looked at business success as opposed to the numbers that went. The only information that I could find online is the annual business statement that the department issues, and all that told me is that it took x number of trade missions overseas and has had discussions with UKTI. However, there was nothing there to tell me that there had been a business success.

[225] **Rhun ap Iorwerth:** UKTI publishes figures on direct inward investment. Are those figures useful at all? They do not entirely involve what has been done by the Welsh Government.

[226] **Mr Long:** I think that they are useful once you actually find out where the Welsh Government has been involved. For example, in 2011-12—not a great year for Wales—we had 23 inward investment projects. When you look at the figures, however, 10 of those were actually new investment projects, and the others would have been companies that were already here that were expanding or being purchased through mergers and acquisitions. Only one of those—so the Welsh Government says—was actually directly supported.

[227] **Rhun ap Iorwerth:** I was shocked by those figures; were you shocked by them?

[228] **Mr Long:** I think that shocked is a fair description.

[229] **Rhun ap Iorwerth:** There is another set of figures that was slightly better than that, but—

[230] **Mr Long:** The following year, there was a marked improvement and it went up by 1,191%—I think that was the figure quoted—but that was coming from a very low base.

[231] **Rhun ap Iorwerth:** Is it that the Welsh Government is not able to offer effective and useful incentives now, compared with back in the heyday of the WDA, say, be they financial or otherwise?

[232] **Mr Harding:** I will try to answer that, but I am going to put another caveat in here, which is that inward investment is not my background. I have worked extensively overseas with the WDA, so I feel I have something to offer here. First, it is an incredibly difficult sell anywhere. I spent four years in the US as head of trade, and the investment sell for Wales is very difficult, as you can imagine—

[233] **Rhun ap Iorwerth:** Why? Sorry, I will stop you there for a second. I know that you are competing against all sorts of regions and nations.

[234] **Mr Harding:** Yes, and you do not really have to go much further than that. You can go to just about any developed economy and you will find that everybody is there.

[235] **Rhun ap Iorwerth:** It is not a major problem with the product, then. It is—

[236] **Mr Harding:** No. Often, it is not a major problem with the location; it is just that it is highly competitive and other countries are, of course, offering incentives that maybe we do not or are not possible. I am sorry to keep coming back with a caveat, but I do not want it to sound as though I am an expert on the inward investment proposition. However, certainly, the competition is extremely tough. On the figures, UKTI and its forebears have always been at the heart of almost taking the lead in deciding where projects might best fit, and Wales has always done its own thing in terms of adding to that by ferreting out its own opportunities. We are back to the fact that the WDA in its heyday, if you like, was extremely well resourced and had a lot of people in marketing. It does not have that anymore, so that just makes that job a lot more difficult. I am not necessarily defending it any more than I am particularly knocking the figures, but the figures do not look good.

[237] **Rhun ap Iorwerth:** The potential incentives that the Welsh Government can offer, however, are okay; it is just that others have the same incentives, is it?

[238] **Mr Harding:** I guess it would depend on what you consider to be okay. The grant incentives, if companies do locate here, for additional projects or growth, are not what they were. So, the inward investment proposition, if anything, is different. Also, I know it is a generalisation, but it is very different trying to sell inward investment now than it was in the 1980s, when we got the big, big inward investments because we were a really good place to be for all sorts of reasons—because you were in Wales, the costs were a lot lower. I will not get into why it moved to eastern Europe; that is for others who are much more expert than I am on that, but the bottom line is that these figures—and only the people directly involved in this can answer this adequately for you—suggest that nearly every project that has come to Wales has been driven by UKTI.

[239] **Nick Ramsay:** Byron Davies has a supplementary question and then Dafydd Elis-

Thomas is next.

[240] **Byron Davies:** I noted your background in working abroad and what have you. I worked quite extensively in eastern Europe, and what you said there was interesting. I feel that you have perhaps been trying to create your own method of getting into these foreign markets or attracting inward investment. What about the Foreign and Commonwealth Office, the embassies and the commercial sections? They do a huge job in promoting Wales. What do you do with them?

[241] **Mr Long:** Sorry, is this for trade or investment?

[242] **Byron Davies:** Both actually.

[243] **Mr Harding:** Do you want me to take that?

