

Welsh Affairs Committee

Oral evidence: [One-off session on a Welsh freeport and progress in establishing inland post-Brexit facilities](#), HC 480

Thursday 8 July 2021

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Members present: Stephen Crabb (Chair); Simon Baynes; Virginia Crosbie; Geraint Davies; Ben Lake; Dr Jamie Wallis.

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Witnesses

[I](#): Ian Davies, Head of UK Port Authorities, Stena Line.

[II](#): Vaughan Gething MS, Minister for the Economy; and Rebecca Evans MS, Minister for Finance and Local Government, Welsh Government.

[III](#): Rt Hon Simon Hart MP, Secretary of State for Wales; David T C Davies MP, Parliamentary Under-Secretary of State for Wales; Zamila Bunglawala, Director - International Education Directorate, Department for Education; and Stephen Webb, Director of Infrastructure, Border and Protocol Delivery Group, Cabinet Office.



Examination of Witness

Witness: Ian Davies.

Q1 Chair: Good morning. Welcome to this morning's session of the Welsh Affairs Committee looking at infrastructure issues in Wales, particularly relating to port infrastructure. We have three panels this morning. We are delighted that we are joined for our first panel by Ian Davies who is head of UK port authorities for Stena. Ian, good morning. We are grateful for the time you are giving us. We always find the evidence and information that you give us very helpful.

I will start the questions this morning, Mr Davies, and ask about the current state of play on trade across the Irish Sea from Welsh ports into the Republic of Ireland. When you appeared before us previously, we had seen a marked reduction in volumes of trade following the end of the Brexit transition period. Has any of that trade come back to Welsh ports or are we still in a situation where a large chunk of the volumes that we had previously seen go through Holyhead, Fishguard or Pembroke Dock is displaced?

Ian Davies: Good morning, everyone. To recap, towards the end of last year we had a pre-Brexit boom where we saw huge volumes. Then at the beginning of this year, as anticipated, we saw a huge drop-off. In the first few weeks of January, we were roughly 65% down on trading figures. I am pleased to say there has been a recovery. It has been slow and stuttering, and currently it feels as if it has plateaued, and we are probably in the region of 25% to 30% down on where we expected to be versus 2019. If we take 2019 as a base year—because it is a clean economic year in that sense—we are still roughly 25% to 30% down on volumes.

As you intimated, Chair, it is displacement from our traditional trading routes. Traditionally, in Holyhead roughly 30% of goods would be destined to or originate from Northern Ireland. It was a natural economic flow. Those flows appear to be displaced and are going Northern Ireland to UK direct or the goods from the Republic of Ireland are taking direct continental routes to the EU. Welsh ports have been severely affected by Brexit to date.

Q2 Chair: Is it your sense that, six months on now, that we are getting a picture of what permanent displacement there will be, or does this still very much feel like a temporary phenomenon while new arrangements bed down?

Ian Davies: I think the picture is becoming clearer. We have this pandemic veil—can we call it—also in the wash. That veil is slowly withdrawing so you can perhaps see the true effect. My belief is that there will be further recovery, but I don't think it will be back to our pre-2019 levels. I think the danger is that, the longer people find alternative trading routes, they become more established. For example, companies



consign and source their materials or goods by other ways and means and that becomes the norm.

The concern is the length of time it takes recoveries to happen, and trading will perhaps permanently change in that way, but it is still a displacement. We speak to our existing customers in Northern Ireland who say, "We wish to go through Dublin and Holyhead. That is for us the most economical way of delivering goods and services." We see it as a displacement that has happened in the market.

Q3 Chair: We have seen some recovery with the UK land bridge, but not back to the levels it was pre-pandemic or pre-Brexit.

Ian Davies: Yes, absolutely. Of course, this affects south Wales ports as well as Holyhead. We have seen companies getting used to the land bridge and they have improved their processes, but it is still way down on what it was. Some companies are nervous—for example, Irish companies are nervous—and they are still shipping direct. There was a huge influx of capacity into the markets from shipping companies from the Republic of Ireland to the EU. It is interesting to note that, as we predicted, some of that capacity has withdrawn from the market as the market has started to shrink. There is a degree of settlement happening in the market but, yes, there is still displacement from the land bridge. It is not the way it was, that is for sure.

Q4 Chair: Finally from me for the moment, I will ask about the south-west Wales ports, Pembroke and Fishguard, which you know very well. Given how thin some of the margins are in the best of times, do you feel there is enough trade coming back to facilitate the long-term viability of both those ports post-Brexit, or is the jury still very much out on whether there will be enough trade to support two ports out of that corner of south-west Wales?

Ian Davies: I cannot speak for Pembroke, obviously, but it is a tough economic trading position without a doubt. We have lost a sizeable part of our market, and for the ferry operators and the port operators it is a double whammy. We are still seeing no tourism coming through. We have lost 80% of our tourist traffic and at least 30% to 35% of our freight traffic. This has been going on for 18 months now, and it is a tough market to be in currently, that is for sure. Is the market sustainable? I think it is, but I am still a little bit open on whether it remains like that.

Q5 Simon Baynes: Thank you for your time this morning, Mr Davies. It is much appreciated. I want to start by asking you how much importance you attach to the establishment of a freeport in Wales. How urgent is it that a decision is taken on launching a bidding process for the Welsh freeport? Sorry to lump this all together, but could you also say whether it is Stena Line's intention to bid for a freeport at Holyhead?

Ian Davies: Good morning. Can I start with the easy one? Yes, it is still our intention to bid for a freeport for Holyhead, absolutely. That is still our focus. When it comes to the driver, the necessity and the timeline,



post-Brexit my feeling is that the need is perhaps even greater than it was before for a freeport development. As I just mentioned to the Chairman, we have taken a big economic hit over the last 12 to 18 months. Some of those volumes will come back but ferry ports, particularly west-facing ferry ports, have been hit hard, so we need to refocus our business, broaden our business to bring in new business to the ports. I think the freeport initiative is an excellent opportunity to do that.

On timescales, is it critical? I suppose it is like anything, if you believe in freeports—and we do—any delay is a wasted opportunity. Our preference is to have clarity and to start moving on these things, because as ports we want to develop plans and focuses going forward. It is fair to say that when things hang in the air sometimes they lose focus.

Q6 **Simon Baynes:** Picking up on your point about the need for clarity, what discussions have you had with UK and Welsh Government Ministers on this issue of a freeport in Wales?

Ian Davies: It has gone very quiet over the last few months. The focus has come off it, and it feels like we are in a little bit of a vacuum, to tell you the truth. Initially there was good dialogue with the UK and Welsh Governments, not together but separately, but currently it has gone very quiet.

Q7 **Geraint Davies:** Mr Davies, you have said that something like 30% of the trade from Northern Ireland to Holyhead has been taken away, some of it going to other UK ports, some of it going to the EU. In your view, how much seed funding would be required to provide a competitive, maintainable and viable freeport in north Wales?

Ian Davies: The loss of trade is really on the ferry business. Holyhead port has greater potential beyond the ferry business, I suppose. Seed funding is always helpful. We are an international or a north-west Europe company, and when I try to develop business plans I am pitching against other Stena ports in north-west Europe. Some regions have stronger economic growth than others, so seed funding is always beneficial to give a leg up to get some of these initiatives off the ground.

Q8 **Geraint Davies:** It has been claimed by the Welsh Government that the UK Government are offering them £8 million of seed funding for a Welsh port, yet they are offering £26 million for other English ports. What would be the effect of a Welsh freeport receiving less nominal funding than other UK freeports, in particular in this case Liverpool?

Ian Davies: That is always of concern. All we ask for is parity when it comes to these things. Liverpool is two hours up the road from north Wales. Currently it has freeport status, it is ahead of the game, and it has clarity on its seed funding. We have not even started the process in Wales, so I would say, if nothing else, why shouldn't Welsh ports have the same level of seed funding as their counterparts in England?



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Q9 **Geraint Davies:** You seem to be saying that the Welsh freeport in Holyhead, for example, should have the same funding as Liverpool, and sooner rather than later. Are there other incentives that you think should be put into Welsh freeports to help them catch up?

Ian Davies: The detail in freeports is up to the ports themselves to find advantages. The only other incentive is aligned thinking between the Welsh Government and the UK Government. For a freeport to succeed, we need aligned thinking for planning, infrastructure and so forth. Direct incentives? No, seed incentives are great. It is a great leg-up. The only other thing that I think would be of benefit is the alignment of thinking and direction to make the freeport succeed.

Q10 **Geraint Davies:** In other words, if what is holding us back in having infrastructure, partly through the co-operation of the Welsh Government, is to have a level playing field on funding, would your advice be to get the level playing field so that we can get on and catch up before Liverpool draws away and displacement is consolidated from Holyhead to Liverpool? Is that what you are saying?

Ian Davies: Yes, in essence, from reading papers and some of the things that have been brought in front of the various Committees about freeports and the advantages, disadvantages or dangers of freeports. That is a concern to us in that you get a degree of displacement when you have a port as large as Liverpool, as close as it is, that is already in the game and yet we are not in the same game currently.

Q11 **Virginia Crosbie:** Good morning, Mr Davies. It is lovely to see you. The England bidding prospectus was launched in November last year, closed in February and the eight England bids were announced by the Chancellor in the Budget in March. I have companies that are keen to invest on Anglesey should it become a freeport. For example, Tratos wants to build a factory by the sea that would create 300 high-skilled jobs. We are trying to attract new investment that would not come to Wales otherwise. Is the biggest risk not displacement of business and investment going from Wales to Liverpool? Will we have to sit and see Liverpool booming as it becomes a freeport and Wales becoming further behind?

Ian Davies: I think that is a danger. Liverpool has its own attractions anyway, and there are great opportunities with freeports, but businesses need clarity and certainty. The longer we don't have certainty on freeports, businesses will make up their own minds. The sooner we start moving on this process, the better from a Welsh freeports point of view. We are talking as if Holyhead has freeport status. Obviously, it is a competitive process, but I like to think that we have a very strong case and, therefore, the sooner we make a start in the bidding process and hopefully be awarded that the better.

Q12 **Virginia Crosbie:** You just said that the freeport initiative is an excellent opportunity to attract new business and that any delay is a wasted opportunity, and you are looking for clarity and certainty. Are you looking



to have the bidding prospectus as soon as possible?

Ian Davies: Yes, absolutely.

Q13 **Ben Lake:** Thanks to you again, Mr Davies. I want to turn to some of the prospective customs arrangements. In particular, what progress has been made to ensure that Welsh ports have the correct infrastructure to process the new customs arrangements?

Ian Davies: Prior to that point, ports were asked to look at some of the infrastructure that was required. It was evident fairly early on that some of the infrastructure wouldn't fit into the ports. For example, Holyhead port did not have the land space to do things like the border control points. The process was split where infrastructure was required within the port. We applied as a port through the PIF, the Port Infrastructure Fund, and the likes of Fishguard and Holyhead were successful. They are relatively small-scale investments. Fishguard needs a slightly larger search facility. In Holyhead there are small matters to put in place. Those are proceeding on plan and on track and they will be in place—Fishguard is running slightly late—by October, the end of this year, but it is relatively minor.

The other developments that the ports couldn't do are being undertaken by HMRC and the Welsh Government outside the port of Holyhead and facilities in south Wales. We are not directly providing those facilities, but we are a key stakeholder, and we are engaged in the process and the consultation has been very good. I am fully aware that we are now in July. As yet, sites have still not been procured, planning has not been started and physically nothing has happened on the ground, and we are now in July 2021. I think it is quite evident that things will not be ready physically for 1 January 2022 in north Wales or south Wales. That is my impression.

Q14 **Ben Lake:** Thank you, Mr Davies. You have touched on a few points on which I would like to probe further. You referred to the fact that HMRC and the Welsh Government are working together on some of the inland facilities. Do you have a view, or can you share with us your assessment of how effectively that co-operative work is happening at the moment?

Ian Davies: We are not directly involved. It seems to be working well. It seems to have got better, I suppose, but they have two distinctive functions. HMRC is building one facility and the Welsh Government is building an adjacent facility. There was a lot of dialogue. At one point HMRC was looking at putting the facilities in Warrington and so on. I am very pleased that, finally, we will have facilities in the right place to support Holyhead port. They will potentially be on sites that are very close or adjacent to each other. I think we will have the right solution provided.

