



Cynulliad Cenedlaethol Cymru The National Assembly for Wales

Y Pwyllgor Menter a Busnes The Enterprise and Business Committee

**Dydd Iau, 8 Mawrth 2012
Thursday, 8 March 2012**

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Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o Weddill y
Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting
for the Remainder of the Meeting

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

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

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Mike Hedges	Llafur (yn dirprwyo ar ran Joyce Watson) Labour (substitute for Joyce Watson)
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)
David Rees	Llafur Labour
Kenneth Skates	Llafur Labour
Leanne Wood	Plaid Cymru The Party of Wales

Aelodau'r Pwyllgor Materion Cymreig yn bresennol**Welsh Affairs Committee members in attendance**

Stuart Andrew	Y Blaid Geidwadol The Conservative Party
Guto Bebb	Y Blaid Geidwadol The Conservative Party
David T.C. Davies	Y Blaid Geidwadol (Cydgadeirydd y cyfarfod) The Conservative Party (Co-chair for the meeting)
Geraint Davies	Llafur Labour
Jonathan Edwards	Plaid Cymru The Party of Wales
Nia Griffith	Llafur Labour
Karen Lumley	Y Blaid Geidwadol The Conservative Party

Eraill yn bresennol**Others in attendance**

Richard Bennett	Dirprwy Gyfarwyddwr, Masnach a Seilwaith Morol, Adran Drafnidiaeth Llywodraeth y DU Deputy Director, Maritime Commerce and Infrastructure, Department for Transport
Jonathan Moor	Cyfarwyddwr, Awyrennu, Adran Drafnidiaeth Llywodraeth y DU Director, Aviation, Department for Transport

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

Sarah Bartlett	Dirprwy Glerc Deputy Clerk
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Andrew Minnis	Y Gwasanaeth Ymchwil
	Research Service
Siân Phipps	Clerc
	Clerk

Swyddogion Tŷ'r Cyffredin yn bresennol
House of Commons officials in attendance

Adrian Jenner	Clerc
	Clerk
Anwen Rees	Rheolwr yr Ymchwiliad
	Inquiry Manager

Dechreuodd y cyfarfod am 10.10 a.m.
The meeting began at 10.10 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** Good morning. I welcome Members of Parliament, Assembly Members, witnesses and members of the public to this concurrent meeting of the National Assembly Enterprise and Business Committee and the House of Commons Welsh Affairs Committee. This meeting is bilingual, and headphones can be used for the simultaneous translation from Welsh to English or for amplification. The meeting is being broadcast and a transcript of the proceedings will be published.

[2] I remind everyone to turn off their mobile phones and other electronic equipment. There is no need to touch the microphones, as they should work automatically. In the event of a fire alarm, please follow the directions of the ushers.

[3] We have apologies from Joyce Watson AM and from the following MPs: Siân James, Susan Elan Jones, Robin Walker, Mark Williams and Jessica Morden. I am grateful to Mike Hedges for joining us as a substitute for Joyce Watson.

10.11 a.m.

Ymchwiliad i Gysylltedd Rhyngwladol drwy Borthladdoedd a Meysydd Awyr
Cymru: Sesiwn Dystiolaeth
Inquiry into International Connectivity through Welsh Ports and Airports:
Evidence Session

[4] **Nick Ramsay:** David Davies, Chair of the Welsh Affairs Committee, would you say a few words before we go into questions?

[5] **David T.C. Davies:** I think that I have said my little piece, Mr Chairman. If this inquiry continues, you will all be very welcome indeed to come to London, and insofar as I can use my powers to do so, I will ensure that the witnesses you wish to speak to are present—I am sure that that can be arranged. We look forward to seeing you in London next time.

[6] **Geraint Davies:** The drinks are on David. [*Laughter.*]

[7] **Nick Ramsay:** I again thank members of your committee for coming down and joining us today.

[8] We continue with our inquiry into international connectivity through Welsh ports and airports. I thank our witnesses for joining us today: Jonathan Moor, director of aviation at the Department for Transport, and Richard Bennett, deputy director of maritime commerce and infrastructure at the Department for Transport. We have a large number of questions to get through, so it is probably best that we get into them straight away. As time is short and we have a number of questions, I may well move things along at different points, if I think that we need to make progress. David Rees, would you like to ask the first question?

[9] **David Rees:** Good morning, both. The national policy statement for ports has been published by the Department for Transport and, last year, you published the aviation forecasts. Both looked at the long-term position of capacity for ports and airports. What assessment of long-term demand and future trends in ports and airports have you made, and has that assessment included consideration of the economic situation, particularly with regard to the manufacturing and freight aspects?

[10] **Mr Moor:** Good morning, everybody, and thank you for inviting us here today. I will answer on behalf of aviation first. We published our national forecasts last year. They are macro forecasts based on looking at national demand. We totally accept that there will be differences between the national forecasts and the local forecasts on the basis of competition and regional demand in those areas. They fully take into account all the latest assumptions around economic growth, taxation and all the other factors that affect demand. So, they have been updated—they are updated whenever there is a need to update them. We last updated last year, on the basis of our response to the Committee on Climate Change's report on the 2050 target for aviation emissions.

[11] **Mr Bennett:** Similarly, on the national traffic forecasts for ports, in the national policy statement for ports, there was a series of national forecasts for Great Britain stretching to 2030. They split the forecasts between different sectors, because growth anticipated in, for example, the container sector is different from that in the general bulk sector. They were drawn up in 2005 to 2007. They obviously took account of the economic situation at that time. Clearly, things have changed in the world since they were drawn up. However, we are quite clear that the sort of long-term growth that they envisage is still likely to occur, albeit some years later. They also take account of freight and manufacturing, as you mentioned, because port demand is essentially demand derived from those products. So, yes, we are confident that we have long-term forecasts that will stand the test of time.

[12] **David Rees:** Following on from that, on the ports side of things, you identified a particular tonnage for roll-on roll-off in Wales. Is that split into passenger and freight aspects? Also, two of Wales's ports, namely Fishguard and Holyhead, are clearly the major links to the Republic of Ireland. Therefore, have you undertaken an assessment as to the long-term viability of those types of links and the tonnage that may be going through those ports?

10.15 a.m.

[13] **Mr Bennett:** The projected demand on particular routes or corridors is implicit in that the Great Britain forecasts are made up of a series of routes. We deliberately did not forecast demand on particular routes, because the basis of the policy being market led is not to try to determine where that extra capability and capacity in port infrastructure should be provided. We were seeking to allow and facilitate particular routes to grow for the traffic that emerges. There are big, dynamic changes in the type of traffic required on different routes, so that was why we stuck to the national level for the forecast.

[14] **David Rees:** In your view, what are the implications of these assessments for ports and airports in the UK? Obviously, we are particularly interested in Wales.

[15] **Mr Moor:** In our forecasts, we are predicting quite a considerable increase in passenger demand for the next few years up to 2030. That will vary around the country, depending on regional characteristics and regional demand. As Richard said for the ports, aviation forecasts are demand led, but they are also competition driven. So, we go down to the individual airport level, but we accept that competition will determine the actual demand over those years. It may well be different from the DfT forecasts, which are at the macro-economic level. In terms of where demand has happened recently, we have seen very strong growth up to 2007 in regional airport demand. That has reduced quite considerably since 2007 and there has been a higher proportion of reduction in regional airport demand than national airport demand. However, we would expect, in an economic improvement, that you would again see quite strong demand in regional airports.

[16] **Mr Bennett:** With the port forecasts, there is certainly opportunity there for Wales in the different sectors. The growth in liquid, dry bulk and containers and, on top of that, the new opportunities in renewables, are all there as markets, a share of which could, and ought to, come to Wales.

[17] **David Rees:** I would love to take it a bit further, but I am sure that my colleagues will want to ask some questions first.