[244] **Mr Long:** Yes, you can lead off, if you like.

11:30

[245] **Mr Harding:** For many years, the relationship between UKTI and its predecessors—I am going to talk about trade maybe more than investment again, because I know a lot more about that—was very, very good. I would say that almost the No. 1 priority for anybody based in market was to have a really good relationship with UKTI. It has bigger resources in comparison to Wales, obviously. The other key, of course, is that if you are attracting trade missions to those particular areas, it is just fantastic in doing a lot of the groundwork for you. In some of the discussions, it seems to be lost that UKTI still offers significant programmes in terms of helping companies with market research. We offer our own product in Wales as well, but UKTI has an enormous resource. It is driven by the aim to help UK companies—not English companies—enter new markets and export for the first time. It is there to provide a platform for trade missions in terms of—dare I say it—receptions, which sometimes get a bad press, but that is exactly where you get your networks from. Is that still a key function in the trade mission programme, for instance? I do not know.

[246] **Byron Davies:** You do not know, do you?

[247] **Mr Harding:** I am not close enough to it.

[248] **Byron Davies:** You have only been out of it for a year, have you not?

[249] **Mr Harding:** No, I have been out of it for about three years, if you can say ‘out of it’, because I follow it very closely because it is a passion of mine. The trade mission figures from the FOI response are very disappointing, in terms of numbers. If you are simply talking about bums on seats, there are 12 missions listed for Wales for 2011-12 in the FOI response, and half of those left Wales with five delegates or fewer. That simply would not have happened, unless there were exceptional circumstances, many years ago. I am not knocking that, because I think it is about coming from a very low base and having to build up these programmes again with a much smaller team. What you have the opportunity to do, I guess, that we have not been able to do, is extrapolate from that information the companies that went. What is difficult to get is what sort of business was being done, and what led to—

[250] **Byron Davies:** That is key, though, is it not?

[251] **Mr Harding:** In my personal view, it is absolutely key to understanding this. There are some missions on here, like Medica and Arab Health, that we have been doing for very many years. We were doing Medica with the WDA before IBW even existed, so there was

always a very good relationship for some of these missions, and the numbers are very good. There are some missions that we have done for many years where the numbers are poor. However, it is clear that we got off the bus for three or four years, and we are now having to try to reinvent ourselves in that respect. I am talking as though I am still in there, but that is what I think is happening. What I will say, with regard to what the previous witness said, is that I am not sure how much the previous witness engages with the likes of the chamber and the aerospace forum. I only name the aerospace forum because there was a good turnout for the Singapore Airshow, and I suspect that the aerospace forum was involved. MediWales would have definitely been involved in Medica. We have an excellent person in the middle east, who has been in place for many years, and Arab Health seems to have done well. The pattern that is emerging here is that, where we have had that consistency, we can have it again.

[252] **Nock Ramsay:** Please be brief, Byron, and then I will bring in Dafydd.

[253] **Byron Davies:** I would like to hear Mr Long's version of this. The impression that you are giving me, I have to say, is of a very fragmented set-up.

[254] **Mr Long:** I think that it has been fragmented for several years, and now that they need—. Somebody has already said that the green shoots are starting to show through. When we were there, we went through a period where it was quite stagnant, in all honesty. We came through the IBW experience, and then Flexible Support for Business took over as the key driver when it came to being the service provider for Welsh companies, and we were riding behind that. The other issue that we then had was that, when 'Economic Renewal: a new direction' was announced, there was another unfortunate gap there, because, although the policy was announced, we then had to put together the programmes to make that policy work. Certainly, for 13 months, I was not sure whether I would have a job at the end of it; at that stage, I was working on marketing inward investment for Europe, the middle east and Africa. The way in which it was going to regenerate the marketing teams meant that it was 13 months later that we found out that most of us were staying. So, there is a gap where, certainly, for a number of reasons, the eye was certainly taken off the ball.

[255] **Nick Ramsay:** We need to move on, Byron. I believe that Dafydd Elis-Thomas has a brief supplementary question.

[256] **Lord Elis-Thomas:** I cannot emphasise too much how valuable your evidence is to us this morning, because we are all, in different ways, implicitly responsible for the missed opportunities in trade and investment on behalf of Wales in recent years. You mentioned that there were several lost years; it is probably more than several years that were lost, is it not?