The site in south Wales has still not been formally identified. It has been quite a tortuous process to try to find a suitable location that meets the two south Wales ports. Originally it was going to be two facilities, then it



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was going to be one facility. A lot of work has gone in to try to find one facility in the right location that does not impede or put one port at a disadvantage to the other. A lot of work has happened but, as I said before, there is physically nothing on the ground to see and we are now six months away.

Q15 Ben Lake: It is quite a frightening prospect that time is ticking away, and we are getting closer to that date. You mentioned that there has been some working in trying to identify a site for inland facilities, but it has still to be formally identified in south Wales. Are you aware of any particular challenges that have hindered progress in identifying the site let alone commencing the physical work?

Ian Davies: There has been really good consultation. They have included us in the process. All we are looking for is that there is no unfair advantage to one port over the other, and they have gone to great lengths. I suppose it is just the physical layout in south Wales, the way that the roads join, and each site has its own particular challenges from the angle on the site, ecological developments and the proximity to housing. We understand it is quite complex. These are very big facilities, and we should not underestimate how big they are. We appreciate the problems in identifying a site, but that is not our direct responsibility.

Q16 Ben Lake: I apologise for sticking on this theme for a moment, but is it fair to say that some of these problems and challenges have existed for quite some time, in other words that we have known about these challenges for quite some time?

Ian Davies: I suppose, like everything else, you would question why it appears we started this process quite late in the day when we knew these facilities were required. That is my only observation. Our concern now is that, if these facilities are not ready, we want clarity on what will happen on 1 January 2022, because there will be some parts of the UK where facilities are ready and others where they are not. If we don't have a fair playing field, we could potentially end up with trade being distorted again, where some customers have to use these facilities and, therefore, are they expected to be redirected to where facilities are ready? That is one area of concern.

Secondly, we still do not have clarity on the charging regimes of these facilities. Again, we want a level playing field. Depending on the funding model, of course, you may have facilities, for example down on the south coast of England, where you have a massive throughput and therefore the costs per unit are relatively small whereas some of the smaller ports would still need the same facilities or a large investment, but throughput could ultimately lead to different charges. Clarity on charges and a level playing field, if these facilities are not ready, are the two areas of concern that we have currently.

Q17 Ben Lake: That is very useful. Can I infer from that that you are aware that progress on certain facilities in other parts of the UK is at a more



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advanced stage? Is that fair and, if so, are there particular sites that you think are in a more advanced stage and are more likely to be ready by 1 January next year?

Ian Davies: I cannot talk about individual sites. I believe Liverpool is probably further ahead, but I think it is a mixed picture wherever you are. That is fair to say.

Q18 **Ben Lake:** A few more questions, Mr Davies. Thank you again for indulging me this morning. I think it is fair to conclude that the delay of the checks was welcomed—well, not welcomed but deemed necessary given the state of arrangements or the lack of some of these facilities. At what point in the course of this year do you think we may have to realise that a further delay is necessary if these facilities are not up and running? You referred to the fact that a site has not been identified, planning permission and construction. I have been led to understand that these facilities are quite substantial and not something that can just be thrown up over a weekend. In your opinion, if these facilities are not physically in place by September, October, when should we start questioning the need for a further delay?

Ian Davies: You need to have an honest conversation. Like everything else, as businesses we can always adapt but we like a clear vision of where we are going and some timelines. The sooner we have that, it is fine, we can then adapt and act accordingly, but when things happen at the last minute or it is rushed everyone struggles to make adaptations. I think an honest appraisal of where we are, an open dialogue and a discussion, and the sooner those decisions are made the better for everyone concerned.

Q19 **Ben Lake:** Finally, Mr Davies, if I can again play on your patience and indulgence. If, in the worst-case scenario, progress on the facilities in Wales, both north and south, does not proceed as we would like in the next few months, but the discussions are also not held and the decisions are not made and we reach 1 January in a state of—I wouldn't say chaos—unpreparedness, practically speaking, what does that mean for the operations of your ports and those using your ports?

Ian Davies: I suppose the danger is that freight customers will always look for certainty, and perhaps they will look to facilities that they believe exist or are nearly ready and change their trade flows accordingly. Our freight customers like certainty. They need to speak to their customers and to plan ahead. They don't want last-minute changes to their logistics chains. They would rather plan ahead and make adjustments accordingly. The worry is that industry will make up its own mind because of the lack of information and clarity.

Q20 **Ben Lake:** On that forward planning, is it typically the case that these freight companies operate on timescales of weeks in advance or are we talking months?



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Ian Davies: It depends on the nature of the goods. Supermarket chains are very well structured supply chains, very defined, very time sensitive. They take a lot of planning to go into. They will look for certainty and we have seen that with Brexit. Some people have, due to lack of clarity, made decisions not because it is the cheapest decision, but because it gives them clarity and security of their supply chain and there is a huge value in that to these companies.

Chair: I have a couple of members who want to ask supplementaries. We will need to keep them fairly brief, because we have another session coming up.

Q21 **Virginia Crosbie:** Mr Davies, on Holyhead, HMRC has been working very hard to find a solution on the island and the options were Bangor and Warrington. They exchanged last week on the truck stop and this will create over 200 net jobs in Holyhead. My understanding is that it will be up and running in January next year. Is it your understanding that having an inland border facility in Holyhead is preferable to Stena as opposed to having a facility off the island?

Ian Davies: Absolutely. At the end of the day, something close to the port, something that the freight customer can find easily is always of benefit. We welcome the announcement that it is so close to the port. It will become an integral part of the port and trade. We don't want to see wasted road miles, additional carbon footprints as trucks try to find these various facilities. The thought that it should be in Warrington was of grave concern for us, so we are very pleased. We have said all the way along, we have pushed all the way along, that those facilities need to be on the island of Anglesey, preferably as close to the port as possible.

Q22 **Geraint Davies:** Mr Davies, we have been told by the Welsh Government, as I mentioned, that they have been offered only £8 million, versus £26 million, of seed funding. Can you tell us how big or significant that difference of £18 million is versus the amount of trade that might be lost? You have mentioned we are down at 30%. What is the value of jobs and trade if we did get a freeport up and running versus the Liverpool one? It seems to me that this is arguing over a small amount of money versus the real value of lost trade, but is that right?

Ian Davies: That is a very hard question to answer off the top. When you talk about millions like that, in the overall picture it should not be a great changer. Obviously, we would prefer parity of funding, absolutely, but in the overall scheme of things sometimes it does not make a huge difference. Seed funding to exact parity maybe less so but, like everything else, we prefer parity.

Q23 **Geraint Davies:** What I am getting at is that I think what you are telling us is that if we just got on with it and did it and got back in the game we would save quite a lot of jobs and displacement. I am making the point, therefore, why don't they just put the money down? It is not that much compared with the potential value of keeping all that trade. Do you agree



with that? That is what I am getting at.

Ian Davies: Yes, time is of the essence because the likes of Liverpool are already in the game. In normal situations parity, yes. Now the focus should be more on delivering the freeport or freeports for Wales, rather than quibbling over the exact funding level.

Geraint Davies: Yes, so a stitch in time saves nine.

Q24 **Chair:** Mr Davies, can I come back to the issue of the inland facilities that we were discussing a few moments ago? I find it staggering that the months have gone on and there has been so little progress on identifying sites and getting them up and running. How does it feel to you? Is it your sense that it is quite a difficult thing to find appropriate facilities and there is a difficulty in that that is causing these delays? Is it the fact that there are so many different potential decision-makers and players when you consider the UK Government, the Welsh Government, potential local authorities, port operators? What is at the root of this, or is it just because for the principals involved—government officials either at UK or Welsh Government level—there is not the sense of urgency that the industry itself feels?

Ian Davies: The Welsh Government dialogue has been very good. I have seen at least 22 proposed sites for south Wales, for example. I think the Welsh Government have clarity on what they need to do. I am not a planning expert, but it seems to be a combination of finding the right location, so you don't disadvantage one port over the other, connectivity to the road infrastructure and the usual planning. I think it is the size of these facilities as well and also to a certain degree, if you speak to the Welsh Government, there is a realisation that in theory these facilities should be needed for only a few years. They need to have an afterlife, so where you put these facilities really concerns the afterlife as well. I think they are trying to juggle many criteria.

I can understand that it is not an easy process, but it seems that nothing has moved forward. Perhaps that is a little unfair knowing the dialogue that has gone on, but the reality is that a site has still not been identified for south Wales yet.

Q25 **Chair:** This might be slightly off topic, but it is being discussed frequently these days, in Parliament it is coming up a lot, and that is the shortage of HGV drivers. You have a good sense of the haulier market from your customers coming through the ports of Holyhead and Fishguard. What are you picking up from the industry? How critical an issue does this appear to be for your customers?

Ian Davies: Yes, absolutely. The industry has been flagging up these concerns for many months. I think even pre-Brexit there was a shortage of drivers anyway. Speaking to Irish industry at the time, they were struggling to get drivers. I don't know whether it is the rates of pay or the attractiveness and so forth, but it has now become critical if you speak to some of the customers. I am hearing of the inability to deliver



because they don't have drivers. It is something as simple as that. It will probably also accelerate.

There has been a general movement in freight from accompanied to unaccompanied, and the driver shortage will perhaps slightly increase the focus towards the unaccompanied. However, just-in-time delivery, retail, logistics and so forth need accompanied and they need drivers. That is for sure. I know that it is of huge concern to all our freight customers.

Chair: Thank you very much, Mr Davies. As ever, you have been incredibly helpful and open in your answers. It has been a very useful first session. We will suspend proceedings for a few minutes before we are joined by our next panel from the Welsh Government, so bear with us. Thank you very much, Mr Davies.

Examination of Witnesses

Witnesses: Vaughan Gething MS and Rebecca Evans MS.

Q26 **Chair:** Welcome back to this session of the Welsh Affairs Committee with our second panel this morning. We are joined by Vaughan Gething, the Economy Minister from the Welsh Government, and by Rebecca Evans, Minister for Finance and Local Government.

We have a fair amount of ground to cover, so I will kick off straightaway by asking a question about an issue that has been in the news overnight, Minister Gething, about the Chinese takeover of the Newport firm Wafer Fab. Over the course of yesterday, I heard at least two or three different messages come out of the UK and Welsh Governments about concerns relating to the takeover. The Prime Minister said yesterday afternoon that he was going to ask the national security adviser to look again at this deal. He said in the meeting of the Liaison Committee yesterday afternoon that he had been asked by the Welsh Government to take care of it. What is your understanding of the sequence of decisions around this deal and why the Prime Minister is now asking the national security adviser to reopen this?

Vaughan Gething: I can help with some of that, and there is one part that I cannot. About four years ago, the previous company and its previous owners got into some difficulty. The Welsh Government, with my predecessor Minister, supported it and had some secured investment at that time. That capital has been repaid with the way that the business has now been acquired. The Welsh Government does not have any locus to intervene in the deal on national security grounds, but Welsh Government officials have had close dialogue with UK Government officials over the last year over the prospects for this particular plant. There was every opportunity for security concerns to be examined or raised, because UK Government officials were apprised of what was happening with this particular firm.



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The new owners say they will meet all their obligations on future investments, but the important point is that both Governments were sighted on the fact that there was likely to be a change in ownership. We did not ask the UK Government to investigate national security concerns, although the UK Government had the opportunity to do so before now, and it is a matter for the UK Government to do that. I don't quite understand how the phrasing the Prime Minister used in the Liaison Committee came about, and I cannot tell you why he used that phrase, but as a matter of fact we have not specifically requested the UK Government to do so. They could have done so before now, they have now chosen to do so, and we all look forward to the outcome of the review they undertake.

The key point for me is that there are concerns about national security that need to be addressed, but I am interested in maintaining the importance of the jobs and the cluster we have that is successful in this particular part of Wales and to see it to continue as an investment in Wales.

Q27 Chair: To be clear, Minister, is it that you were previously satisfied that checks around national security had been done and that the deal was a robust one and there were no concerns from the previous discussions with UK Government officials, or is it perhaps the case that because, let's be honest about it, the Welsh Government had financial skin in the game here—taxpayers' money had gone into the company via the Welsh Government—that the security concerns around this inevitably were less of a priority because of the focus on seeing the deal get over the line and the Welsh Government investment recouped?