[18] Alun Ffred Jones: Bore da. Mae'r Athro Stuart Cole o Brifysgol Morgannwg wedi dweud wrth y pwyllgor hwn bod cyfathrebu rhwng Llywodraeth Cymru a'r DfT yn ddiffygiol. Sut mae'r Adran Drafnidiaeth yn ymgysylltu â Llywodraeth Cymru ar bolisiau sy'n ymwneud â phorthladdoedd a meysydd awywr?	Alun Ffred Jones: Good morning. Professor Stuart Cole from the University of Glamorgan has told this committee that communication between the Welsh Government and the DfT is deficient. How does the Department for Transport engage with the Welsh Government on policies relating to ports and airports?
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[19] **Mr Bennett:** I heard Professor Cole's comments about communications.

[20] **Nick Ramsay:** I would just like to check something. Did everyone hear the translation, because I did not? I see that not everyone heard it. It should be on channel 1. Did you hear the question?

[21] **Mr Bennett:** I did, Chairman. The question was about communications between the Department for Transport and the Welsh Government.

[22] **Nick Ramsay:** Okay. Do you want to continue while we try to sort out why some people did not hear the translation?

[23] **Mr Bennett:** From our point of view, communications have always been excellent between the two administrations. We have to co-operate on a number of levels on both the devolved issues, such as inland transport, and the reserved matters, such as ports policy. Of course, this is about having joined-up cross-border policies and processes, when it comes to such things as port development. So, an applicant, whether he is thinking about developing a port in Wales or in England, can be confident that he will get the same level of joined-up service on marine licensing and harbour consents in either domain. At a working level, relations have always been excellent.

[24] **Mr Moor:** I would like to agree. We have very positive engagement. Today, there is a meeting of the external advisory group for the Department for Transport in London, which I normally chair. I have had to delegate that responsibility today to come down here. Welsh Government officials attend that meeting, and we have regular meetings with all of the devolved administrations and with external stakeholders. In particular, our engagement at the

moment is around the aviation policy framework and the Welsh Government's input into that, but it is also around state aid issues. That is probably the key issue in terms of day-to-day engagement on specific areas.

[25] **Alun Ffred Jones:** Siaradaf yn Gymraeg, gan obeithio bod yr offer cyfieithu'n gweithio. Hoffwn bwyso ychydig arnoch. A oes trefniadau ffurfiol ar waith i hwyluso cyfathrebu, a pha mor aml y mae swyddogion a Gweinidogion y ddwy Lywodraeth yn cyfarfod?

Alun Ffred Jones: I will speak in Welsh, in the hope that the translation equipment is working. I would like to press you a little. Are there formal arrangements in place to facilitate communication, and how often do officials and Ministers of both Governments meet?

[26] **Mr Moor:** I think that I can answer that by referring back to my comment about the external advisory group. We hold that meeting at least three times a year. That is when we have a formal engagement between officials of the Welsh Government and the Department for Transport. In terms of engagement with Ministers, that is a matter for Ministers, and I think that it varies depending on the Minister and the number of requests.

[27] **Mr Bennett:** The position on ports is similar. There is a standing group—the Wales port group—that meets a couple of times a year, and we try to take part in that. Ministerial involvement depends very much on how many current issues there are to discuss.

[28] **Nia Griffith:** Obviously, there is huge potential for development. We know that London is reaching capacity in terms of runway space and that it is madness for everybody to drive into London and pay huge parking fees when we could be using airports elsewhere, including in Cardiff. However, whether this about airports or trying to use some of our ports more, and, again, Southampton and Felixstowe are reaching capacity, this all depends on good transport links to the rest of the UK. In what ways does your department support links to Welsh ports and airports on the English side of the border?

[29] **Mr Moor:** To answer that from an aviation perspective, the Government fully supports the development of regional airports. It acknowledges that the south east is under severe capacity constraints, and that the more regional airport services there are the better in terms of connectivity and economic growth in different regions around the country. However, this is a competitive, demand-led industry. Airlines will only put on services where they can make money. There are a number of issues around the cost of developing new services over time. For example, in the previous route development fund, which was a European Commission-approved subsidy, there were four routes from Cardiff Airport. At the end of that subsidy, only one of those routes continued—the Flybe route to Charles de Gaulle Airport in Paris. It is crucial that, in order to improve connectivity from the regions to international destinations, there is a marketplace there and that there are commercial possibilities.

[30] In terms of connectivity around the country, we recognise that domestic aviation has a role to play where you do not have sufficient fast routes by rail in particular, for example, connections from Cardiff to Edinburgh airport or Glasgow airport, because there the rail connections are not direct. Therefore, in terms of its overall policy, the Government is encouraging rail transport where such connections are available. However, it is not discouraging regional connectivity via airports where there is no alternative.

[31] **Nia Griffith:** You are suggesting that it is very much up to the commercial operators to decide where they go. However, do you feel that there is a case for promoting somewhere such as Cardiff Airport because it is perhaps not thought of by a lot of people on the English side of the border? Would there be some sort of role there, which would not cross over into state aid issues, for saying, 'Look, there is another way: rather than going to Heathrow, you can go to Cardiff'?

[32] **Mr Moor:** There are always opportunities to promote airports. Different factors affect people's choice of airports. I know that Cardiff Airport has put a significant amount of investment into its infrastructure, which is one of the factors in why people choose airports. Good connectivity is also an issue, and my understanding is that it is the Welsh Government that decides on the frequency of the rail connections to Cardiff Airport. As the Government, in DfT, whenever we go out and negotiate with international bodies, we always promote our regional airports as alternative routes to London, primarily because it is difficult to get slots in London. However, again, the commercial reality comes in here; it is quite difficult to get airlines to put on new routes unless they feel that there is a demand that will sustain them in the long term.

[33] **Nia Griffith:** Can you be a little more explicit about the work that you do with the Welsh Government in terms of the promotion of our airports and ports?

[34] **Mr Moor:** This is one of the factors that we are discussing as part of the aviation policy framework. It is about what we can do and what levers we have. There are limited levers, in particular around state aid. One of the challenges that we have put back to the European Commission, which is reviewing its state aid rules, is around the inflexibility of the route development funding, which, since 2005, has been restricted, not just to European airlines and European airports, but to marketing and installation costs, and does not extend to subsidy of operating costs. We feel that that is overly prescriptive in terms of helping to promote regional airports. I understand that representatives of the European Commission will be visiting the UK this spring, and we are proposing that they come to visit Cardiff Airport to understand more about the issues around regional connectivity.

[35] **Jonathan Edwards:** Mae'r **Jonathan Edwards:** The European Comisiwn Ewropeaidd ar hyn o bryd yn Commission is currently consulting on an ymgynghori ar gynllun buddsoddi o tua £50 investment scheme of around £50 billion biliwn mewn rhwydweithiau trafnidiaeth ar transport networks across the European draws y Gymuned Ewropeaidd. Ar hyn o Community. Currently, the only network to bryd, mae'r unig rwydwaith i Iwerddon yn Ireland goes through Liverpool. Why is the mynd drwy Lerpwl. Pam nad yw'r Adran Department for Transport in London not Drafnidiaeth yn Llundain yn dadlau achos making the case for a southern corridor to coridor deheuol i Iwerddon drwy borthladd Ireland through Milford Haven port? Aberdaugleddau?

[36] **Mr Bennett:** The proposal on the trans-European networks, one of which is the transport network, is still a proposal. There is a final draft of the regulation to emerge, and the UK Government has been very active in influencing the development of those guidelines. One of the critical issues, as you implied, is which routes should be on the core, comprehensive network and what the implications of being on that network will be. We are very conscious, when it comes to ports and airports, that particular Welsh nodes, as they are called, have an interest in being part of the network. At this stage we are being open-minded about the benefits and the obligations that being on that network will bring. So, while we will follow developments and influence them to get the best result for Wales and the UK, there is reason at this stage to be a little careful about insisting on how those networks should be defined.