[257] **Mr Long:** From an international trade perspective, we started to lose it in 2006.

[258] **Lord Elis-Thomas:** There is a political responsibility on all of us. This is why we are revisiting these questions. I would like to ask you a pointed and personal question: you have both had long careers in promoting Wales in terms of trade and business in different ways; do you feel let down by Welsh politicians?

[259] **Mr Long:** The reason I left was because I felt that I was not doing a proper job any more. I had the opportunity to leave in 2011 through the voluntary severance scheme. The reason I took it was simply that I had lost respect for the organisation that I was working for and felt that I was no longer providing a service to Welsh companies.

[260] **Lord Elis-Thomas:** Thank you very much for that. It was very forthright and is exactly the sort of information that we needed.

[261] **Mr Harding:** I am in a similar position. I spent four years in the US and, for a number of reasons, I did not believe that our new structure was the correct one. I came back and that experience was lost completely as I was moved to a relationship management role, which I quite enjoyed, but that experience was lost almost overnight. For the same reason as Dave, I became disillusioned and I was almost embarrassed to meet some companies that I had worked with for many years, because I did not know what I was offering them.

[262] **Nick Ramsay:** It is very interesting; you are people we read about, so it is good to meet you in the flesh and hear about this from the horse's mouth.

[263] **Mr Harding:** We, maybe, have the ability to say things that other people would not.

[264] **Lord Elis-Thomas:** Thank you for having the bravery to do it.

[265] **Mr Long:** May I stress that it is not because we particularly want to grind an axe; it is because, after 20 years, we were both very passionate about our jobs. To see the way it was going, it was just too much.

[266] **Mr Harding:** There are still some absolutely excellent people there who probably are not doing what they could be doing.

[267] **Lord Elis-Thomas:** The fact that you have said that to us means that you can help us not just to put it together again, but to put it together in a way that ensures that it works.

[268] **Rhun ap Iorwerth:** We have talked about and expanded upon various parts of what changed and what you think was not an improvement on the old set-up, but can you summarise what it was that you think had led to such a deterioration in your ability to do your job?

[269] **Mr Harding:** I will say this with all candour and I will leave it like this: I believe that IBW could have been a great success, but there were management issues that prevented that from happening.

[270] **Lord Elis-Thomas:** Was that at the highest level?

[271] **Mr Harding:** Around about there, I would say, yes.

[272] **Lord Elis-Thomas:** I thought so.

[273] **Mr Long:** I would say the same. I can honestly say that, of my 38 years as a civil servant, the most exciting part of my whole career was the six years that I spent with WalesTrade International. I was lucky enough to be a part of the team that established it and then, once Rhodri Morgan had chosen the name, it was my responsibility to go out and sell it. The way that the offer that we were making to Welsh companies deteriorated so quickly when we moved over to International Business Wales was quite profound.

[274] **Keith Davies:** Our job as a committee is to scrutinise the Government. With the experience that you have, what kind of performance management data should we expect to receive from the Government, and what should the Government be reporting on?

[275] **Mr Long:** From an international trade perspective, it should all be there. It is just that it no longer seems to release it so that there is a level of transparency. I come back to the fact that what we are looking at is business one. The bottom line is that the companies are key to this. We need the companies to succeed. Therefore, performance measures have to revolve around company success. We need to see how much business the Government is assisting

companies to drive, how much is in the pipeline that it can continue to support and continue converting, and how many companies in Wales are now exporting either for the first time or being taken into new markets.

[276] In the trade mission programme, we would follow companies for two years. We would start six months in advance, which is something else that has been lost. We would work with a company six months before a mission; we would never dream of taking them out a month before. Once we came back from the mission, we would be with that company for two years, supporting them and recording future activity that resulted in additional business.