Vaughan Gething: No, I think it is simpler than that. The Welsh Government invested in the company previously to make sure that the jobs and the potential did not disappear. We are not in control of the company and who it can or cannot have investment with. Those national security concerns, if they existed, were matters that the UK Government were aware of because there was dialogue over the last year—not just the last few days or weeks, the last year—between Welsh Government officials and UK Government officials. The locus here to undertake a national security review is with the UK Government. That is not in dispute.

Every now and again we talk about who is responsible for which part of which responsibility between Welsh and UK Governments. UK Government officials were aware that there was a potential Chinese investor here that could end up acquiring the business, so they could have undertaken the review previously. It is a matter for the UK Government to explain the timing of the review. It is not for me to criticise the review taking place because the UK Government have concerns and they need to undertake that investigation, but it is not factually correct that the Welsh Government asked the UK Government to undertake this review. Perhaps, if you want to be generous, there was



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some misspeaking and a line awry in the briefing the Prime Minister had, but it would be helpful to be clear about the sequence of events and where responsibility lies.

The review, if it needs to take place, needs to take place properly because we are interested in the jobs carrying forward with the investment potential that is there. But I understand—as does every actor in modern-day politics—some of the challenges over who invests in what.

Q28 Chair: Finally on this—I don't want to go on too long about it—is there a chance that the UK Government could block the deal? How much disruption and frustration would that cause?

Vaughan Gething: It is obviously possible for the UK Government to block the deal, because they have the powers to do so on national security grounds. That is why they have to undertake the review to understand if the concerns that have been talked about in public are well founded or not. That then would give us a practical challenge over the need to continue to secure investment in this business.

It is not that it is just one business. It is part of a wider cluster that has been successful, and we think will be more successful in the future. If there is an intervention by the UK Government, we would want to have a proper and constructive conversation about making sure we don't lose the opportunity to keep on investing in high quality jobs.

Q29 Dr Jamie Wallis: I will turn to freeports now and ask Minister Gething, first of all, to describe the current state of negotiations with the UK Government regarding a freeport in Wales.

Vaughan Gething: Frustrating and entirely uncertain. It is very frustrating because Ministers wrote to the UK Government in February after a series of engagements around this and made it clear that there were parameters for us to work within but that we would be constructive partners if a freeport were to go ahead with the mix of devolved and non-devolved responsibilities. We wrote again yesterday to the Treasury. The unhelpful part of this is that there are regular comments from the Wales Office, which is not the decision-taking ministerial office in UK Government on this issue, suggesting that the Welsh Government are blocking this.

Actually, we don't have a formal offer of a freeport in Wales. What we have been told, but not in a formalised way, does not really satisfy what we need to understand. These are place-based interventions. We have been very clear that any freeport in any part of the UK should have the same financial support. It is about £25 million for a freeport in England. It would be hard to understand why Wales should get sold short and have less than that, but we need a formal offer to discuss and move around.

From the conversations we have had with the Chief Secretary to the Treasury, it is very clear to us that the Chancellor is ultimately the decision-making Minister in this. We do not have any issues about



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whether the Chancellor is the decision-maker for the UK Government, but it means we need some clarity and a proper formalised offer for us to work with and talk around, and you cannot do that by megaphone.

It would be helpful if the Wales Office—who are not the decision-taking Ministers—had a more unified and coherent approach with the Treasury, which is the decision-taking Department from the UK Government’s perspective, about how we could use devolved powers in this space, together with UK reserved powers, on seeing a freeport in Wales be successful. It is disruptive for businesses because, of course, there are people gearing up for a bidding war for a potential freeport. There are lots of ports in Wales that might want to bid for it, but there is not a basis on which to do that. I am concerned there is time and money being wasted on getting ready for something on which there is no clarity.

Q30 Dr Jamie Wallis: You mentioned there were some informal communications around what a freeport might look like or what the UK Government’s vision for a freeport in Wales might look like. Can you share any details with us today?

Vaughan Gething: No, it is basically informal meetings where the Secretary of State for Wales insists this will happen and says he wants to work with us, but nothing that we could share with you in writing about a proper formalised offer. The Finance Minister is involved in this as well, because obviously this affects the financial ability to support such an offer if it were to come.

Rebecca Evans: If it is helpful, Chair, I can reflect on some of the engagement that I have had with the UK Government on this over some time. We have been really clear that the Welsh Government will be constructive partners in delivering a freeport, or we have even suggested there could be more than one freeport in Wales, but certain conditions have to be met. Wales cannot be at a disadvantage because we are being constructive partners in delivering on the UK Government’s policy.

There are three particular areas where we need that agreement. The first is joint decision-making. The Welsh Government will use their devolved resources and powers to deliver freeports if we come to an agreement with the UK Government. As such, we need to have an equal role in setting the bid process criteria and in making decisions around the location of any freeports in Wales, as well as the fundamental role we will need in the long-term governance arrangements.

The second area is conditionality. The Welsh Government have really strong desires to move forward on fair work. That is a very important agenda for us, as is our environmental agenda. It is important that any freeport in Wales does not disrupt that but contributes towards our aims under the wellbeing of future generations goal.

Finally, and crucially, as Vaughan set out, we absolutely have to have a fair funding settlement. A Barnett share of a freeport in England would



not be appropriate in Wales. If every freeport in England receives £25 million—which is UK Government policy—but we only get a Barnett share of £8 million, it clearly sets out from the outset that our freeports would be at a huge disadvantage compared with those across the border. There is no rationale for treating a freeport in Wales differently from one across the border.

Vaughan Gething: We have not had a formal offer from the UK Government saying, “This is the basis upon which we are prepared to work with you to try to deliver a freeport.” We want to talk about the bidding and the decision-making process. I know there are members on here who have ports in their constituency that might be interested in this, but they don’t know what the position is because we don’t know. The headline statements that are made in public don’t get us where we need to be if we are serious about a freeport potentially being something that could increase economic activity.

Q31 **Dr Jamie Wallis:** Thank you very much to both Ministers. That is very helpful. What is your response to the suggestion that the UK Government might establish a freeport in Wales even if agreement is not reached with your Government?

Rebecca Evans: That is a really disappointing threat for the UK Government to make. UK Government need the Welsh Government to be constructive partners, as we are willing to be in this, because the levers that you need to make a success of a freeport are Welsh Government levers. We have responsibility for planning, land transaction tax and, of course, local taxation, including business rates. All of those are absolutely critical for the success of freeports, which is why we are keen to be constructive partners. If there are freeports in Wales, we want them to be a success and we are happy to continue those discussions with the UK Government. As my colleague Vaughan set out, correspondence went to the UK Government setting this out some time ago and we don’t seem to be getting any response on any of these issues.

Of course, imposing a freeport here in Wales is in the realm of the way in which the UK Government are using the new powers they have taken in the United Kingdom Internal Market Act to make decisions on funding issues in Wales that have previously been the responsibility of the Welsh Government for 20 years. It would be extremely concerning if they were to do that, and certainly not speaking to the kind of constructive relationship they say they would like to have but that has yet to transpire in reality.

Vaughan Gething: It is hard to see how it would benefit the UK Government to take such a provocative step, with £25 million of UK spending being the issue from a funding point of view, and the fact that we are willing to have a proper conversation about how we use devolved powers. You would get a huge constitutional row about this. I don’t understand the purpose of it. Why would you want to pick a fight on this issue when we are prepared to talk but we need something to talk about?



It is very surprising that you would want to run an argument on this basis rather than get to an answer.

Q32 Virginia Crosbie: Welcome, Ministers. It is nice to see you. You have been very clear on your three criteria and, Minister, I was very pleased to hear you mention investment related to the term “freeport”. The seed money is important, but the reality is that we are talking of potentially billions of pounds worth of investment coming into Wales that would not come into Wales otherwise.

Vaughan Gething: That rather presupposes that a freeport would be successful to that extent. This is a policy intervention that has been tried before and has not been successful in its previous iteration. It was in 2012—which is the year that Mr Crabb joined the Government as a Whip—that previous freeports were ended. There were freeports and they were not seen as a success. The challenge here is whether a new version of freeports would be successful. It is not that Brexit enables freeports; it is a choice made by the current Government.

There is an honest challenge here about whether freeports would generate more activity or whether they would displace activity. That is one of the concerns we have about if, for the sake of argument, there were a freeport established in south Wales. What will that mean for port infrastructure in north Wales when there is a freeport in the Mersey area? We have a real challenge about making sure it is genuinely additional in the way that freeports could operate rather than simply transferring activity from one part of the UK to another.

We are prepared to work on the freeport idea and want to see it work, if it is going to happen, with us using our powers collectively together to try to generate extra activity. I am not sure where you get the figure of extra billions of investment, but I am interested in how we generate more jobs and more prosperity in Wales.

Rebecca Evans: Throughout the discussions we have had with the UK Government, we have been pressing them to provide us with the data that shows the economic impact that a freeport or freeports in Wales could have. Throughout the discussions, they have been unable to provide us with evidence that sets out what the impact would be, negative or positive. It is whether they have been unable to provide the evidence or unwilling to provide the evidence because perhaps it does not provide the strong case that they are suggesting it might. If your Committee has more luck than I did in getting that evidence, I wish you well. I would be keen to follow your discussions on that.

Q33 Virginia Crosbie: You mentioned your concern about displacement. Isn't it the reality that we are going to see displacement from freeports like Liverpool, which will be booming and sucking investment from Wales, and investment that we should be having in Wales will be going elsewhere? At best case, we will be at least one year behind the eight freeports in England.



Vaughan Gething: It is an obvious risk. Wherever a freeport is located, it will take activity from elsewhere. If you were talking to a Bristol MP and there was a freeport somewhere in south Wales, they would probably be concerned about the impact on the port of Bristol. There is an obvious challenge that freeports may simply suck in investment from other parts of the UK. The prospectus the UK Government set out, though, is that it should add value rather than simply displace value. The challenge about our being later down the line is not a situation of our making. When the freeport bidding process started in England, we didn't have any of that detail in Wales, so the discussions have not proceeded at the same pace. That is disappointing, but we would like to make the best of the position and that is why we set out a constructive offer of engagement. That is where we would like to be, but we await a serious response from the UK Government on these issues so that we can have a proper conversation about a proper proposal.

Rebecca Evans: I think the lack of communication has been particularly disappointing. It is something that I and other devolved Finance Ministers and Trade Ministers spoke to the International Trade Committee about. That Committee went on to recommend that the UK Government engagement should be intensified with the devolved Administrations but, of course, that has not happened.

It is also worth sharing with the Committee that we have been clear that we would welcome discussions about cross-border freeports to see if that is something that could work for both of our benefits. Again, that is a discussion that the UK Government unfortunately did not seek to follow and engage on with us.

Q34 **Virginia Crosbie:** My last question relates to Scotland. This figure of £8 million has been talked about a lot, but the reality is that you have not had any conversations with UK Government in detail. Where is this £8 million coming from? Is it coming from you? What conversations have the Welsh Government had with the Scottish Administration?

Rebecca Evans: The £8 million figure is what we would get from a Barnett share of a £25 million investment in a freeport across the border in England. I have spoken directly about this to the Chief Secretary to the Treasury in my first discussion with him on freeports. I was clear at that point that a Barnett share would not be appropriate for the delivery of this policy, but we have reached an impasse with the Chief Secretary because he is absolutely fixed that it has to be a Barnett share, whereas we are very clear that it would not be appropriate for the delivery of this policy. The Barnett share would be £8 million, so that is where that particular figure comes from.

I am not aware of the financial discussions that the UK Government are having with Scotland, although I know they share our concerns and have shared our concerns throughout about the lack of engagement.



Vaughan Gething: I think £8 million is the Barnett share of the total investment in freeports in England but, of course, they are place-based interventions. We have been really clear about the position, and we have not even had a formal offer in writing of, "Here is the offer of £8 million for a freeport on this basis," so we cannot even engage properly in that. It is part of the frustration of where we are. If the UK Treasury want to have at least one freeport in every devolved nation, the money needed to do that on the same basis is not significant in UK Treasury terms. That would allow us to have a much more constructive conversation and stop exchanging views in public in this manner.