[37] **Nick Ramsay:** Geraint, did you want to come in on this question or the next question?

[38] **Geraint Davies:** The next question, please.

[39] **Nick Ramsay:** Alun Ffred has a brief supplementary question on this.

[40] **Alun Ffred Jones:** Ar yr un trywydd, cafodd yr A55 yn y gogledd, os wyf yn cofio'n iawn, ei hadeiladu yn rhannol gydag arian Ewropeaidd oherwydd y cyswllt Dulyn-Llundain-Brwsel/Baris. Eto, nid yw rheilffordd y gogledd yn cael ei chynnwys fel y rheilffordd sy'n cysylltu Dulyn-Llundain-Paris. Yn wir, y cyswllt yw'r rheilffordd o Abertawe i Lundain. Nid wyf yn siŵr sut mae hynny'n gweithio. A oes rheswm am hynny? Pwy sy'n penderfynu pa un o'r llwybrau hyn sydd yn cael ei ddewis a'i gynnwys o fewn yr hyn yr oeddech yn galw'n rhwydweithiau traws-Ewropeaidd?

Alun Ffred Jones: Along the same lines, the A55 in north Wales, if memory serves me, was built partly with European funding because of the Dublin-London-Brussels/Paris link. However, the north Wales line is not included as the railway that connects Dublin-London-Paris. Indeed, the link is the Swansea to London railway. I am not sure how that works. Is there a reason for that? Who decides which of these routes is selected and included within what you called the trans-European networks?

10.30 a.m.

[41] **Mr Bennett:** The selection of routes for the trans-European networks ultimately is a decision of the European Council and the European Commission. We influence them, particularly for the reason you mention, which is that, if funding programmes rely on whether or not you are on the network, we want the UK to get its share of any funding available. Such funding, though, is always going to be a minority of what is needed to do substantial work on upgrading road and rail routes. So, I think a lot of the focus when it comes to upgrading routes to ports, in particular, should be on Network Rail business planning and the highways agencies of the two countries planning their priorities according to the likely growth of those ports.

[42] **Alun Ffred Jones:** A gaf ofyn unwaith eto, sut mae'r rheilffordd sy'n rhedeg i Abertawe a heb gyswllt uniongyrchol â Dulyn yn cael ei chynnwys fel rhan o'r rhwydwaith, pan nad yw'r rheilffordd sy'n rhedeg yn uniongyrchol i Gaergybi, sydd o fewn 40 milltir i Ddilyn, yn cael ei chynnwys?

Alun Ffred Jones: May I ask once again, how is the railway that runs to Swansea and without a direct link to Dublin included as part of the network, when the railway that runs directly to Holyhead, which is within 40 miles of Dublin, is not included?

[43] **Mr Bennett:** The hard answer is that there are some thresholds set out in determining a network on a Europe-wide basis. They are usually thresholds related to volumes of traffic or freight. Frankly, they produce some slightly arbitrary results at the cut-off point. The really important point, it seems to me, is to ensure that, regardless of whether something is on or off the trans-European network, the priority for funding of the improvement works is the right one for the UK.

[44] **Nick Ramsay:** There is a lot of interest in this question. Eluned, Ken and Julie, can you make one point and ask one question each, please?

[45] **Eluned Parrott:** Certainly, Chair. The Connecting Europe Facility, as I understand it, is a distinct social fund to support those trans-European networks. The route through Cardiff to Dublin is one of the ones outlined. Will the UK Government be working with the Welsh Government on a bid to that fund for electrification projects beyond Cardiff, not only for passenger services to Swansea, but also freight access to the west Wales ports?

[46] **Mr Bennett:** Discussions are continuing at the moment about the business case for electrification beyond Cardiff. A sub-set of that would be how any such electrification was

funded. As I have said earlier, if there are funds, such as the Connecting Europe Facility, that are relevant to funding works, wherever they are, we would encourage applications for those funds to be made.

[47] **Kenneth Skates:** Road connectivity to airports in Manchester and Liverpool from north-east Wales was improved massively in the early part of the twenty-first century. What are you doing to improve road connectivity from the Welsh border to Birmingham, Bristol and Heathrow airports?

[48] **Mr Moor:** That is a question about national connectivity rather than necessarily about international connectivity. I am afraid that I am not briefed sufficiently on the Highways Agency's plans for the M4 and other road networks in the nation. In terms of connectivity in Wales, it is my understanding that connections to Cardiff are the responsibility of the Welsh Government. As I have said before, anything that is done to improve the attractiveness of regional airports is a way of ensuring that that demand comes out to the airport and then airlines put on sufficient flights to meet that demand. We totally accept that it is not carbon efficient for people to drive right past an airport to go to another airport if there is a direct flight from that first airport. I know Bristol Airport suffers from people driving past it on the motorway to go to London and Gatwick. That is not something that the UK Government is encouraging at all. However, there is a problem in that, often, regional airports cannot provide the connectivity to ensure they get that marketplace. For example, Bristol Airport recently had a transatlantic flight, but only one a day, whereas Heathrow can operate 22 flights to JFK a day. Sometimes, business people want the flexibility of knowing that, if they miss a connection, there will be another one later.

[49] **Keith Davies:** Rydych wedi sôn sawl gwaith am y fframwaith hedfan newydd. Mae'r papur cwmpasu yn cyfeirio at ymchwilio i'r amodau ar gyfer sicrhau bod meysydd awyr rhanbarthol yn ffynnu. Beth fydddech yn ei wneud yn ymarferol am hynny? Chi sydd wedi ei ddweud, felly sut y bydddech yn sicrhau eu bod yn ffynnu?

Keith Davies: You have mentioned the new aviation framework several times. The scoping paper refers to exploring the conditions for ensuring that regional airports prosper. What would you do about that in a practical sense? It was you who said it, so how would you ensure that they prosper?

[50] **Mr Moor:** There are a number of different ways in which we could do this. As I said previously, we promote regional airports in our international air service negotiations as an alternative to London airports for connections. I know that Emirates, in particular, has put on a number of new routes to regional airports as part of its policy of trying to encourage hubbing through Dubai. So, we have those conversations with international airlines. As I also mentioned previously, we are going back to the Commission to ask questions and to challenge its decisions on route development funds, and to identify their weaknesses in terms of promoting regional airports. We are also actively encouraging further investment in regional airports in order to make them more attractive for customers. For example, the Commission recently approved a £5 million investment from the Welsh Government in Cardiff Airport. So, those are the ways in which we could do that. However, fundamentally, they are private sector companies. We feel that it is right that competition laws and state subsidy laws exist; there is a danger that, if we encourage inappropriate state subsidy in our own country, other countries will do the same. That would weaken the position of UK airlines and UK airports. So, there are risks to promoting too much and asking for more state subsidies.

[51] **Nick Ramsay:** I want to bring David Davies in at—

[52] **Keith Davies:** May I just come in—

[53] **Nick Ramsay:** No, we have to move on, Keith, I am sorry. There was a brief

supplementary question.

[54] **David T.C. Davies:** To what extent do you feel that there is an almost schizophrenic attitude among politicians of all parties, who seem to recognise the economic development benefits of regional airports and national airports on the one hand, but, on the other hand, want to play to a strong environmental lobby that is totally against anyone getting into an aeroplane under any circumstances?

[55] **Mr Moor:** It is very important to note that the Government wants to encourage the sustainable development of UK aviation, and, therefore, for aviation to recognise its environmental impacts. From 1 January 2012, aviation was included in the European emissions trading scheme. Some would say that that means that aviation is now taking account of its carbon emissions, and dealing with them through the carbon trading approach. However, noise is also quite a significant issue, especially for regional airports and residents living nearby. So, it is very important that we recognise the economic importance of aviation growth, but in a sustainable way, in terms of carbon dioxide and local impacts. The local impacts are primarily around noise and air quality.