[277] **Mr Harding:** Let us not pretend that in WalesTrade International or in the early days of IBW that everything was rosy; it was not. However, what the international trade advisory roles did in the unitary authorities was that they had a relationship with companies. It is very difficult to get companies, sometimes, to tell you that they got business by way of a trade mission. If you are a sales manager, you do not really want to give somebody else the credit, do you? Companies, generally speaking, were very accommodating. That information is all there somewhere. I assume that they are still looking to collect that as they rebuild, in whatever format it will take. You are asking a question about what could be put in place. If you want a starting point, look at what has gone on over the last 10 to 12 years, from the WDA through to now. There should be enough information to say, 'That worked and that didn't work'.

[278] **Keith Davies:** The letter that you got from the information commissioner said that, prior to 2011-12, the information you requested on trade missions was not held centrally.

[279] **Mr Harding:** That might answer your question about branding and coherence. It seems to be spread across several different divisions. It is not that the information is not there; it will just take too long to get it. We cannot get it, but maybe somebody else can.

[280] **Mr Long:** Times should be different now. Bearing in mind that it is nearly three years since I left, at that stage, a new customer relationship management system was well in advance. It was already in use by the teams and they were, for want of a better phrase, bolting on the additional items. Those additional items, from an international trade point of view, were the business elements. IT projects have a terrible reputation when it comes to Governments, but, three years on, you would hope that it was being collected in such a way that it would not take too long to go through the files and would cost more than they were allowed to spend to answer me.

[281] **Keith Davies:** I do not think that they could say that to us. [*Laughter.*]

[282] **Nick Ramsay:** Since you mentioned branding, Eluned Parrott has some questions, and this is probably an apt time to ask them.

[283] **Eluned Parrott:** You suggest that there is no longer a coherent Welsh brand for either trade or investment. You have talked about issues with the co-ordination of working practices, which have an impact on the perception of the brand from the people receiving it. Do you think that the people involved in selling Wales abroad, whether it is for export purposes or inward investment, understand what the Wales brand means?

11:45

[284] **Mr Long:** I think that there has been an issue with the Wales brand ever since it was decided to remove the WDA brand, because a decision was made that the brand would be Wales. It is quite difficult for a country to be a brand; how do you then get into it? The decision has now been made. If you look at what is going on in Wales regarding branding,

although it has been done in a very soft-touch way, more and more now you see the use of the words Business Wales. The website is now Business Wales. Some press releases were issued late last year talking about some small company successes, attributed to Business Wales. If you look at the overseas visitors' part of the website, you will see that that seems to be turning over to Business Wales. I do not know whether that is intended to be widened, but if that was the case, why start a campaign in London called 'Just Ask Wales'? It was put in the press releases that it is attracting an international audience, but, in actual fact, at the moment it is London and the south-east.

[285] There is confusion out there. Previously, at least people knew where to go. They knew to go to the WDA in Wales. We were very aggressive when we started WalesTrade International, so within a short period of time people—or certainly a good amount of people—knew that that is where you started. What they have at the moment is a telephone number in a call centre, which does not seem particularly personal.

[286] **Eluned Parrott:** What kind of impact does this lack of coherence have when you are delivering these marketing programmes, even if it is just in the south-east of England at the moment? Is that having an impact on how visible Wales is as a potential location, or is that more dependent on the activities that are undertaken?

[287] **Mr Long:** If we look at the 'Just Ask Wales' campaign, the last campaign that I worked on before leaving was in January to March 2011, which targeted London and the south-east. It included advertisements at railway stations and on the sides of buses. When I read 'Just Ask Wales', I thought to myself that it had been rolled out again under a different name. It has to be a part of a bigger package. There are some huge organisations in London that act as middle men, whether they be trade associations or even the overseas offices of various countries. I do not know whether they are included in the campaign—that is not visible in the press release, which does not go into detail about what other activities are taking place behind the posters and the website. At one stage, I looked after IT and telecoms. Our main thrust in London was the likes of Intellect, which is the trade association for the IT industry. There was a ridiculous amount of members and we had monthly access to them for a very small amount of money to sponsor a monthly meeting programme. However, it gave us access on a face-to-face basis, and it gave us access to its database, its website and its newsletters. If that is behind the campaign, I think that it would be a lot more effective. If it is just that they are putting things on buses or in the *London Evening Standard*, we did it in January 2011, and 2011-12 was a very bad year for inward investment.