Q35 **Virginia Crosbie:** What are your conversations with Scotland?

Rebecca Evans: I have had some limited discussions with Scotland about freeports, but mostly in the context of the evidence that we gave to the International Trade Committee in Parliament. Generally, we have had good engagement at official level with Scotland and I know they are keen to use their levers to ensure that any freeport in Scotland, if one were to go ahead, meets their ambitions for a green agenda and so on. We have shared those concerns about the conditions that would have to surround any freeport in our country, and I know Scotland has the same concerns as we do about funding and receiving a Barnett share.

Vaughan Gething: Of course, they do not have agreement yet on a freeport in Scotland either.

Q36 **Geraint Davies:** Rebecca Evans, we have just heard from Stena that the trade into Holyhead is down by about a third versus 2019 levels. He was very concerned that Liverpool is roaring ahead with a freeport, and we don't have agreement in Wales. He wants to get on with it and is keen that we have a level playing field financially. Is it your message to this Committee to urge the Government to get on with it, have a level playing field, otherwise we will end up with a permanent displacement of jobs and investment?

Rebecca Evans: Absolutely. We are very keen to move ahead very quickly on this agenda. We wrote months ago to the UK Government setting out the kind of agreement that we would be looking to come to, and we have not yet had a response. We are ready and willing to be constructive partners as soon as we come to an agreement.

Q37 **Geraint Davies:** On that last point, namely that you have set out what you need to know to move forward together, can you provide the Committee with the information so that we can jointly urge the Government to get on with it? They are claiming in public, as Vaughan Gething just said, that the Welsh Government are sitting on their hands, while it appears you have been asking for the information—if I understand it correctly—and you simply have not had the offer. Is that right?

Rebecca Evans: Yes, that is absolutely right. We stand ready to engage fully on this issue. We have been asking for data from the UK



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Government for a long time. It has not been forthcoming. Aside from that, we have set out the kind of agreements we will need to come to in order to progress a freeport. We are very happy to get on and do that.

Let's remember that this is a UK Government policy, to which the Welsh Government are devoting significant resources and time to help develop. We are keen just to get on with it and come to an agreement, if we can, or at least to have the offer so that we can consider it, but it has to be within those terms of fair funding, our role in terms of the governance arrangements and the decision-making and also the conditions that sit around the port. I think those are all absolutely reasonable things that people in Wales would expect us to be looking at to secure their interests in this particular area.

Q38 Geraint Davies: Vaughan Gething, as the Senedd said, something like a third of trade has been displaced from Holyhead to other UK ports and directly to the EU since 2019 because of Brexit and the uncertainties. Do you have some idea of the size of the economic hit that would represent if we don't recover some of this by getting our act together, by getting the offer on the table and catching up with Liverpool? Is there some sort of feel for the amount of damage this will do?

Vaughan Gething: I cannot give a figure off the top of my head, Geraint, but the figure of about a third in reduction of trade is—

Geraint Davies: No, it is down to a third, so it is down by two thirds.

Vaughan Gething: The overall reductions are matters that I have shared directly in meetings with the UK Government in the XO meeting processes. It is not a secret. They are very aware of the fact there has been a pretty immediate move away from the bridge from the island of Ireland into Holyhead and the Pembrokeshire ports.

These are not just teething problems; these are a deliberate attempt to move around the challenges that exist otherwise. There are lots of jobs that are at risk if there isn't an alternative arrangement, which is why we have said we need to have proper engagement and discussions around the Northern Ireland protocol, because they directly affect jobs in Wales.

Q39 Geraint Davies: I might have misspoken, because trade was down 65% in January and now it is down about 25% to 30%. I want to ask you, Minister Evans, about engagement with HMRC, the arrangements for Brexit and how good they are with the UK Government. I know that some hauliers are concerned about paperwork and other problems with facilitating and re-engaging in the sense of trade, alongside the other problems we have talked about. Are you getting a proper relationship with HMRC on the tax situation in a way that obviously you are not over freeports?

Rebecca Evans: On an official level, we have good and regular discussions with HMRC but, of course, less so on the ministerial side, unfortunately.



Q40 **Ben Lake:** Bore da, everyone. I want to ask about the progress or lack thereof that has been made on the inland border facility by HMRC. We have just heard from a representative from Stena that there are some concerns that a location for the facility in south Wales has still not been identified. What is your view of the situation, and do you have any concerns about the progress that has been made to date?

Vaughan Gething: There is a difference here because there is the HMRC facility and there is the border control facility for the SPS checks. HMRC is progressing a site in Holyhead outside the port but near it. My understanding is that in the ports in south Wales they will be able to undertake HMRC checks within the port. We are now moving to deal with the BCP infrastructure, which is a change that took place.

I don't know if you have seen correspondence from the Secretary of State for Wales, because originally the UK Government were going to be delivering both of those facilities. We have responsibility, but they were going to construct the facilities. We had a letter from the Secretary of State for Wales at the end of October last year setting out that that is what would happen.

It was at the end of October that the change took place where we then acquired responsibility for delivering the border control posts in south Wales. At that point, the UK Government were still saying that they would be delivering the HMRC and BCP posts in north Wales. We have had to undertake measures over an accelerated timescale with the change that has then taken place. That letter also stated that all these posts would need to be in place by the start of this month, and that obviously has not happened. You will have seen the infrastructure that needed to be created in south-east England is also taking some time as well.

The real risk for us is that we don't see how those facilities will be in post for the end of the calendar year, when SPS checks are due to start. We either need to have an agreed position on delaying the start of those or an interim answer, which will require expenditure to deliver an interim solution. We are going through, and we are close to being able to announce some points about where we will go. We have to go through a formal process on planning and for the creation of those facilities.

We also need to bottom out the Treasury guarantee, because we have in-principle support from the UK Treasury for the creation of BCPs, which are of course a direct result of the decision to leave the European Union. We need to be absolutely clear about the nature of that cover and how specific it is. Those are matters that we are dealing with in Government. I now have ministerial responsibility to lead that within the Government. We have to work across a number of different Departments to be able to deliver it, so there is a challenge about timescale. We are making good progress on site identification and the process of doing it.



I don't want to go into talking about where the sites are specifically, because we have yet to start formal consultation in the planning process, but there is no prospect of those being completely up and running at the end of this year. We have had the same conversation with colleagues of any party in the south-east of England, where they have significant border challenges around the port of Dover as well. They have probably explained similar concerns to you about the reality of whether the infrastructure will be physically ready by the end of the calendar year.

Q41 Ben Lake: To clarify, the concerns about whether these facilities will be ready or not by the end of the calendar year relate to the reality that it takes time for these things to be constructed and for the planning process to go through. It is not that there are other issues as well that might be hindering progress?

Vaughan Gething: No, this is the practical reality of what we need to do. I am not here to rerun the referendum argument. It has happened and we now need to make the best of it. We have a requirement to have these SPS checks in place. The ideal is to have them within the port area, but that is the reality of how the port is set up and whether it is big enough to do so. You have to have both the checks from an HMRC perspective as well as the SPS ones. They are real, because there are always challenges about animal health and potential import or export conditions, as we have seen. We don't need to mention any of the particular conditions.

The challenge is that from an original position where the UK Government were to deliver the physical infrastructure, which we would then have responsibility for running, we have now moved to the Welsh Government having to deliver the physical infrastructure on the non-HMRC elements. We then had a shorter run for doing that, so we need to go at some pace while still doing this properly.

What I do not want to do is to face my Public Accounts Committee—or for an official to face my Public Accounts Committee—in the Welsh Parliament to explain why we spent money poorly as opposed to getting this right. There are real challenges on value for money, on doing this properly in a shortened timescale, but there is a requirement to make sure we continue to have the most effective trading relationships possible with Europe.

Q42 Virginia Crosbie: In terms of Cardiff Airport, it would be great to have some colour on the big picture. What is the big picture plan for Cardiff Airport, and what does it mean for my constituents here in Anglesey?

Vaughan Gething: Our plan is to continue to invest in Cardiff Airport to make sure it can survive the shocks that every airport has had over the last year and more. In the statement that my predecessor, Ken Skates, released in March, he set out that Heathrow had posted a £2 billion annual loss, so there are real challenges, and there has understandably been a significant reduction in passenger travel and income for airports.



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We made a decision to keep Cardiff Airport open because, as you know, you will have seen the pictures of flights coming in with PPE supplies. We have invested more in Cardiff Airport to make sure it continues, because we expect that at some point there will be a recovery in passenger travel. We still think it is an important strategic economic asset.

The ministerial responsibility is now with the Ministry for Climate Change, but we recognise there is lots of economic potential in running a successful airport. Before the pandemic, Cardiff Airport was increasing passenger numbers. We all see the challenges that regional airports have in every part of the UK and in other European countries, but Cardiff Airport has real prospects of being successful. That is not just good for Cardiff and Vale of Glamorgan, we think it is important for Wales to have an international airport.

Rebecca Evans: Vaughan has covered the importance we place on Cardiff Airport. We have been able to provide the airport with some limited support throughout the pandemic to ensure it remains a viable prospect for the future. All of that has been conditional on its recovery plan, so we have ensured that the business has a plan for the way out of this pandemic. In due course, we would expect the airport to start doing better as things move on and as the world opens up again, so we are just doing what Governments are doing across the world in terms of looking after our airport.

Vaughan Gething: Sorry, Virginia, you talked about your constituents. Of course, there have been direct flights between Cardiff and the island of Anglesey, and the carrier expects to be able to start those again in the autumn. That is not just important for travelling politicians. Every time I have been on that flight it has been pretty full, and I had several opportunities to use it with my former ministerial responsibilities. There is some use, and it makes a difference for Valley and its potential future use as well.

Q43 **Chair:** Can I jump in on this issue and come back to the answer you gave a few moments ago, Minister Evans? You said that you expect, when things return to some kind of normality, to see turnover pick up, and you came across as reasonably confident that there are better times ahead. Isn't the truth that, even before the pandemic set in, Cardiff Airport was really struggling? Yes, it may have been increasing passenger numbers, but the call that asset keeps making on the taxpayer is a very, very significant one. There is the money that the Welsh Government invested in the original asset. There is the year-on-year subsidy to the airport and there is the money that I understand the Welsh Government have spent in supporting route development and trying to attract carriers to the airport.

As Minister for Finance, at what point do you say, "Sorry, there isn't going to be a blank cheque for Cardiff Airport"? At what point do you get very concerned about the tens of millions that keep getting spent to prop up Cardiff Airport?



Rebecca Evans: Cardiff Airport isn't an outlier. It is quite normal for airports to be in public hands. You look at Schiphol and other major airports and they are in public hands. It is not unusual for Governments, local authorities or others to have an interest in their airport. We are absolutely committed to making the airport a success, but whenever we provide support to the airport, it is conditional on its plan to become sustainable in the future. I think supporting it through the pandemic has been absolutely the right thing to do.

Because of the way in which the Government own the airport, we are the only people the airport can borrow from. It cannot go and get commercial loans, which impacts on that particular relationship. It is absolutely the right thing to do to support the airport, and we have not supported it in a way that is an outlier for comparative support elsewhere. The level of debt held by our airport is much less than other airports in the UK. Airports everywhere have had a difficult time in recent years.

Q44 **Chair:** Yes, sure. Just for clarity, I do not have any kind of in-principle objection to public ownership of airports, but it is about the long-term plan, as Virginia Crosbie talked about. At what point can we expect there to be some return to the taxpayer, or is there just an acceptance now within the Welsh Government that this will be loss making for a long, long time and it is a loss that is in Wales's interests for the taxpayer to bear, basically?

Rebecca Evans: We want the airport to become sustainable in the future, which is why we have asked the airport to put in place its five-year plan to become sustainable in the future, but for now of course it is our role in the Welsh Government to support the airport through the crisis. As I say, it is not unusual to be doing so at the moment.

Q45 **Chair:** Is it still the objective of the Welsh Government to secure the devolution of long-haul air passenger duty? That was something the predecessor Welsh Affairs Committee recommended at one point. It was a particularly strong objective of the Welsh Government at one point. Have things moved on, or is it still something you want to talk to UK Government about?