[56] **Nick Ramsay:** We have a lot of interest in the next question on rail electrification. I therefore ask each questioner to be as succinct as possible.

[57] **Geraint Davies:** First, Mr Bennett, can you confirm that the only options on the table in terms of electrification to Swansea are electrification to Swansea or a hybrid train that would switch from electric to diesel at Cardiff? In other words, there is no option on the table that would mean people having to get out of the train at Cardiff in order to go on to Swansea.

[58] **Mr Bennett:** I am afraid that I cannot confirm that here and now. My understanding is that a number of options are being looked at, but the question that you raise about the need to change trains is clearly something that will weigh quite strongly in looking at the various business cases.

[59] **Mr Moor:** I think that it is quite important to say that we are from the Department for Transport's international group, so our key focus is on international connectivity. I accept that many of the questions on electrification are for our rail group, but I am afraid that we have not been briefed to answer questions about domestic connectivity.

[60] **Geraint Davies:** All right. In terms of the relationship between ports, airports and electrification, would you accept that a green light for electrification to Swansea would help inward investment for ports and airports, and that, on the other side of the coin, investment in ports and airports would help the case for electrification? On long term and medium term inward investment, there is a strong inter-connected case for the electrification of the railways to Swansea.

[61] **Mr Moor:** From an airport-specific point of view, 90% of Cardiff Airport's passengers are UK residents. The demand comes from people who live in the region travelling overseas and returning to the UK. Only 10% of passengers are foreign. Therefore, on connectivity to London, the demand for Cardiff does not come from that mainline route; it comes from the regional area.

[62] **Geraint Davies:** Sorry, I am not quite with you. What does that say about the benefit of electrification to Swansea and investment in infrastructure for economic development?

[63] **Mr Moor:** I am struggling to see how electrification would make Cardiff Airport a more attractive international destination for passengers to fly to or from.

[64] **Nick Ramsay:** Geraint, I want to bring Byron Davies in at this point. You will have a chance to come back if you want. Then we will have Julie James.

[65] **Byron Davies:** You have already said that your knowledge is restricted, but what interaction have you had with the Welsh Government on electrification? Has the Welsh Government made a business case on electrification?

[66] **Mr Moor:** I am afraid that I will have to go back to my previous point: I am the director of aviation and I have to answer questions from an aviation perspective. I do not see a correlation between electrification of the railways and our aviation policy. If somebody can come up with a question that identifies a direct link between those two, I will try to answer it. However, these questions, about the economic and business cases for electrification, are largely aimed at our rail group.

[67] **Mr Bennett:** I can add something on ports, if it helps the committee. The issue of freight going by rail often arises when it comes to developments at ports. It is typically important when you are building a container terminal or increasing unitised traffic that has to travel considerable distances inland from the port. Typically, many potential developments in Welsh ports do not immediately require those sorts of developments. Milford Haven is an exceptionally successful port in its sector, and virtually all the liquid traffic leaves by pipeline. Its developments in the energy sphere, with biomass and so on, do not require significant rail developments. Without wanting to underplay the long-term significance of the electrification of more and more of the railway, we do not see that it inhibits the potential growth that is already there and is being planned in Welsh ports.

[68] **Nick Ramsay:** Julie James is next.

[69] **Geraint Davies:** Sorry, what about steel and Port Talbot?

[70] **Julie James:** Geraint has just asked the question that I was about to ask. I will reframe it.

[71] **Nick Ramsay:** Yes, see if you can ask a question that gets to the issue.

[72] **Julie James:** What is your view of the development of Port Talbot as a deep-water port, in light of Tata Steel's firm commitment to wanting electrification for its freight? In light of its development plans and the current economic climate that it faces, that is a major issue for Swansea bay, overall.

[73] **Mr Bennett:** That is a good example of having to look at the economic case in hard terms. There is growth in steel. The case for Port Talbot would be how long it would exist, the extent to which works would be needed to improve rail, and gauge enhancement. The cost of providing those would need to be looked at in hard terms. Deep-water access presents other opportunities; Associated British Ports is looking at other more diverse uses, including things like cruise, at the south-west Wales cluster of ports. It is important that we allow port operators to come up with innovative and creative ways of promoting growth. We can then look at what is needed by way of road and rail connections to complement that.

10.45 a.m.

[74] **Julie James:** Have you had any specific conversations with Associated British Ports about the deep-water port at Port Talbot and the Tata Steel requirements?

[75] **Mr Bennett:** We frequently talk to ABP about strategy and its overall plans. As Jonathan said, we are not the colleagues who talk to it about rail connections.

[76] **Nick Ramsay:** You have made that point quite clearly. We need to make some progress, so we will move on to Jonathan's question.

[77] **Jonathan Edwards:** Mae gan y Llywodraeth Brydeinig weledigaeth o ailgydbwysu'r economi ar draws y wladwriaeth Brydeinig yn ddaearyddol. Felly, pa dargedau sydd gennych fel adran er mwyn gwireddu'r weledigaeth honno, yn enwedig o safbwynt meysydd awyr a phorthladdoedd?

Jonathan Edwards: The UK Government has a vision of geographically rebalancing the economy across the British state. So, what targets have you been set as a department to achieve that vision, particularly in relation to airports and ports?

[78] **Mr Moor:** From the perspective of airports, we have not been set specific targets, largely because airports and the airline industry is a commercial sector, so the Government has very few levers to dictate its policy. Our policy is to support regional airports. The London and south-east airports are largely full to capacity. People forget that London and the south-east is a very large region, which means that it has quite a significant regional demand. However, we would do anything in our power to help promote regional airports. Returning to my earlier points, we do that on an international basis, in negotiating with the Commission in relation to state aid, and in speaking with our colleagues in the Foreign and Commonwealth Office and in other bits of Government on promoting the regions of England and the importance of connectivity to those regions, preferably via direct routes. In addition, interestingly, at Cardiff Airport, the most used route is to Schiphol, and transferring at that airport allows international connectivity to pretty much the whole world. Fundamentally, we have very few levers in terms of directing the commercial industry to move in that direction.

[79] **Mr Bennett:** In the ports sector, as we have said, we do not direct where investment should go. However, we hope that all of our interventions, whether that is in relation to policy framework, legislation or regulation, are directed at creating a benign environment for inward investment. When we talk to international investors in port infrastructure, for example, we see that they value the certainty that all of the regions of the UK bring. They know what they are getting when they come here, which, in the long term, should allow the sort of growth that we have been talking about to be shared between the regions.

[80] **Nick Ramsay:** Welsh ports are largely on a different scale to English ports. How do you respond to the suggestion that there has been too much of a focus on some of the larger English port operations over recent times?

[81] **Mr Bennett:** We do not accept that, because international shipping will go where it needs to go. The container traffic on the direct routes, which brings 95% of the trade that we all rely on, typically comes in on the main long-haul routes from Asia to northern Europe, and has one or, at most, two direct calls. The geographical reality—the location of the shipping lanes and the distribution markets—tends to dictate that they want the deep-water ports in the greater south-east of the UK, which, of course, means the greater south-east of England. That is not to say that there are no other opportunities in all of the diverse port sectors for the rest of the country. It is important not just to have this focus on container traffic, but to realise that all of the other sectors include plenty of regional and niche markets for Welsh ports.

[82] **Nick Ramsay:** Stuart Andrew has the next question.

[83] **Stuart Andrew:** You have asked my question, Chair.