[288] **Mr Harding:** I will very quickly add to that. If you are going to look for this evidence, it could be a fantastic idea. If we can encourage businesses out of London that are already investing there, that is fantastic. However, if you want evidence of where it worked before, as Dave said, we had an office in London until about three or four years ago and we closed it—a trade and investment office. So, we closed that. What were the reasons for closing that office? Was it not successful? If it was not successful, what is going to make this one different? That sort of question—

[289] **Nick Ramsay:** Okay, as you say, time is indeed short—you should be a chair—so we will move on. I ask Members to be succinct with their questions, and feel free to be succinct with your answers as well. Byron is next.

[290] **Byron Davies:** On trade missions, what is a successful trade mission in terms of return?

[291] **Mr Long:** We were achieving a rate of return of a minimum of 12:1. For every £1 we were spending, we were bringing back £12-worth of business to Welsh companies.

[292] **Byron Davies:** That is a good answer.

[293] **Nick Ramsay:** That is a pretty good mark of success, I think. That is one for the report. Okay, thanks, Byron. Keith Davies, did you have any questions left?

[294] **Keith Davies:** No.

[295] **Nick Ramsay:** Joyce Watson, do you have a question?

[296] **Joyce Watson:** Only on trade. You talked about trade and investment, so I am going to talk about exporters. We have heard evidence about the barriers faced by potential exporters. Do you think that the support offered by the Welsh Government is effective in removing those barriers?

[297] **Mr Long:** I think that it could be. It has certainly got new programmes in place. In fairness to the programmes, some of them have only been online for about 15 months and these things take time to bed in. Sometimes, it seems to me that the issue is the speed at which some of these programmes run. I know that there have been issues with the national trade opportunities programme, and it does seem to be taking a while from the time that companies are requesting advice on overseas issues before they receive the advice.

[298] I can only say that, on what I have been told, there seems to be an issue with the tendering process, in that, for each of the global regions, it has set in place a programme via tender. There are three contractors for each region. So, say that a company has been speaking to its business development adviser and it thinks that there could be opportunities for it in the Gulf, for want of a better area, it would put together a remit of the information required and send it to the three contractors, who are then given five days to respond with a plan of action and the cost. That goes back to the Welsh Government. If the company has any questions that it wants to ask of the contractor at that stage, it is not allowed to do so directly; it has to put them to the Welsh Government and the Welsh Government then puts them to all three of the contractors so that they can all take them into account. Once all the information is in and the Government has all three, it goes to the company for the company, in consultation with its business adviser, to decide which of the programmes put forward seems to suit it best.

[299] It does seem that you have got a double tender. It has already been through a major tender process, which included costings, to get to the stage where it is one of the three contractors for that area. However, the process that is then being followed is still a fairly strict tendering process within an existing contract, to tease out who is actually going to do the work. It just seems to add time to the process.

[300] **Joyce Watson:** Okay. May I move this on, because we have to? It has been suggested to the committee that we focus on examining the performance of the Welsh Government in directly supporting Welsh business to export, rather than looking at the high-level export figures for Wales. Do you agree with that?

[301] **Mr Harding:** Yes.

[302] **Mr Long:** Yes.

[303] **Joyce Watson:** Okay, thank you.

[304] **Nick Ramsay:** Dafydd Elis-Thomas, do you have any questions on the organisation?

[305] **Lord Elis-Thomas:** I think that I have done enough damage already. [Laughter.]

[306] **Nick Ramsay:** May I ask whether you have a view on the Welsh Government's relationship with UKTI? You have mentioned UKTI already. Do you have any view on the way in which the Welsh Government has worked with it following the signing of a memorandum of understanding in May 2013? Has it been better, worse, indifferent?

[307] **Mr Long:** It is too early to tell, but we hope it will be better. The fact that there is now a memorandum of understanding will probably give it more focus.

[308] **Nick Ramsay:** Going back to what you were saying about the issues that have developed since IBW replaced WDA, and you spoke of your own frustrations, clearly there are people who are still in the organisation who feel less able to speak as experts than people like yourselves in the outside consulting world. Do you think that it would be helpful if they felt that they could raise some of the problems that they felt were going on there?