Rebecca Evans: Yes, this is something we would still want to see devolved to Wales. It does not make any sense that we would be treated differently from Scotland, for example, in this particular scenario. It is something that we continue to press the UK Government to deliver. But it is not just us, it is well supported by business in Wales and, as you say, your predecessor Committee came out very strongly in support of the devolution of air passenger duty. It is something we continue to press with the UK Government. We would be keen if this Committee decided to go down the same lines as the previous one, because your cross-party support is very helpful in terms of helping us continue to make that argument.

Q46 **Simon Baynes:** Thank you, Ministers. It is very good of you to give us



your time this morning. If the Welsh Government were given the power to modify rates of air passenger duty, would they seek to lower them?

Rebecca Evans: We have been very clear throughout the discussions on air passenger duty that we wouldn't set out our policy intention at this point. This is because the Wales Act says there is a specific process that we need to go through with the UK Government to devolve additional powers over taxation. We have been trying to do it for the last two years on a vacant land tax. That is a relatively uncontroversial, relatively smallish tax, but we have not been able to make the system work. We do not think the Wales Act and the process that is set out under the Wales Act in this respect is fit for purpose at the moment.

We would still seek the devolution of this power, but the way in which the system has not worked for the devolution of another power, which is relatively small, does not make us awfully optimistic about the way forward. The point is that part of the system sets out that we should not say what our policy intent is until the powers are devolved, because that should not be a material consideration for the UK Government when deciding whether or not to devolve that power.

Q47 **Simon Baynes:** Minister Gething, I am going to press you on this point because, with all due respect, it sounds slightly like you are avoiding making a decision. If you are pushing to have the powers devolved, presumably you have some idea of the policy you would then pursue. Could I put the question again to you? If you were given the power to modify rates of air passenger duty, would you seek to lower them? You must have some idea whether you would keep them the same, lower them or raise them.

Vaughan Gething: It all depends on the position at that point in time. The lead ministerial responsibility for the airport is with the Ministry for Climate Change. The argument about the devolution of powers does not depend on whether you like the policy answer. As Rebecca Evans set out, there is a process to be able to do this.

A previous Committee recognised that it made sense for the responsibility to be one that the Welsh Government carried. We still think that makes sense. That is where we would like to be, so that we would then be accountable for any choices we made. The danger is that otherwise you get into an argument of whether you agree with what is proposed on how a power might be used, rather than where the power should properly sit. I do not think that is very helpful.

Rebecca Evans: It is such an important principle as we test out the powers under the Wales Act. We have not successfully used the Act yet to devolve any additional tax-raising powers to Wales. The first attempt through the vacant land tax proposal has not succeeded or made progress. It is very important, as we start down this road of testing these new systems, that we stick to this very important principle of not having the policy discussion ahead of the devolution of the powers. The



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appropriate place for that particular debate would be within the Welsh Government and within the Senedd once the powers have been devolved to us.

Q48 Simon Baynes: I will try the question from a slightly different angle because I think it is incumbent upon you to give us some idea of where you stand on the issue of air passenger duty, aside from devolution. In the transport report that we have been studying and the witnesses that we have had, we heard calls to lower air passenger duty for all smaller airports, rather than devolving it to Wales. Would you support such a proposal?

Rebecca Evans: I have to fundamentally disagree. It is not incumbent on us to have this debate here and now today, because it is incumbent on the UK Government and the Welsh Government to make the process work. Part of that process is not setting out your policy intent ahead of the devolution of tax powers. I know how frustrating that is, because I know how much people want to see the full picture but, in terms of making a new process work under the Wales Act, we have to stick to the principles set out in it.

Q49 Simon Baynes: With all due respect, could you answer the question? We heard calls to lower air passenger duty for all smaller airports. Would you support such a proposal? This is an established policy proposal within the industry, so would you support that, Minister Gething?

Vaughan Gething: I am not going to take a flyer on an area where I am not the responsible Minister. It is very good of you to offer me the opportunity, but I am going to politely decline to do so. I am well aware that Ministers regularly get themselves in trouble when they take flyers in areas that they are not responsible for, or when they disagree with other Ministers in public. I don't think that is a sensible position for the Welsh Government to adopt.

Q50 Simon Baynes: Okay. Would lowering air passenger duty for Welsh airports be consistent with your aim of lowering air emissions?

Rebecca Evans: We are getting into the hypothetical field now. Once we have that power, I am more than happy to have that debate as to how we would use it. There are things that are worth recognising in terms of the Welsh Government. Unlike the UK Climate Change Act, Wales's carbon budgets include all emissions from aviation—including both domestic and international flights—so that means emissions from Cardiff Airport are included within the overall emission reduction approach taken by the Welsh Government. That is some useful background, just to give a flavour of a different answer. I am not going to be drawn any further on how we might use our powers, should we have them.

Simon Baynes: I think it is a fair question to ask, whether lowering air passenger duty is compatible with your climate change policy, so I will put that question to Minister Gething.



Vaughan Gething: We are in a bit of a hypothetical world. The problem with asking about one intervention is that it does not take account of what else is happening within the broader industry. If you had people from the aviation industry here, they would talk to you about what they are already doing to decarbonise the industry in production and in the way in which aircraft are used.

There is work taking place already, and I am sure that Airbus and others would happily talk to you about the fuel they use and what they are already looking to do to reduce emissions from air travel. There are real challenges here about the reality that people will travel and will use aircraft and how we take proper account of the impact that has on the planet and our own responsibilities, but I think asking for a one-shot answer on a one-shot intervention is probably not very sensible.

Rebecca Evans: It might be interesting for the Committee to look at the Northgate report that the Welsh Government commissioned. That looked at the relative catchment areas between Cardiff Airport and Bristol Airport, because one of the reasons we believe the UK Government are reluctant to devolve the tax is because they are concerned about a potential impact on Bristol Airport. Whereas our independent report showed that there wouldn't be the kind of impact that they are fearing, but it could mean shorter journeys for people to get to airports and so on. There is lots to consider in this, but it is a useful report for background for the Committee.

Simon Baynes: Thank you both very much. When the Welsh Government own Cardiff Airport, it is incumbent upon them to have some answers to these questions. It would be slightly different if they did not have an ownership stake in it. Anyway, thank you both very much for your time.

Q51 **Chair:** Minister Gething, one other strand of work that this Committee has been looking at recently is renewable energy in Wales. We have taken a significant amount of evidence about the very exciting sizeable economic opportunities that are opening up around floating offshore wind, with numerous companies identifying west Wales and the Celtic Sea as a particular area ripe for investment. We have taken evidence about the importance of making sure there is domestic content, domestic supply chains, so that we are not barging in these enormous turbines from northern France, but that there is an economic payoff for Wales.

One of the things that concerns me, even more than the discussion around freeports—is it going to happen or not—is if this is a big economic opportunity for Wales, some significant investment needs to happen in Welsh ports to get them ready to take advantage of these opportunities, whether that is Port Talbot or Milford Haven.

Who is doing that work? Is somebody sitting down within the Welsh Government and saying, "Right, this is the next strategic opportunity for Wales. This is what we are going to need to do if we are going to be able



to capitalise on this and make sure there is a domestic industry that grows on the back of it"? Someone needs to be directing where improvements in port infrastructure are happening. Is that a piece of work that you are aware is happening within the Welsh Government, or is it a UK Government thing? Who is leading on this?

Vaughan Gething: There is a share of this, because of course we are not responsible for the Crown Estate. Again, that is a difference in devolution between us and Scotland, for example. We know there are permitted or planned applications for about 4 gigawatts of extra energy offshore. In the medium term, we expect lots of development to take place, never mind the longer term. There is work that is already taking place within the Welsh Government between my Department, and also the Ministry of Climate Change, on how to take advantage of that and work with the industry on what they are looking to do.

It isn't simply the Welsh Government leading on it. We have a clear role, working with the industry, and it is more about—again, this phrase—constructive engagement with the UK Government on where there are differences in powers. On permitting, we need to understand what that would look like and how we would want to try to set up the maximum benefits for Wales because, I agree with you, I would much rather see us having a proper economic benefit within Wales, not just from generating cleaner power but from how that power is created.

It is why we are so interested in the potential for marine energy, and it is why we have not let go of the opportunity that the now rephrased Dragon Energy Island could provide, but that does require some UK Government investment. That would unlock lots of other opportunities in creating an industry and all of the supply chain benefits that could come from it. We talked earlier about areas of conflict between the Governments. This is an area where we could see a genuine win for the UK and a win for Wales. We would like to have that conversation on a meaningful level.

Chair: It was the Crown Estate that encouraged me to have a look at what was happening—for example, at the port of Blyth in Northumberland—and made the point that Wales needs to make sure it does not miss out and to do some of what has happened there, where they have been able to capture a lot of the domestic economic payoff of emerging new renewable industries.

Q52 **Geraint Davies:** Rebecca Evans, I appreciate you do not want to be drawn on APD, but we had evidence from a former chair of Cardiff Airport, Roger Lewis, who made the case for all smaller airports across Britain that, if those with fewer than 2 million passengers had lower APD, people would not travel so far to bigger airports like Heathrow and there would be a levelling up. I appreciate that you and this Committee like the devolution of power, but as a proposal that includes Cardiff, of course, would it be looked at sympathetically in the event that there wasn't devolution of power?



Rebecca Evans: The main thing I would like to leave the Committee with is not even about APD in itself; it is about the way in which the system that sits underneath the Wales Act isn't working. It is not fit for purpose. There are a number of steps that have to take place to have the devolution of another tax, but we have had this power for a while. We have been trying to get down this road for at least two years with the vacant land tax, which is not a controversial tax. It is not a very large tax. It is quite simple. We have been butting up against the UK Government because they are requiring more information than the system requires us to give in terms of how we would use that particular tax, which is why I am so careful in what we are saying on this particular agenda today, because the first time we use this system we have to get it right.

The system has not worked. We need to look again to see what we can do to perhaps improve or make the system clearer as to how we can go about devolving tax. Otherwise, it is going to be impossible to use the system and further powers—as was the intention under the Act—will not be able to be devolved to Wales. That is a real concern to us. That is the main area. It is not even about APD; it is about the system not working. I think that is the most important thing I would like to leave you with to reflect on as a Committee.

Vaughan Gething: The principles here are principles agreed by the UK Government, so this isn't the Welsh Government imposing a different set of principles on how the devolution of taxation powers should take place. They agree with the UK Government on the process we are supposed to engage in and on what we agree we won't get into saying. Look, if there was a UK-wide change made for any industry, wherever that exists in Wales, our businesses will need to get used to it—including the airport—and to think about where the challenges and opportunities are.

We cannot get drawn on whether we would welcome or advocate that, because that gets us into a very difficult area when we want to have a practical conversation about the devolution of responsibilities to the Welsh Parliament and the Welsh Government.

Q53 **Geraint Davies:** Can I ask you a general question, Rebecca Evans? If it was the case that Wales came out with a great initiative to help the UK deliver net zero, which needed a lot of extra investment that was not in the current financial arrangements, do you think the UK Government should be open to it, so a partnership bid from the UK to put a lot of investment in to help us get to net zero in one way or another that isn't on the table at the moment? It might be an extra burst of investment in rail infrastructure, by way of example.

Rebecca Evans: Yes. I would definitely be open to having that conversation, as long as the UK Government were clear that they were respecting devolution and respecting our role in delivering on that as well. Absolutely, I am very happy to consider the ways in which we can secure further funding for net zero from the UK Government. In some



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ways it would be very appropriate because, when you look at the industries that we have in Wales and the fact that we have some of the oldest housing in Europe, the challenges that we face are probably larger than the challenges faced elsewhere.

Just to go back very quickly to the devolution of tax idea, it is quite ironic that the UK Government recently said they are planning to look at introducing a vacant land tax. If it is good enough for the UK Government to be looking at, it is certainly something on which we should be able to come to a mature arrangement with the UK in terms of devolution of that tax.

Q54 Chair: Great, thank you very much. We are going to wrap up in a couple of moments. Can I ask one very brief final question, Minister Gething? I am asking you to answer this with your current ministerial hat on rather than your previous one, which was obviously the health responsibilities. When you see 60,000 fans celebrating in Wembley and the pace of easing restrictions that the UK Government have outlined for England, does it make you feel that you want to hurry up the pace in Wales and to see the economy open up and major events come back to that scale, or does it fill you with even more caution?