[84] **Nick Ramsay:** I do apologise. *[Laughter.]*

[85] **Eluned Parrott:** To follow up on that point, you talk about freight wanting to move towards the south-east of England, but do you not agree that there is a role for your department in devising a strategic drive to move freight around to other parts of the UK, particularly if the freight ports in the south-east of England are nearing their capacity?

[86] **Mr Bennett:** We accept that there must be policies in place that allow that very significant growth in trade we are looking at in the forecasts to be efficiently delivered, whether that means coming through seaports, getting to a distribution centre or getting to an end customer. That does not mean that you necessarily need to forecast which route it has to come on. Provided you do allow there to be no obstacles from people delivering port-centric logistics for example. I am sorry about the jargon, but I think that people understand that that means having—

[87] **Nick Ramsay:** Port-centric logistics.

[88] **Mr Bennett:** Yes, port-centric logistics—having distribution centres located in the same place as the port. We have seen very successful examples of that in places you might not have expected, such as the Tees. There is no reason why, in the long term, there could not be development—either because of a change in the type of shipping or a change in the nature of logistic distribution—of significant major ports in Wales. However, we are not going to direct that rather than some other type of development.

[89] **Nick Ramsay:** That is a new term for our inquiry, I think.

[90] **David T.C. Davies:** Mr Bennett, if you are going to make any recommendations on how more shipping could be encouraged into Welsh ports, will you be looking at the effect of the Welsh Assembly Government's decision to impose rates on businesses in Welsh ports and to backdate them, something that has not happened in England and which is clearly putting them at a huge disadvantage? Will you be looking at whether a decision such as that is likely to encourage or actively discourage companies that might wish to move freight into Wales?

[91] **Mr Bennett:** The decision to backdate business rates has had a great deal of attention recently. Clearly, it has had a significant impact on some ports. We saw reports of businesses on some port estates being in danger of going under altogether. As you say, Mr Davies, a different approach was taken in Wales. It was decided not to waive the backdating of those rates, but that was done in England. A great deal of it comes down to perception. I am sure that the Welsh Government will reflect, when it takes decisions—whether on rating, taxation or economic development—on the perception of Wales as a welcome place for investors being an important factor to bear in mind.

[92] **David T.C. Davies:** 'Welcome to Wales. Here is a great big bill for rates that we won't be applying in England'.

[93] **Nick Ramsay:** You do not have to respond to that.

[94] **Leanne Wood:** You have pretty much accepted that Wales loses out, partly because of this business rate issue, which was just mentioned, but also because the market dictates what happens. We heard from a witness last week that UK ports policy was described as a perfectly good English policy. Is Wales losing out because ports policy is not devolved?

[95] **Mr Bennett:** I have to say that I do not accept that Wales is losing out. You have some exceptionally successful ports. You play to your strengths; they play to their strengths. Consider all the different traffic in steel, coal and bulk. I have already referred to Milford Haven as a world-class energy port. It is not just an energy port, because it also has ferry traffic and cruise traffic. There is a danger of talking us down. Simply because you do not

have the lion's share of container traffic does not mean that you do not have a very diverse and potentially growing ports sector. The other area where there are large opportunities in the longer term is in renewable energy and the servicing, maintenance and assembly of offshore wind projects. There is no reason why Welsh ports should not get a large share of that business.

[96] **Leanne Wood:** Do you think that there is justification for a distinctive Welsh ports policy or do you think that things are fine as they are?

[97] **Mr Bennett:** In the Government's response to the Welsh Affairs Committee's last report into this, we said that we did not accept that a distinctive Welsh ports policy was necessary, if only because the unified policy has a lot of strength when it comes to inward investment or understanding regulations and that, as long as Welsh ports themselves have the freedom to look at the opportunities that they need to, we do not believe that having a unified policy is a bad thing at all.

[98] **Leanne Wood:** Do you think that the devolution of ports policy in Scotland has led to a distortion of the ports market?

[99] **Mr Bennett:** Making judgments on distortion of competition is notoriously difficult. They do have a slightly different approach in Scotland and they do have devolution over port development matters. When you consider the sort of developments that have happened there, they have not in general been in direct competition with either English or Welsh ports. So, there has not been distortion as a result of devolved powers in Scotland.

[100] **Leanne Wood:** I have one last question.

[101] **Nick Ramsay:** Briefly, if you can, Leanne.

[102] **Leanne Wood:** Okay. In the UK Government's response to the Welsh Affairs Committee's report in 2009, there was a reference to the scope for strategic collaboration. Can you tell us what you understand by that?

[103] **Mr Bennett:** I think that was a reference to strategic co-operation between the UK Government and the Welsh Government. What I take that to mean is co-operation not only on ports policy and regulation matters, but on all the things that support that, including transport planning, economic development matters, and land use planning. As far as I can see, that sort of co-operation does happen in practice.

[104] **Geraint Davies:** Mr Bennett, you have suggested that the port strategy should be driven by a laissez faire, market-driven approach. I put it to you, in the case of Swansea, if there were further investment in the port infrastructure, both at Swansea and Port Talbot, to maximise future opportunities not only from Tata Steel, but from containers and the cruise market, that that would bring about a market response. The market is not going to build a port, is it? It responds to that infrastructure and, surely, you should be more proactive in supporting such ports in Wales.

[105] **Mr Bennett:** As I have said, I believe that we are supportive of Welsh ports and I hope that, when they come to give evidence, including Associated British Ports, that they would say how they see Government as allowing them to take the investment decisions that they need.

[106] **Geraint Davies:** But what is the capital investment strategy for the enhancement and development of the ports in Port Talbot and Swansea for future freight for Tata Steel and tourism, or is there not one?

[107] **Mr Bennett:** The three ports that you mention are part of a port grouping, all operated by ABP. It has a strategy for prioritising its investment between those sectors.

[108] **Geraint Davies:** So, how much is going to be spent in those areas in the next five years?

[109] **Mr Bennett:** I imagine that the port would be willing to share that with the committee, but the point is that this is private investment. Our ports across the UK are exceptionally successful in managing to fund the needed investment without public subsidy, but one feature of that is that they have to have some freedom to decide the timing and the amount of investment themselves.

[110] **Julie James:** I have a quick follow-up question on that. We have had some evidence in the committee that cruise ships need long jetties and so on, and that they bring great economic benefit to an area because of incoming tourists and their spend, but that they bring very little benefit to the port itself, which gets very little out of it. So, they are unlikely to invest in putting the jetties in. What is the strategy for overcoming that? I cannot see why ABP would spend an enormous amount of money on a jetty that would benefit the region but would be of very little benefit to the company. How do we get over that conundrum?

11.00 a.m.

[111] **Mr Bennett:** The cruise sector is interesting and is probably quite different from all of the other things that we have discussed so far. There are opportunities in respect of port-of-call cruises—cruises that stop off at places for a day or less—and in the more lucrative market for what is called turnaround cruises, where people embark on longer cruises. The latter tend to need significant luggage-handling and passenger-handling facilities. Of course, that is indeed a big investment. The very fact that this has happened in half a dozen locations around the UK already suggests that if there is enough growth in interest in significant coastal cruising in Wales, there is no reason why further investment in jetties and so on could not be made.

[112] **Julie James:** Would this investment be made by the port itself?

[113] **Mr Bennett:** This comes down to a partnership between the port, the cruise operators, the shipping lines—

[114] **Nick Ramsay:** That is fine. I think that you have answered that point well enough.

[115] **David Rees:** We have been talking about the capacity of ports, and I wish to follow on from the points that you have made. I have a straightforward, simple question: do you believe that there is overcapacity in Welsh ports at the moment?

[116] **Mr Bennett:** We do not think of overcapacity as a problem. In some ways, having some overcapacity is exactly what you should be aiming to do with ports, because demand is seasonal and different types of traffic do not always have peaks and troughs at the same time. So, an optimal position is to have that bit of overcapacity that allows you to respond to changing demand. Against the general background with which we started, namely of long-term growth in several sectors, we do not recognise overcapacity as an issue.