[309] **Mr Harding:** If I am entirely honest, I guess that that would be completely down to them. I really hope, and we would probably finish with this, that this is not about grinding axes or anything like that. I honestly feel that there would be quite a few people who would privately be very pleased that we have said what we have said, but we have, possibly, the opportunity to do that without repercussions; that is probably what I would say.

[310] **Mr Long:** If I could just add one thing to the end of that, if you actually looked at the people who were working on trade and, to a degree, on inward investment at the time of change and then looked at who is left doing it now, you would find that there are a lot of people like us who have either moved elsewhere in the Government or walked away.

[311] **Rhun ap Iorwerth:** How many of your former colleagues do you think would like to go back to the days of being at arm's length from Government?

[312] **Mr Long:** We were never at arm's length from Government, in as much as WTI was part of the Welsh Assembly Government and IBW was. Neither of us worked for the WDA.

[313] **Rhun ap Iorwerth:** I will use 'colleagues' in a slightly looser way then, to include people who you would have worked alongside at the WDA.

[314] **Mr Harding:** This is absolutely crucial to any debate where there is a suggestion that maybe the WDA did not want to work with WTI and vice versa, and whether it should have been a Government—. It was a political decision to bring it into the Government. However, way before the WDA and the WTI became no more, they were working together, particularly overseas. I worked for WTI overseas for a number of years; I worked with some fantastic people. There is sometimes a perception that there was a lot of friction, but that was not something that I experienced. The fact that it came into the Government, as I say, was a political decision, but I can guarantee that the vast majority of people in the WTI, had they been told, 'We're going to be arm's length', or, 'It's going to go to the private sector', would have seen that that joining of those two organisations was critical. Overseas, you would have given out two, maybe three business cards, because we were sort of working for different people. So, that central branding was important, but equally important were the relationships that were built. To suggest that they were not there in the first place is not right.

[315] **Rhun ap Iorwerth:** So, being in or out does not really matter to you, as long as there is coherence.

[316] **Mr Harding:** People in there might have a different view, but I suspect that if you think logically about it, you will see that a trade and investment organisation that is really well managed, pretty well resourced and with the right people has got to be a successful organisation, has it not? It has to work with the other bodies around it—

[317] **Nick Ramsay:** Okay—

[318] **Mr Harding:** I am sorry.

[319] **Nick Ramsay:** No, that is fine. You have made that point. It is just that we have got one minute left and I know that Eluned Parrott has a very brief question to ask you.

[320] **Eluned Parrott:** I do. I want to ask about Wales's assets, essentially. Back in the days of the WDA, the pitch was, 'This is a high-skill, low-cost place to enter the EU market'. What would the pitch be today?

[321] **Mr Long:** I think that these days it is probably more to do with that terrible phrase 'the knowledge economy', but we would need to concentrate on the sectors where we have strength, whether it be some of the electronics or the IT sectors, where we have global companies that have decided to base themselves in Wales and, as well as the jobs, we get the benefits of the exports that are generated from their units in Wales. I do not think that we make enough of the quality of our academia. Certainly, in my time, in bringing over press delegations et cetera to look at Wales, going around some of our universities opened a lot of eyes to the cutting-edge work that was going on there. We are perhaps too quiet and not shouting enough about it. Certainly, our offer has changed, because cheap labour or low wages have moved on to other parts of the world.

12:00

[322] **Mr Harding:** The sector thing is very important. They have the sector teams in the new organisation. I heard someone mention Israel earlier, and life sciences. That is not just plucked out of the air; I know people within Government have done a lot of work with the Israeli companies and organisations to try to attract that business. There is lots of good stuff going on, I believe, and there are lots of good people, it is just that they may need more support to bring that out.

[323] **Mr Long:** It needs better co-ordination.

[324] **Nick Ramsay:** That is a good, positive point to finish on. There are good people there, but it needs a bit of co-ordination. I thank—I was going to say 'our experts'—our consultants, Geoff Harding and David Long, for being with us. It has been really helpful.

[325] **Mr Long:** Thank you very much for your time.

[326] **Nick Ramsay:** We will provide you with a copy of the transcript to have a look through. Thanks for helping with our inquiry.

12:01

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod

Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

[327] **Nick Ramsay:** I propose we go into private session. I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(ix).

[328] I see that the committee is in agreement.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12:01.

The public part of the meeting ended at 12:01.