Vaughan Gething: It is always a balance, whether in my previous role or this role, because you recognise that Covid produces harm and the measures you take to avoid Covid produce a different sort of harm as well, including economic harm. I want to see restrictions ease as fast as possible, as sensibly and as safely as possible. That is the balance. It is about how we try to help people in terms of the behavioural change as well, so that people feel safe in undertaking more forms of activity.

That should then benefit the economy, because the worst thing would be to have a significant opening and then a month later need to slam the brakes on. It is always a balance, but I am looking forward to the Government being able to set out in Wales the next stage on moving forward and, hopefully, out of the Covid pandemic. I do not think you will have to wait very much longer, given our regular three-weekly reviews. I am sure you will be keenly looking forward to the First Minister's regular Friday lunchtime speech.

Q55 Chair: We will, absolutely. If I was running a major music festival in Wales this summer, should I be looking forward to that announcement from the First Minister with interest and excitement or am I likely to be disappointed?

Vaughan Gething: I think you are trying to tempt me into preannouncing something, Stephen. We have regular conversations with stakeholders across Wales and, as I say, we can all wait until the First Minister's Friday lunchtime slot. We genuinely talk to all of our stakeholders, who have very key interests in the pace of what is being done and the choices that they need to make. Each week matters for



those people. I always understood that in my previous role and, indeed, in my current one.

Chair: Thank you, well answered. Thank you both, you have been incredibly helpful in your answers. As always, we really appreciate the time that you give to this Committee at Westminster and wish you both all the very best. We will suspend for a couple of moments and then we will resume for our third panel with the UK Government Ministers. Thank you.

Examination of Witnesses

Witnesses: Rt Hon Simon Hart MP, David T C Davies MP, Zamila Bunglawala and Stephen Webb.

Q56 **Chair:** Good morning and welcome back to the third panel of our session today, where we are looking at a range of current topical issues affecting Wales. I am delighted that, for this third panel, we are joined by the Secretary of State for Wales, Simon Hart, and the Parliamentary Under-Secretary of State, David T C Davies. Secretary of State, you are accompanied by two officials for this session. Can you introduce them, please?

Simon Hart: I can introduce one; I am not sure about the second one. That is a welcome surprise. I know for certain that we have Stephen Webb of the border and protocol delivery group, who hopefully will be able, with his colleague, to deal with a number of technical issues to help the Committee.

David T C Davies: Ms Bunglawala is supporting me on the Turing scheme.

Q57 **Chair:** Thank you very much. We have quite a lot of ground to cover in the next hour, so let's keep our questions and answers as brisk and concise as possible. Secretary of State, I will start by asking a question about something that has been in the news overnight. It is something you were asked to comment on yesterday, I think, and the Prime Minister was asked yesterday afternoon at the Liaison Committee. We have had some comment on it this morning from the Welsh Minister for the Economy, Vaughan Gething, and it relates to the Chinese takeover of Wafer Fab, a semiconductor plant in Newport.

I ask because there seemed to be a bit of discrepancy about the messages coming from the Welsh and UK Governments about security concerns relating to the deal. What is your understanding? The reported comments from yourself seem to suggest that there were no concerns, it had been given a clean bill of health and that everything was fine from your point of view and from the point of view of BEIS. Why did the Prime Minister say yesterday afternoon that he was going to reopen this and wanted the national security adviser to look at it again?



Simon Hart: Yes, I have been reading stuff as well. To give you an answer, I refer to the letter from Kwasi Kwarteng in BEIS to Tom Tugendhat as Chair of the Foreign Affairs Committee dated 30 June, in which it says—and I will just quote the paragraph; the rest of the letter I suspect will be made available—“The Government has powers under the Enterprise Act 2002 to intervene in acquisitions which raise national security concerns, and these powers were recently strengthened through the National Security and Investment Act 2021. These are important powers, but we are also clear that the overwhelming majority of investments in the UK’s economy raise no national security concerns, and that mergers and takeovers are primarily commercial matters for the parties involved.”

That comment was in direct relation to a question from Tom Tugendhat regarding the Newport Wafer Fab situation. On that basis, BEIS’s comment seem very clear to me, and hence my comments to ITV Wales yesterday that a risk assessment has been made of potential security issues, which the Secretary of State for BEIS was content with. Now, the fact that the PM may have asked for it to be confirmed or to be challenged or to be looked at, I don’t think that adds or subtracts from the comments that Kwasi made. I think it is a perfectly normal thing for the PM to say, “Look, yes, can we just double check that that situation still stands?” I imagine that is what it is.

Q58 **Chair:** Except the Prime Minister said yesterday that it was the Welsh Government that had asked UK Government to take care of this. Vaughan Gething said to us this morning that there was absolutely no request from the Welsh Government to reopen this or to look at it again, and that all national security matters are entirely the UK Government’s responsibility. Was this just a simple slip of the tongue? Was it misspoken? Why is there this kind of discrepancy in what we are hearing about why the UK Government are now asking the national security adviser to reopen this deal?

Simon Hart: I am not privy to the PM’s comments yesterday or the forum. Whether they were at Prime Minister’s Questions or the Liaison Committee, I am not quite sure. I probably ought to defer to No. 10 for a clarification on that. But the situation around what is devolved and what isn’t, and whether security is a UK Government reserved matter, I think that is correct. I think UKG is responsible for security issues in this respect, and bearing in mind of course that the Welsh Government have been—I do not know whether they still are—significant investors in Newport Wafer Fab to the tune of £20 million-worth of taxpayers’ money, so they have quite a significant interest in this themselves. As I say, the actual dialogue between the Welsh Government and officials in UK Government on this specific point, I cannot answer.

Q59 **Simon Baynes:** Thank you, Ministers, and officials. We very much appreciate your time. I want to start by looking at the Turing scheme and ask you what advantages it has compared with the Erasmus scheme, and



in particular two key points. The Turing scheme does not pay tuition fees for students studying overseas. What effect do you think this will have on access for students from disadvantaged backgrounds? Secondly, the Turing scheme does not extend to staff exchanges. Will alternative mechanisms be implemented to allow for staff exchanges?

David T C Davies: First of all, the Turing scheme is going to be targeted at students from a more disadvantaged background. One of the problems with Erasmus+ was that those taking part were apparently 1.7 times more likely to be from privileged rather than underprivileged backgrounds, so the first benefit of this scheme is it will target those most in need. It is going to do that in a number of different ways.

First, it is going to pay a grant to those who are taking part, whether they are disadvantaged or not, a grant that is slightly higher than the grant equivalent for those on Erasmus. I believe the figures are £335 to £380 per month for those on Turing compared with the £320 to £365 that they currently get on Erasmus+.

Secondly, there is a minimum that has been set at just four weeks, because some of the research work we carried out suggested that making people go for a year was quite disadvantageous and off-putting to those from disadvantaged backgrounds, so we think bringing down the minimum that one needs to go for, or take part in the scheme for, to four weeks will help.

Overall, the number of students that are going to be helped is about the same, 35,000. The amount of money being spent is going to be less, only because it is not working on a reciprocal basis. Previously under Erasmus+, a lot of foreign students would come over to the UK and relatively few would go abroad. Of those few who went abroad, a relatively small percentage were from disadvantaged backgrounds. We think this scheme is going to be much better. It is good value for money, and it is targeted at those most in need. It is going to help the same number of people and provide them with the same or, if anything, slightly more money to cover their costs.

Q60 **Simon Baynes:** Could you comment on the staff exchange point as well?

David T C Davies: On that point, it is not going to cover staff exchanges; that is correct. But the purpose of this scheme is to help the young people, particularly disadvantaged young people, and not so much staff. It does not cover staff exchanges.

Q61 **Simon Baynes:** What support is being provided to Welsh universities applying to the Turing programme?

David T C Davies: All universities across the UK are being encouraged to apply. I know that some universities from Wales have applied, and I believe the applications are being considered at the moment. There is no cap on taking part. It is not Barnettised in any way, which means that if



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Welsh universities come forward with good proposals they could potentially get much more than 5% of the scheme.

The UK Government are encouraging all university and higher education providers to take part in this and to get involved. As I understand it, there has been a very healthy response to this so far.

Q62 **Simon Baynes:** Overall, are you pleased with the reception for the Turing scheme not only in England but across the UK?

David T C Davies: Yes, I am. I do not think I am in a position to be able to comment further on the applications that have gone in, but I know there are applications from Wales. Obviously there will be lots of Welsh students who decide to go and study at universities in England, and English students in Wales, so it would be difficult to start Barnettising this or working out a proportion: has one nation done better than another? Although I am not sure that will stop some people trying to find that out and create an issue out of it at some point in the future.

Overall, I know the response to this scheme has been very healthy, and I welcome that. I know that Welsh universities are among those whose proposals are being considered at the moment.

Q63 **Dr Jamie Wallis:** What led to the decision of the UK Government to leave the Erasmus scheme in the first instance? What was the thinking behind that?

David T C Davies: One of the issues was the cost of the Erasmus+ scheme in relation to its benefits. The European Union was not prepared to negotiate on the amount of money that was being asked for, for Erasmus+. Ms Bunglawala might be able to correct me, but I believe it was looking for somewhere in the region of £600 million. I do not have that figure in front of me and I am perfectly happy to correct it if it is wrong. I believe it is within that ballpark.

When the UK Government looked at the numbers of students and others who were going to benefit from that, they felt that it offered very poor value for money; I believe this was pointed out to the relevant authorities. We were effectively told there was going to be no negotiation about it. It was based on a historical formula and that was that. That is why the UK Government started to bring forward their own scheme, an improvement; something that could offer slightly more money to young people and also to target those most in need.

If Ms Bunglawala wants to correct me on that £600 million figure, I am perfectly happy to be corrected.

Zamila Bunglawala: Minister, the sum is correct. The contribution would have been £600 million, or a net contribution of £2 billion over the course of the programme.

Q64 **Chair:** Will the Turing scheme enable students in one part of the United



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Kingdom to spend a term or even a year at another university in a different part of the United Kingdom? For example, a student at Cardiff going to spend a year at Edinburgh or Belfast.

David T C Davies: That is a very good question, which I do not know the answer to. I wonder if I could cheat slightly and ask Ms Bunglawala if she could help me out on that point.

Zamila Bunglawala: We are still looking at the applications, so we do not yet know if we have received those types of applications. I do not think it would prohibit students taking part, but we are happy to double check because we are still going through the applications.

Chair: The reason I suggest that is because, over the last 20 years, one of the side effects of devolution has been that the highly integrated UK higher education market we had has fewer Welsh students studying in England and Scotland. This might be one way of ensuring that UK students can benefit from another part of their own nation, but thank you, if you would look into that.

Q65 **Ben Lake:** I would like to ask a little bit about the preparedness of some of the border control posts and customs checks. We heard some evidence this morning from Stena in Holyhead and Fishguard and from the Welsh Government, who—I think it is fair to say—are quite concerned about progress on the border control posts in particular. Would either of you like to put your view as to your current assessment of progress on these facilities and whether you think customs checks will need to be delayed further from 1 January next year?

Simon Hart: Where we are, as far as we are concerned at the moment, is that the sale of the HMRC site in Holyhead—this is a bit of a catch up on what I suspect you know already—has been agreed. The Welsh Government owned the site, but the infrastructure necessary, it is suggested, might not be in place until 2022 or even 2023 at a push. That is a very brief overview of what is happening on that north Wales site.

As far as Fishguard and Pembroke are concerned, this is an ongoing saga. I am not sure that is the right word I should use, but I will use it. As far as we are concerned, no site has been identified yet. That means that, even if a site was identified and developed, it is still going to be a significant period of time before that site or those sites are functionable. There is clearly an onus on the Welsh Government to make it clear to the Committee, and anybody else—given this is their responsibility—precisely what plans there are to manage the various processes in the interim.

The Committee is also familiar with the fact that there has been an exchange between the Treasury and the Welsh Government regarding the funding. I do not have a copy of the letter in front of me—but I am sure we can produce one any second now if you have not seen one—which indicates that UKG is prepared to fund something in the region of £30 million for the development of those sites. Stephen may have a more up-



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to-date figure on that. That is where we are at the moment in terms of the actuality, but Stephen may be able to talk to you about that.