[117] **David Rees:** In that case, how do you believe that these ports should be exploited in Wales, particularly on the short sea shipping side of things?

[118] **Mr Bennett:** There are a number of opportunities here. The renewable energy sector

is an interesting one because there is so much to be done in the medium term, in terms of getting offshore windfarms up and running. That is an ideal use of spare capacity, which can later be redeployed for other port uses. So, that is one area. Short sea shipping, or coastal shipping, is another great area for taking up spare capacity. It might not be your core business, but if you can use feeder services to supplement your capacity, that is always a good thing to do. Again, there are issues relating to the economics, and I am sure that the ports would tell you that there are a number of difficulties in operating successful short sea shipping services. However, these are two areas where I am sure more use could be made of Welsh ports.

[119] **David Rees:** Regarding capacity, what is the UK Government doing to promote Welsh ports in comparison with other ports? Clearly, there is overcapacity here. Why is that the case and why is it not being used?

[120] **Mr Bennett:** This has to come down to economics. The majority of private company ports are perfectly capable of marketing their advantages. There are geographical issues, which I have touched on already, regarding whether a shipping line would want to take the extra steaming time on a long journey—perhaps an extra day—to call at a Welsh port or a port in south-west England rather than calling at a port in the south-east of England. However, there is nothing inherent in Welsh ports that stops them from going out and competing for that extra traffic.

[121] **Nick Ramsay:** Your pronunciation of short sea shipping was flawless. I will now bring in Karen Lumley.

[122] **Karen Lumley:** We can give Mr Bennett a bit of a rest now. Mr Moor, in respect of the coalition Government's priorities in the Department for Transport, there is a lot of talk about sustainable aviation. Could you explain that term to us?

[123] **Mr Moor:** It is very important to say that the Government encourages the growth of aviation, but only in a sustainable way. The two key issues that I have identified already are, first, carbon dioxide emissions and other greenhouse gas emissions—the Government has put in place the European emissions trading scheme, which it feels tackles that—and, secondly, noise. Cardiff Airport, because of its position, which allows for flight arrivals and departures over the sea and agricultural land, has an advantage in terms of noise. It receives considerably fewer complaints about noise than some of the south-east airports. That is what we mean by 'sustainable'. We do not mean growth just for the sake of growth, but within a sustainable environment, taking account of local environmental factors and global environmental factors, such as climate change.

[124] **Karen Lumley:** You also talk about improving passenger experiences. How does Government do that?

[125] **Mr Moor:** We encourage airports to improve the experience of passengers. There are certain things that the Government can do, in that the UK Border Agency is responsible for part of the passenger experience at UK airports. However, the vast majority of passenger experience is the responsibility of the airlines and airports. We are encouraging greater transparency. The Civil Aviation Authority is looking at more transparency to provide that information to passengers so that they can make an informed choice. In an airport environment, it is quite difficult to understand exactly who is responsible for each part of the journey. To use baggage as an example, the airports are responsible for the baggage infrastructure, but it is the airlines and their handling agents that are responsible for delivering the bag. Passengers often get frustrated if their bag does not arrive in time, and we are trying to achieve greater transparency by identifying whether it is the airline or the airport at fault for the delay. Primarily, it is a transparency agenda, but, as my colleague Richard has been saying with regard to ports, this is a competitive marketplace and we want to achieve a level

playing field to allow private sector businesses to compete.

[126] **Eluned Parrott:** It is my understanding that you are currently developing a new aviation framework. What has the role of the Welsh Government been in that development to date?

[127] **Mr Moor:** As I said before, we speak regularly with officials in the Welsh Government. They are part of the engagement process. With regard to how we are developing the aviation policy framework, we went out to public consultation last year with a call for evidence. We received a number of different responses from around the country, from private sector individuals, airports and airlines. We then developed our policy in consultation with officials from the Welsh Government. Ultimately, hopefully at some point in the next few weeks, we will be going out to wider consultation across Cabinet. Then, the policy framework will be published and will go out to consultation across the whole country. That is our process. We will set the framework this time next year.

[128] **Eluned Parrott:** Can you define what you mean by 'regularly' with regard to these informal contacts? Does that mean that, every 10 years without fail, you are in touch? Is it daily? Is it somewhere in between? Can you define it?

[129] **Mr Moor:** As I explained earlier, we have a formal meeting three times a year with the external advisory group. Welsh Government officials will always attend that. So, three times a year, we have formal engagement. However, my colleagues regularly speak to Welsh Government officials, although that is usually on specific issues such as state aid, an airport master plan or something specifically related to Welsh airports.

[130] **Eluned Parrott:** Do you see the Welsh Government as a consultee in this process, or is it a more fundamental partner in this development?

[131] **Mr Moor:** It is a Cabinet decision to agree the consultation document. That will go out for consultation and then all the different parties will be part of the consultation.

[132] **Eluned Parrott:** So it is a consultee.

[133] **Mr Moor:** The Welsh Government would be a consultee, yes.

[134] **Eluned Parrott:** Finally, in 2003, 'The Future of Air Transport' White Paper considered specific issues in relation to Wales, which it identified in conjunction with the Welsh Government. Will this new framework be adopting a similar approach?

[135] **Mr Moor:** The new framework is taking a high-level approach to the aviation policy framework. The air transport White Paper went into a great deal of detail about individual airports. That is not the intention with the aviation policy framework. It is to set the high-level strategic position on economic growth, climate change and local environmental factors and then to allow local planning to determine issues around local airports. For example, Cardiff Airport has a master plan, which is agreed in discussion between the airport operator and the local authorities. It is through the master plan that the airport might make applications for state aid, which will then be taken forward and considered by the Commission.

[136] **Nick Ramsay:** At this point, I want to bring in Stuart Andrew.

[137] **Stuart Andrew:** While there may be capacity at regional airports, many of them are poorly served when it comes to surface access. What are the plans to improve that? Surely, they will need significant investment if they are to increase capacity.

[138] **Mr Moor:** Surface access is an important consideration in two respects: the accessibility of the airport and the environmental impact. The Government promotes carbon efficient surface access, and therefore promotes public transport. For Cardiff Airport, around 73% of passengers arrive by car, with the rest arriving by public transport, particularly buses. These are all devolved matters; surface access—bus routes and rail connections—are matters for the Welsh Government. In the overarching policy framework, we will say that it is important to have good surface access connections to airports and it is also important to encourage those to be environmentally friendly.

[139] **Nia Griffith:** You will not be surprised to hear me say that west is best. We have a real problem in this country in that we in the west look eastwards—we look to Cardiff, and people in Cardiff look to London—but trying to get people to look westwards is very difficult. I take all the points that you have made that any improvements to rail and road access in the immediate vicinity of Cardiff are devolved issues for the Welsh Government, but can we do more to change the mentality so that people in the Cotswolds and so forth think of using Cardiff Airport, rather than Heathrow?

[140] **Mr Moor:** It is very much a matter for Cardiff Airport, in its marketing strategy, to encourage people to do that. One thing that I did not mention earlier was that, in our air service agreements, we help regional airports over and above some south-east airports. So, for example, there is something called fifth-freedom rights, which allow a foreign airline to land in the UK and then take off again and go to a third country. An example of that is that Pakistan International Airlines flies into Manchester and then flies on from Manchester to America. Those fifth-freedom rights are available to regional airports, but they are not available to London Heathrow, Gatwick or Stansted at the moment. So, there are examples of things that we do to try to encourage airlines to fly out of regional airports. However, in terms of attracting marketplace, it is probably worth comparing Cardiff Airport with Bristol Airport. They are both of a similar size, but Bristol has around 6 million passengers per year, whereas Cardiff has around 1.2 million passengers per year. Their catchment areas are very similar, but there are differences that explain why they are attracting different airlines and different routes. That is something that, perhaps, you should ask the airport operator when you see it next week.

[141] **Nia Griffith:** That is a very good point, particularly as Bristol Airport is so inaccessible. Surely, we can do better than that.

[142] **Geraint Davies:** Businesspeople in Swansea tell me that, when they want to fly abroad, they have to go all the way to Heathrow, and their clients have to fly to Heathrow before going on to Swansea. Is there an opportunity to get hopper linkage between, for instance, either Cardiff Airport or, indeed, Swansea Airport and London City Airport, so that people can arrive at Heathrow and come across from one small airport to another?

[143] **Mr Moor:** This is all about the commercial availability of slots. The Government encourages the use of rail where there is a rail alternative, and there is a good rail alternative connecting Cardiff to London. Therefore, the Government would not be encouraging regional air routes to do that. Regional air routes tend to be available where rail journeys take more than three hours and, therefore, is a commercial marketplace—

[144] **Geraint Davies:** Like Swansea Airport, then. It takes four hours to get to Swansea by rail from London.

[145] **Mr Moor:** You have to bear in mind that some of the slots in London are very expensive. At Heathrow, it costs £20 million to buy a slot, which makes it commercially unviable.

[146] **Geraint Davies:** I was thinking about Biggin Hill. Obviously, we would not get a slot in Heathrow. You could arrive at Heathrow, get a fast train to whichever airport—London City Airport or Biggin Hill—jump in a plane and arrive in Swansea in half the time.

[147] **Mr Moor:** There is nothing to stop those connections from being put in place if there is a commercial marketplace. However, I would say, and I have said this previously, that the biggest destination served by Cardiff is Schiphol. That provides a direct route to pretty much all international connections for businesspeople in Wales. That is something that promotes regional growth and connectivity. Given the proximity of Cardiff to Heathrow, there will not be air routes between those two airports, but there are air routes to Schiphol and Charles de Gaulle. So, connectivity is available.

11.15 a.m.

[148] **Geraint Davies:** There are no plans for Swansea Airport, then.

[149] **Mr Moor:** That would be a matter for Swansea Airport.

[150] **Nick Ramsay:** I want to bring Nia back in briefly, before Leanne.

[151] **Nia Griffith:** Directly on that, I am not sure whether this comes into your fields, but can you tell us about the choice of routes and so forth with High Speed Two, and our interconnectivity with Heathrow in terms of rail links? Will there be any advantages for us in any of the plans that are being thought through?

[152] **Mr Moor:** Two proposals are under consideration. The first is around the connectivity of High Speed Two to Heathrow, and no decisions have been taken on that; that is for the second phase of High Speed Two. However, there is another proposal, which is being put forward by BAA, on connecting the main line to Heathrow, which would allow direct connections from the west into Heathrow. That is a matter for Heathrow to discuss with our rail colleagues in terms of the business case and of its relative affordability, but I know that that discussion is ongoing at the moment.

[153] **Nick Ramsay:** Leanne Wood has been very patient.

[154] **Leanne Wood:** I just wanted to raise a point of clarification for the record. Both of you have used the words ‘national’ and ‘regional’ throughout this morning’s meeting. Can you tell us what you mean by them? You have talked about national airports; are they just London airports? I assumed that you would include Manchester and Birmingham in the national airports, but you talked about Manchester as being a regional airport, so I am confused. Can you clarify for the record what you mean by ‘national’ and ‘regional’?

[155] **Mr Moor:** Certainly. There is a lot of confusion about words. All airports are regional airports; at the end of the day, they all serve regions. We try to draw a distinction between the UK’s hub airport and our point-to-point airports.

[156] **Leanne Wood:** So, the hub is in London.

[157] **Mr Moor:** The only hub airport in the UK is, essentially, London Heathrow. All other airports are regional airports. As I said before, the south-east region is a large region, so it has some very large regional airports.

[158] **Guto Bebb:** Rwyf eisiau troi at **Guto Bebb:** I want to turn to a question on gwestiwn cymorth gwladwriaethol. state aid. I read your paper with some Darllenais eich papur â chryn diddordeb. interest. You say in your paper that the

Rydych yn datgan ynddo bod Llywodraeth Prydain yn gyfrifol am bolisi ynghylch gweithredu cymorth gwladwriaethol o fewn Prydain, ond rydym hefyd wedi darllen sylwadau gan yr Athro Stuart Cole sy'n awgrymu bod buddsoddiad mewn porthladdoedd mewn rhannau eraill o Ewrop wedi bod yn fwy hyblyg o ran defnyddio arian cyhoeddus. Felly, fy nghwestiwn yw: a ydych yn datgan bod rheolau cymorth gwladwriaethol yn golygu nad oes modd buddsoddi arian cyhoeddus mewn porthladdoedd, ynteu a ydych yn dweud bod diffiniad Llywodraeth Prydain o sut mae cymorth gwladwriaethol yn cael ei weithredu yn golygu na fydd arian cyhoeddus yn cael ei fuddsoddi mewn porthladdoedd?

British Government is responsible for policy on state aid implementation within Britain, but we have also read comments from Professor Stuart Cole that suggest that investment in ports in other parts of Europe has been more flexible in the use of public funds. Therefore, my question is: are you saying that state aid rules mean that it is not possible to invest public money in ports, or are you saying that the British Government's definition of how state aid is operated means that there will be no investment of public money in ports?

[159] **Mr Moor:** If I may, I will answer from an airports perspective first. There are three different routes to state aid for airports and airline services. The first is in direct infrastructure, and Cardiff Airport has been successful in that, as the Welsh Government has put in £5 million. All state aid has to be approved by the European Commission, so although it comes to the Department for Transport for scrutiny, the decision making is at the European Commission level. The second area of state aid is around route development funds, to which I have previously referred. They were more relaxed before 2005, but have now been tightened up and are, therefore, less available—I know that Cardiff Airport, at the moment, has no route development funds, but pre-2005, it had four. The third level of state aid is around public service obligations, and Cardiff Airport has one of those, which is for a route between Cardiff and Anglesey, which is operated on a twice-daily basis with a subsidy from the Welsh Government of, I think, about £800,000 per year. Those are the three types of state aid that are available to airports. They all have to be scrutinised by the Department for Transport, but they are all decided by the European Commission.

[160] **Mr Bennett:** The ports sector is slightly different. Again, a number of state aid schemes come into play, depending on your development. Some of the new offshore renewables, for example, are being looked at under employment-type criteria for a state aid scheme. I think that the ones that Professor Cole would have been referring to were more to do with port infrastructure. So, if you are doing a major dredge towards your port, can you claim public subsidy for that? There are a number of rules, largely based on case law, on whether something is built for multiple users and whether it has access on different terms. Part of the difficulty here, frankly, is that it is such a grey area. The lawyers will look at different cases that have been judged on different European ports and find that they point in different directions. Where there is a sensible case to be made and there is some European funding scheme that has overall state aid clearance, we would, of course, encourage ports to apply for it as part of their funding.

[161] **Guto Bebb:** A ydych o'r farn bod Llywodraeth Prydain yn euog unwaith yn rhagor o ddiffinio rheolau Ewropeaidd yn gaeth o gymharu â gwledydd eraill yng nghyd-destun porthladdoedd?

Guto Bebb: In your opinion, has the British Government once again been guilty of defining European rules too narrowly compared to other countries in the context of ports?

[162] **Mr Bennett:** No, I would not accept that. One thing that we are conscious of is that other states probably do get away with a lot more, if you like, and it would be very interesting in the forthcoming European Commission review of state aid in the ports sector to see

whether we can encourage more transparency so that, for example, if German or Dutch ports are subsidising things in a way that disadvantages the UK, it can be exposed.