Stephen Webb: We can confirm that there is a high degree of confidence in the ability to deliver customs checks at the borders. Most of those are going to be at the port and are funded through the Port Infrastructure Fund, for which I am directly responsible. There is high confidence in an interim operating capability, and there is obviously the ability to continue to use Warrington.

As you said, the key issue is the border control point for the SPS checks where, for the reasons the Secretary of State set out, those bits of infrastructure are unlikely to be completed at the point at which checks start phasing in from 1 January. We are working closely with Welsh Government colleagues to understand what sort of interim processes we can put in place there, because Ministers are very committed to the dates that have been set and we are not looking to see them slip further to the right.

Q66 **Ben Lake:** Secretary of State, you mentioned there is a concern that one of the sites may not be fully functional until 2023 or have I misheard you?

Simon Hart: I do not think you have misheard me. We all know how building projects go. These are lengthy processes. By definition, they have delays. There are planning issues, there are environmental issues, there are legal issues and then there are probably construction issues. The idea that, even from where we are now, we can complete these things anytime in the immediate future is highly unlikely. I am as frustrated as anybody by this, as you can probably tell. We have had this conversation in this Committee for ages, and every time we have it the progress that we are able to report to you is extremely limited.

It is one thing us being frustrated, but we probably do not have much cause to use these ports very often. There are plenty of businesses in Wales, passengers going through Wales, freight operators, who have been expressing their views in increasingly concerned terms. We have to deliver on this stuff. I say “we”. I mean those who have direct responsibility. In the case of Fishguard and Pembroke it is the Welsh Government, and in the case of Holyhead, HMRC—who are at least making some progress—and the Welsh Government itself. I was not listening in on your evidence session with the Welsh Government, but these questions are very pertinent to them.

Q67 **Ben Lake:** One of the aspects that was made very clear to us by Mr Davies from Stena Line, in the first panel this morning, was that a lot of freight companies and supply chains will, of course, make decisions far in advance and in anticipation of any uncertainty or lack of clarity about arrangements. I am mindful that this might be impossible to answer but, in case it is possible to answer, has there been any initial assessment of what impact any further delay might have on the flow of goods between



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Holyhead, and also the Pembrokeshire ports, should these facilities not come online and be fully functional as hoped for on 1 January?

Simon Hart: Can I pass that question on to Stephen, but with the initial contribution from me that there is an ongoing assessment of what the freight levels consist of, where they have been and where they are now. You can therefore read into that whether there is a pattern developing. I also point out that when we had this conversation last, we were informed by the border protocol—Guy Stephens's team—that it was clearly quite early days to be able to make an assessment of the long-term effects.

It was quite early days to be able to make a distinction between whether these effects could be pinned on any Brexit consequences or whether there was a degree of Covid influence in the way in which the trends were unfolding. I cannot remember how many weeks or months ago we had that conversation in this Committee. It may be an opportunity for Stephen to put us all right in terms of some of the stats and the trends that you refer to.

Stephen Webb: On the first point, have we done any analysis on the impact of further delays? Just to repeat the point I made earlier that Ministers are very committed to these dates. We have already allowed a fairly significant delay to allow businesses to recover from the Covid pandemic, and there is no intention of planning any further delays. What we are working on is what we can deliver in time, recognising that some of the infrastructure may not be complete.

On the last point about the trade flows, your witness from Stena was citing a 20% to 25% ongoing reduction in trade at the moment. That is reflected in our analysis. Clearly there was a bigger drop early on, and it has recovered to an extent, but it is still some way behind what it had previously been.

Q68 **Chair:** As we are talking about the reduction in trade flows, Secretary of State, how concerned are you about whether there is any long-term displacement that undermines the viability of the two ferry ports operating out of Pembrokeshire? One of the directors of Rosslare ferry port has already gone on record saying that there should be one ferry port to serve that corridor. Have you had any discussions about what the long-term viability might be of these two relatively small ferry services that operate alongside each other?

Simon Hart: I have had conversations going back a very long time. Interestingly, the discussion about whether there was capacity for two or whether there should be one predated Brexit and predated Covid by nearly a decade, I seem to remember. It has always been on the agenda, but I suspect the events of the last couple of years have probably driven it to the top of the agenda in terms of business planning.

On the positive side, I get a distinct impression from ferry operators, as well as freight operators, that they want this to work. I do not think they



are looking at an excuse to vacate, to disappear, to downgrade or anything like that, although there may be some temporary displacement as far as freight routes are concerned. There seems to be an underlying ambition to remain loyal to the existing routes for very clear and obvious commercial reasons.

I stress, as I did earlier, that I do not want to be having this conversation with this Committee in six months' time or a year's time because then the certainty element, which Ben Lake referred to, becomes much more acute. People are being very patient and understanding about some of the interruptions to normal service, which was expected to some extent through Brexit, and was understood to be a natural consequence of Covid as well.

Unless we are able to see absolute clarity—that includes timescales—as to what the future looks like, people's confidence and certainty that these ports can get back to normal operations becomes more challenging. That is a significant challenge for the Welsh Government. They have to be very forthright, clear and urgent in making their position clear as to how they see this unfolding. The UK Government have a responsibility, too. Subject to the business case that is required of the Welsh Government in terms of the infrastructure work at Fishguard and Pembroke, for example, we have already said, "If you can produce the business plan, we will produce the cash." It is not a small amount; it is over £30 million of cash, and that is on the table now.

Q69 Virginia Crosbie: Regarding the Holyhead inland border facility, HMRC exchanged last week with the truck stop in Holyhead and this will create more than 200 jobs. We had Stena this morning, and it is delighted that HMRC has worked hard to keep the facility on the island rather than it going to Bangor or Warrington. Secretary of State, do you agree that more than 200 jobs and investment in Holyhead will be significant for the local economy?

Simon Hart: Absolutely. I have tried in everything we do in the Wales Office. In whatever capacity we are able to do it, we will always look at every decision and every development through the prism of how it creates well-paid jobs with a proper career plan, how it can enhance the local economy and how it fits in with levelling up. Recognising that the economy is going to look very different in its post-Covid and post-Brexit clothes, there is going to be an opportunity for people to train, work and operate perhaps in a new industry, a bigger industry. That is a good thing. We have to look at the very positive as well as at some of the challenges.

Q70 Virginia Crosbie: I know HMRC has done a presentation to the truck stop employees talking about employment opportunities. Can you confirm that these will be local jobs for local people and that local businesses will have an opportunity to tender for the project?



Simon Hart: I do not know the answer to that, because I have not had the conversation with HMRC. What I can tell you more generally on, using the two phrases you have heard so often, strengthening the Union and levelling up is there is an absolute recognition, particularly in the UK Government—it is like the hub in Cardiff in a way—that we try to ensure that these are jobs in Wales for Wales by Wales rather than an outstation from Whitehall. That is not the intention of me or any of my colleagues here.

That is partly a conscious decision that is taken with levelling up in mind. Also, there is a practical advantage in making sure we tap into the skills, the local knowledge, the expertise and the attachment people have to their local area. Whichever business sector you look at, it tends to have fantastic positive effects, whether it is in this proposal or whether it is in other proposals from the public or private sector in the region. Although I have not heard it officially, unofficially it is very much where we are trying to get to.

Q71 Virginia Crosbie: Stephen, obviously for the Welsh Government and the UK Government the SPS checks and the inland border facility are two very separate things. It might be quite helpful that they are going to be co-located in Parc Cybi, but they do not necessarily have to be co-located. In your view, in terms of the different responsibilities, could you give some colour in terms of how the relationship has been working together and how this has affected the timeline?

Stephen Webb: There have been two very different processes. One of the reasons for the delay early on was the sheer size of the facility if you try to co-locate and we did look at a number of options. As you indicated, there were some options that were off-island that were less appealing for other good reasons. In the end, the decision was made to split them. That means they are two differently run projects, although close together and hopefully with some economies of scale as a result.

The Welsh Government are working on their own on the BCP on plot 9 of Parc Cybi, and similarly working on the proposal in south Wales. I chair a weekly group of infrastructure directors where there has been quite good engagement between Welsh Government colleagues, Defra colleagues and ourselves, in trying to share some of the lessons about challenges in the south Wales facilities that are comparable, sharing of plans and also understanding what is going on in all the other ports that are getting PIF money.

We are working closely to share the lessons and help each other, but fundamentally it is a Welsh Government project to deliver the BCPs and we are obviously keen for that to progress as quickly as possible.

Q72 Virginia Crosbie: Can you confirm that the inland border facility will be up and running on 1 January, albeit in temporary sheds?



Stephen Webb: We are confident we will have an interim operating capability there. It will not be finalised, but there will be a facility there.

Q73 **Chair:** I was due to come to Geraint Davies, who does not seem to be on the call at the moment, so we might find ourselves wrapping up rather early. We have just taken evidence from the Welsh Government Economy Minister about a range of issues. One of which was the ongoing discussions between the Welsh Government and UK Government around a freeport; at least that is the theory. It does not seem to be the case that there is much meaningful discussion happening.

What is your understanding, Secretary of State or Minister Davies, of what the latest state of play is? What needs to happen next if we are to unblock this issue? Every time we seem to meet, Secretary of State, we seem to be talking about this issue and it has been going on for months. We are keen as a Committee to see some progress. Any update at your end, Secretary of State?

Simon Hart: We are keen to see some progress, too. We have been talking about this with a view to our original plans, which were to deliver the freeport initiative across the whole UK in the early part of November last year. It may have been earlier than that, I cannot remember now, it seems such a long time ago. The announcement, as you know, went ahead for freeports in England because we could not reach agreement with the Scottish Government or the Welsh Government with regard to some of the detail. By the way, our determination to do this is undiminished. I have said lots of times in public that it is a case of when not if. I have not changed my mind at all, as far as that is concerned, because there is a manifesto commitment for at least one freeport in Wales. We are going to go hell for leather to ensure that we deliver on that.

The stumbling block appears to be around three areas. It has been a little bit frustrating—and I do not know what the evidence session you had this morning might have revealed—but the Welsh Government's response to the proposal was initially quite warm when Ken Skates was Minister. There was a widespread understanding, certainly in Ken's Department, that freeports had significant job-creating opportunities and would have delivered prosperity, optimism and all the other upsides in whichever area was finally chosen to be the beneficiary of one. If Ken Skates had been in post, we would have been able to deliver this by now. But for reasons that are a matter for the First Minister, not for me, we do not seem to be in as quite a good a place now as we were then.

The new Minister has made three asks, which on the face of it sound quite innocent but in reality are quite significant. First, a joint decision-making criteria assessment of bids and award of the final status to be in conjunction with the Welsh Government. Secondly, conditionality to reflect the values and priorities of the Welsh Government, which I thought were the same values and priorities as ours, which is to create and sustain jobs. I am not quite sure why there should be any variance of



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ambition between us on that, because what we are trying to do in a post-Covid world is to rebuild the economy and this is a good way of doing it. I would like to think that we could take that second requirement.

The third requirement is around funding. As we know, there is a funding differential arguably, which has been pointed out by the Welsh Government, in that freeports in England have a value tag of roughly £25 million and in Wales and Scotland it is £8 million. Part of the reason for that difference in figure is down to the fact that, of course, a freeport in Wales will produce numerous advantages to the Welsh Government by way of tax receipts and inward investment, income tax arising out of job creation, and so on.

I do not think it is quite as simple as saying, "England gets £25 million and Wales get £8 million, therefore it is not fair. Therefore, we are taking our toys home." That does not seem to be a legitimate argument. Even if it was, it could be overcome.

There is another observation being made about job displacement. The thing that worries me at the moment is, with the freeport scheme up and running in England, the biggest risk of job displacement is from Wales to England. Unless we get on with this and get our manifesto commitment, that is the risk. Those are three rather innocent sounding but pretty drastic reasons why we have not been able to sign on the dotted line with the Welsh Government.

I remain optimistic, because we have made some progress in Scotland. That is coming along, and we will get there. I very much hope we can do civilised business with the Welsh Government over this. I have a meeting with Vaughan Gething next week.

Q74 **Chair:** At what point, though, do you and the Treasury—and presumably the Department for Transport—take a decision that carrying on this dancing around between yourselves and the Welsh Government should not carry on any longer and you take a decision to do what you have said previously, which is for UK Government to effectively impose a freeport over the heads of the Welsh Government? Do you have in mind a timescale at which point you call off the on-off conversation with the Welsh Government and crack on with it? Vaughan Gething said he thought that approach would lead to the worst possible outcome in this issue.