[163] **Guto Bebb:** Mae'ch papur yn cydnabod pwysigrwydd pyrrh rhyngwladol, ac mae cwestiwn yn codi ynghylch y ffaith bod gennym y posibilrwydd hwnnw yma yng Nghymru. Beth yw goblygiadau pyrrh rhyngwladol i fuddsoddiad cyhoeddus mewn porthladdoedd? Os yw llwybr drwy Gymru'n cael ei ddiffinio'n borth rhyngwladol, a yw hynny'n agor y drws i fuddsoddiad cyhoeddus mewn porthladdoedd?

Guto Bebb: Your paper recognises the importance of international gateways, and a question arises about the fact that we have that possibility here in Wales. What are the implications of international gateways for public investment in ports? If a route through Wales is defined as an international gateway, does that open the door to public investment in ports?

[164] **Mr Bennett:** Our earlier discussion of the trans-European networks illustrated that it is not a yes/no answer which means you get funding if you are on the map and you do not get funding if you are not. I hope that we can take intelligent decisions about priorities, whether in European funding, UK funding or Welsh Government funding, that reflect the relative priorities and needs of all our ports.

[165] **Guto Bebb:** Yn olaf, fy nealltwriaeth i yw bod y Comisiwn yn edrych unwaith eto ar gwestiwn cymorth gwladwriaethol yng nghyd-destun buddsoddiad morwrol ac ati. Beth yw safbwynt Llywodraeth y DU ar yr ymgynghoriad hwn ar gymorth gwladwriaethol?

Guto Bebb: Finally, my understanding is that the Commission is going to look again at the question of state aid in the context of maritime investment and so on. What is the position of the UK Government on this consultation on state aid?

[166] **Mr Bennett:** The consultation that the European Commission recently opened on the maritime sector, despite the title, is largely about the support that goes to shipping. For example, there is the tonnage tax, which Members will know has been quite successful in this country in encouraging shipping to come to the UK register. Much of our response to the consultation will be in the context of ensuring that any advantages that we have under the present system are not put in danger.

[167] **Geraint Davies:** Briefly, you mentioned the importance of a level playing field. You also mentioned the fact that private operators need to factor in the cost of the extra day of steaming when deciding whether to land on the south coast of England or on the south Wales coast. Given that that is a comparative disadvantage, is there a case for state aid, be it UK or European, to intervene there to level the playing field so that more opportunities and more volume of opportunities are accessible in south Wales? I am thinking particularly of Swansea, as always, but also of all of south Wales.

[168] **Mr Bennett:** I am sure that there will be examples where if you look at the total cost—including the environmental cost—of getting goods from A to B, then getting the traffic off-road will be very important for the environmental gain that that brings. You can envisage that swinging the choice to go to port A rather than port B. There are schemes where we have supported capital investment or some revenue support that recognise those externalities, as they are called, in getting the environmental benefits. I would not want to leave the impression that this is completely laissez-faire, and that, if there are good investment reasons, including environmental benefits, for putting money into Welsh ports, that will not be allowed.

[169] **Geraint Davies:** I was just making the point that the UK Government has said that it wants a more balanced regional economy. Surely, if there is an economic reason to go to the

south coast of England and not to south Wales, as you have defined—the extra steaming day—then the UK Government or Europe should intervene and provide that economic balance to encourage more investment and jobs in south Wales, where they are needed more than in the south of England. Do you not agree?

[170] **Mr Bennett:** You have to look at how sustainable that traffic is over time. If it really is, then it is often more a question of marketing and selling the proposition rather than long-term support to require traffic to go somewhere that it would not otherwise go.

[171] **Nick Ramsay:** I think that you have answered that point. Julie, did you have a supplementary question?

[172] **Julie James:** One of the things that Europe is looking at at the same time as it is reviewing the state aid rules are the rules regarding procurement and convergence funding and how the three regimes have merged together. I just wondered whether you were taking into account in your response on the state aid rules for maritime investment the fact that most of the Welsh ports are in the convergence area and so would qualify for additional help under EU rules on that basis. I just wanted to be assured that you were factoring that into your conversation on state aid.

[173] **Mr Bennett:** We are aware that there are these three consultations that have a degree of overlap, and that is certainly something that we will bear in mind in giving our response.

[174] **Eluned Parrott:** I understand that the European Commission is currently reviewing the 2005 aviation state aid guidance, and also that the UK has highlighted that the current guidance on start-up aid does not provide sufficient scope to support the establishment of routes from peripheral and development areas of the EU. What changes will you be proposing?

[175] **Mr Moor:** The fact is that redevelopment funding before 2005 did allow for subsidy for operating costs. The airlines tell us that it takes up to three years to develop a commercial route, and so it is not just a case of saying, ‘We want some money upfront for marketing to promote the route, and also perhaps to pay for some infrastructure costs such as putting desks in at the airport, and so on’. What they are looking for is some operational subsidy to keep them going for three years to see whether the route is commercial. Of the four routes at Cardiff that were available before the 2005 guidance came out, one of those was commercially viable, and it has been maintained since the subsidies ended—that is the FlyBe route to Paris. Our view is that the pre-2005 subsidy rules allowed for a better interpretation in terms of allowing for periphery and regional airport growth, and that is what our preference would be: to go back to the previous rules. We think that they were fair, and an effective way of encouraging the growth of the regional airports.

[176] **Eluned Parrott:** However, you did say that it can take three years to establish a route, so surely what we are looking for is short-term, seed-corn funding to establish a route, rather than the long-term funding that these commercially non-viable flights presumably could not have survived without?

[177] **Mr Moor:** I totally agree, and the regional development funding only lasts for three years, so, at the end of an RDF period, the airline will know whether it is a commercially viable route or not. The rules allow for the RDF to be for three years, and then for no subsidy thereafter.

[178] **Eluned Parrott:** Okay. Well the rules are what they are at the moment. What practical steps could the Welsh Government take at present to invest in and boost aviation leaving Wales without breaching those state aid rules? Are there specific things that it ought

to be doing?

[179] **Mr Moor:** As I said before, the investment money that is going into improving Cardiff Airport is a positive in terms of improving the passenger experience and making Cardiff Airport more attractive for people to use. That is something that the European Commission has allowed in terms of state aid rules. The Welsh Government could think about the connectivity to Cardiff Airport as well, in terms of the rail routes.

[180] **Eluned Parrott:** So, for example, improvements in the western part of Wales might be part of that.

[181] **Mr Moor:** It is a matter for the Welsh Government to decide on the rail access to Cardiff Airport. It is a devolved matter, not a DfT matter.

11.30 a.m.

[182] **Eluned Parrott:** Yes, but rail infrastructure is a reserved matter, is it not?

[183] **Mr Moor:** On the national routes. Rail is not my expertise, so I might be wrong here, but my understanding is that the connection to the airport is the Welsh Government's responsibility.

[184] **Nick Ramsay:** Rail does not have to be your expertise for the purpose of this inquiry. That was the final question. I thank Jonathan Moor and Richard Bennett for coming to give evidence today on our inquiry into international connectivity. It was a very helpful session, and we will feed all of your comments into our inquiry. Thank you for being with us today.

[185] Before we go into private session, David Davies, as Chair of the Welsh Affairs Committee, would you like to make any closing remarks?

[186] **David T.C. Davies:** Only to say that it is good night from me and good night from him. That will do for now. [*Laughter.*]

11.31 a.m.

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o Weddill y Cyfarfod

Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting for the Remainder of the Meeting

[187] **Nick Ramsay:** I ask a Member to move the appropriate motion.

[188] **Eluned Parrott:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[189] **Nick Ramsay:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.31 a.m.
The public part of the meeting ended at 11.31 a.m.*