Simon Hart: Sorry to ask a question when I should be answering them, but what does he think a worst possible outcome looks like?

Chair: That was the phrase he used in relation to the UK Government unilaterally taking a decision to implement a freeport without the co-operation of the Welsh Government because of the way that some of the policy levers around freeports are devolved.

Simon Hart: The worst possible outcome would be if we let down the port authorities, local authorities, economies, communities and



jobseekers around Wales who have much more faith in this proposal than it seems Vaughan Gething does. All of the inward pressure we are getting—and the disappointment for me is that we are only going to be able to do one initially—is that there is such widespread enthusiasm for it. If I was getting a similar gloomy outlook from Holyhead, Milford Haven or Cardiff, I might be going back into my burrow and thinking again. But we are not. We are getting people saying, “When are you going to do this? We want to be part of this. We want to sign up to this exciting proposal. We want to find a way of making it work.” It is not a political debate at all.

For me, when Vaughan Gething talks about the worst possible outcome, the worst possible outcome is that we let down all of these people who simply do not understand why we are having an argument about something that will produce 15,000 jobs at a time and in a place where we desperately need 15,000 jobs.

If we can demonstrate that a single freeport in Wales has been a resounding success—as I think we will be able to demonstrate, and we are certainly going to demonstrate it in England—there is a very strong argument for launching a process for a second freeport in due course and putting pressure on the Treasury to look at that as an option at some stage in the future.

It is all very well for Vaughan to wring his hands and shake his head, or however he deals with these things, but the fact is we want to do this with the Welsh Government. We are prepared to put significant sums of money and effort into doing this with the Welsh Government. But I do not want it to get becalmed in some sort of bureaucratic dispute when everybody around the rest of the Welsh economy is scratching their head and wondering why their Governments are unable to reach agreement.

I am very happy to continue the negotiations up to a point where it looks like we are going to lose business to the rest of the UK or to Europe and the world as a result of inactivity. There is nothing spooky or untoward about what we are proposing. Nothing whatsoever. All the local authorities in Wales are pretty solid about this. My plea to him is, “Come on, let’s do some more talking and see if we can get this over the line as a joint venture.”

Chair: Thank you very much, that is very clear. Geraint Davies has joined us again. Geraint, welcome back.

Q75 Geraint Davies: If I can come back, Secretary of State, on the point you made about freeports. We heard this morning from Minister Vaughan Gething that the Welsh Government are simply awaiting a detailed proposal from UK Government so they could get on with it. They also mentioned, as you said, they would ideally like to have a level playing field on funding. That is true. I assume they would enjoy joint decision-making and some sort of fairness at work. But they are simply waiting for a detailed proposal to hit the table so they can progress things, because



we have heard from Stena that trade is down by a third versus this time in 2019. When will that detailed proposal be sent to the Welsh Government?

Simon Hart: We have been talking to the Welsh Government about this for what seems like an age. Progress was reasonably brisk and quite optimistic under the previous Administration; it seems to have hit some deeper sand since the changes were put in place. As I say, I do not want to end up having an argument about process, power and all of those things. The freeport model seems to be widely recognised as quite a good one by a number of local authorities and port authorities in England, who are the happy recipients of freeport status. Even the Scottish Government did not object to the funding model, so that tells you something.

We are in a good place in our relationship with local authorities and port authorities in Wales. All of the bits of the jigsaw are here, they are in place, they are ready to go. We could launch this thing.

Q76 **Geraint Davies:** Is it the case that there is a detailed proposal on the table that could be evaluated and, if there is, will you provide the Committee with that detail? The Welsh Government claim there is not a detailed proposal and there is lots of talk about this. None of us, I hope, want to see jobs lost or displaced from north Wales, so will you give us that proposal?

Simon Hart: I will happily give you every piece of information that I am allowed to on freeports, every single thing. Everything, the officials are on this, I am happy to provide because I want this to happen. It seems absurd that we are—there are lots of occasions in our lives where we have fundamental things that we fall out about and we cannot agree on. This ought not to be one.

That second of the three criteria, the conditionality point—as long as freeports reflect the values and priorities of the Welsh Government—our values are completely aligned on this. As you rightly point out, I absolutely agree with you this is about jobs and livelihoods. It is about investment. It is about all of the things we are desperately trying to achieve for Wales. There is no reason to lose those opportunities on the altar of process.

Q77 **Geraint Davies:** On employment standards and workers' rights, because we are talking about values here, are your values exactly the same as the Welsh Government's, because they clearly want assurance that they are and that is why they put that down. I know you just said they are the same, but are they?

Simon Hart: I think they are. Apparently so do a range of interested parties and stakeholders around Wales who have a pretty reasonable track record in these areas, so I take great confidence in the fact that it is not just the UK Government saying this. In terms of being able to get a feel for what all of this consists of, the bidding process that has led to the



freeport status in England is a good place to get a flavour for what this involves, and it was sent to the Welsh Government in November. I am not even certain the Committee might not have had it then, but I would need to check that.

We are all in danger of agreeing with each other, and I do not think it would take much to get this over the line. What would be tragic is if it failed to get over the line, not because of economic differences but because of some sort of underlying concern on the devolution settlement or something like that. It should not be about that. This is something we can all agree on.

Q78 Geraint Davies: Can I just end on two points? You are happy to provide us with any detailed proposals that have been submitted, and maybe you could include the point you made about income tax. If there are more jobs, my understanding is that income tax would be clawed back by the Exchequer not the Welsh Government. Even though there is marginal setting of it, any extra jobs would be—perhaps you could provide the formula.

Chair: Can we move things on, please? We are running out of time.

Simon Hart: I will provide all of the relevant information that I am allowed to provide. There might be some commercial interests somewhere that I have not—

Q79 Geraint Davies: Can I ask about the Turing programme and how that will interact with the Welsh Government's international learning exchange programme? Is there going to be any move to ensure that the UK Shared Prosperity Fund does not disadvantage higher education institutions in Wales?

David T C Davies: There are three questions in there. The Welsh Government scheme is obviously going to be additional to the Turing scheme. The Turing scheme, as I explained earlier, has been set up primarily to target disadvantaged students in a number of ways, the details that I will go into in a minute.

The Welsh Government scheme is a separate scheme, which I assume is going to be complementary to that, and we wish them all the very best with it. The Turing scheme is not, as far as I am aware, being funded using European money. It has been funded using £110 million of UK Government funding. There is no loss of funding here at all.

Q80 Geraint Davies: Does it mesh with the Welsh Government's international learning exchange programme, do you feel? Does that add value to the Turing programme?

David T C Davies: They are two separate programmes. With all due respect, you probably have to ask a Welsh Government Minister to explain how their scheme is going to provide additionality to the one being funded from the UK Government. The UK Government scheme is



designed to support 35,000 students who want to spend a period of time studying abroad. Any scheme that any other devolved nation brings forward is obviously going to be additional to that. I could not tell you the detail of how the Welsh Government scheme is going to work. I can, of course, answer any questions on how the UK Government scheme will work.

Q81 Geraint Davies: Fair enough. The Welsh one is five years and the Turing scheme is one year, and universities are saying they would prefer a longer timeframe to plan in. Can you press for that, that we try to get a longer programme so universities in Wales can plan around that?

David T C Davies: Ms Bunglawala, from the DfE, is on the call and can advise me. Obviously, we are now taking applications for the first year. Welsh universities are well represented within those applications. My understanding is it is a seven-year programme, but I will defer to the expert for a moment.

Zamila Bunglawala: The current programme is, indeed, one year. The applications have closed. It will start in September this year. We are looking into future applications as well. It is not yet currently in play, because this was literally as we came out of the deal. It is the first year for the new Turing scheme.

David T C Davies: I stand corrected, it was the other one that was a seven-year scheme. I have no reason to think we will not continue to fund this. We look forward to a successful scheme.

Q82 Virginia Crosbie: Regarding freeports, Secretary of State, the Welsh Government are focused on seed capital, which is important. The real focus should be on all the investment and jobs coming to Wales that we would not have if we did not have freeports in Wales. I have companies like Tratos, Rolls-Royce and Bechtel all interested in investing in Anglesey, should we get freeport status. The real question here is: is Wales open for business? What is the signal that freeports give to the rest of the world for investment?

Simon Hart: It is a good point, and the signal that we always should be sending out is one of economic opportunity as part of a big, exciting economic recovery piece. Anything that looks like it could deter that is unfortunate. When we have talked with a number of inward investors into Wales over the last year or 18 months, there are a number of factors that they are clearly looking at, including available skillsets and infrastructure, but what are the bureaucratic hurdles? If the bureaucratic hurdles look more difficult to negotiate than they might in other parts of the UK, we risk losing these investors to other parts of the UK. It stands to reason that, if somebody has to go through two hoops rather than one, and therefore all of the costs associated to go through two, in order to create the same economic footprint, we have to be careful that they do not think, "Do you know what? It will be easier for us to go to Liverpool or Avonmouth" or to wherever it is.



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We must not allow that to be an impression that we give as a result of our inability to get this freeport proposal over the line. There are some interesting proposals you would have read about: Ciner Glass coming to Ebbw Vale. Wales has a great reputation for being able to attract business, but the moment it looks like we are involved in some sort of bureaucratic stand-off we will lose business. It is as simple as that. We must not do that. People want this to happen. None more so than me.

I would like to appeal politely to Vaughan, let's look at ways we can get this to work rather than look at ways we can get it not to work. At the moment I feel that every time we take a step forward somebody folds their arms and says, "Oh, can't be done, must not be done, should not be done" whereas my attitude is, "To hell with all of that, let's find a way this can be done. Let's sweep away these obstacles." If they are political obstacles we are big enough, I hope, to be able to deal with those differences behind closed doors and extend both our Governments' welcoming arms around people whose business and investment is very welcome.

Q83 Chair: That aspiration of the two Governments working in an incredibly pragmatic way, co-operating and identifying opportunities, seizing them together for the benefit of Wales, is a vision that will resonate with a lot of businesses and individuals right across Wales. You spoke earlier of how, in the context of freeports, had Vaughan Gething's predecessor, Ken Skates, still been in place you felt confident there would be progress, and you referred to the position of the First Minister on freeports. Is it the First Minister, is it other individuals or is it more a bureaucratic design of the devolution system that prevents the kind of vision that you have just spoken powerfully about being realised in Wales?

Simon Hart: I wish I knew the answer to that. All I can report is that, in the months leading up to the recent Senedd elections, the discussions that we were having with Ken and his team about freeports were largely upbeat and optimistic and, as I say, conducted in a manner about how we could reach agreement. If we could not reach agreement, what areas needed to be explored and rectified so that agreement could be reached. I am confident that we would have been able to shake hands on a deal. It was there for the taking.

Almost out of nowhere, the attitude changed. The theory at the time—and this is a theory, so I am not quoting any evidence or anything like that—was the First Minister had a different ideological outlook from Ken and others, as far as freeports were concerned, and had issues around tax havens, workers' rights and displacement. Some of those may have been legitimate concerns, as he is perfectly entitled to have. It was at that moment that suddenly the brakes came on and we realised we were going nowhere fast. There was a fundamental change. The theory was that the FM, as he is entitled to do, had decided this was not quite the proposal that ticked all of his boxes.



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It is our job to try to persuade them that there are so many upsides that we should not be missing out on this opportunity. The trouble is if I am the only voice in that argument, I suspect it will go on for ever. The fact is I am not the only voice in that argument. There are lots of people out there, of very different political backgrounds to mine, who are making the same argument.

Genuinely, I want this to be collaborative. It can be. I am quite happy to keep going on for ever about this. Not for ever, to be honest, but I am quite happy to go on for a bit about this because it is all upsides. Let's not go searching for excuses for this not to happen.

Chair: Secretary of State, you have brought us almost to the very end of our allotted time together. We are incredibly grateful, as always, for your time and for the frank and full answers that you give us. My thanks to you as well, Minister David T C Davies, and to your officials, Ms Bunglawala and Mr Webb. I am grateful for your input, too. Thank you very much. I look forward to seeing you again on another occasion. Have a great day, everybody.