



HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Inquiry on

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WEDNESDAY 4 MAY 2011

4.10 pm

Witnesses: David Lidington MP, Hermione Gough and Tim Voase

Members present

Lord Bowness
Lord Carter of Coles
Lord Dykes
Lord Foulkes of Cumnock
Lord Hannay of Chiswick
Lord Harrison
Baroness Howarth of Breckland
Lord Jopling
Lord Maclennan of Rogart
Baroness O'Cathain
Lord Richard
Lord Roper (Chairman)
The Earl of Sandwich
Lord Teverson
Baroness Young of Hornsey

Examination of Witnesses

Witnesses: **David Lidington MP**, [Minister for Europe], **Hermione Gough**, [Deputy Director of EU and Global Issues Secretariat, Cabinet Office], and **Tim Voase**, [Deputy Head of External Team, Libya Unit, FCO].

The Chairman: Minister, I know you may have a division soon. May I say how pleased we are to see you? We are pleased also to see with you Hermione Gough, a Deputy Director of the European Union and Global Issues Secretariat at the Cabinet Office and Mr Voase, who is the Deputy Head of the Libya unit of the Foreign and Commonwealth Office. You must be having a very busy time at the moment. I remind you and the officials that the session is in public, it is being webcast and a transcript will be taken. A copy of the transcript will be sent to you and you will have the opportunity to make minor amendments, but it will be published online in uncorrected form first. I remind my colleagues to declare any relevant interests when they speak.

Q1 Lord Harrison: Good afternoon, Minister. I congratulate the Government first of all in respect of the European Stability Mechanism for providing civil servants who work on its

construction now with a view to it coming in smoothly in 2013. Would you like to say a few words about the areas in which they will be providing expertise and so on? Could you also comment on the scope and governance structure of the European Stability Mechanism and the implications for the UK, which are very important? To what extent would the UK be affected if a euro area Member State required debt restructuring and UK banks were among the owners of the bonds? What is your view of the decision to involve private creditors only after a case-by-case analysis and not as a result of a more automatic procedure? I do not understand why they are not involved from the start. You may have a view on that. Finally, do you support the decision that the ESM will not be able to purchase bonds on the secondary market? I think the European Central Bank was able to. I know that the ECB is not the same thing, but I wondered whether you had any comment on that wrinkle.

David Lidington MP: Thank you, Lord Chairman. Lord Harrison's question is probably worth a fairly lengthy seminar in its own right. I shall try to be as succinct as I can, but I hope that the Committee will forgive me if I start with a reasonably lengthy response. I will happily take supplementary questions if that is what the Committee wish.

I am grateful for Lord Harrison's comments about the Chancellor's decision to get UK officials to participate. Of course, we took part in the task force discussions leading up to the March European Council and, as Lord Harrison says, we are sending officials to take part in the meetings to finalise the detailed design of the permanent ESM. Their prime purpose will be to ensure that the interests of the United Kingdom are looked after. We will not be a party to the ESM itself. In the case of Ireland we made bilateral assistance available. We wanted to make sure that whatever was done by the eurozone countries within the framework of the ESM did not adversely affect the freedom of action of a future United Kingdom Government in respect of what we wanted to do or not do in the future.

We have also taken the view that this is primarily a matter for the countries that have the euro as their currency. We take the view that it is the responsibility of the United Kingdom Government to sort out our own fiscal and economic problems, to eliminate the deficit that we have, and that it is primarily the duty of the eurozone countries to put their house in order similarly. We will be there at the table, but the eurozone members will clearly be in the driving seat, because the structure of this will be an institution established by an intergovernmental treaty; agreed by those countries that have the euro as their currency; and based upon the enabling power to establish such an institution that will be provided by the forthcoming change to the Treaty on the Functioning of the European Union under the Article 48(6) procedure. As the Committee knows, this has just been agreed and formally adopted, but is at the early stages of what will be quite a prolonged process. I reckon that it will take until very late 2012 or early 2013 before the enabling treaty is ratified by everybody, and then the intergovernmental treaty is not only finalised but has been ratified by the 17 eurozone countries, in time for it to come into effect in 2013.

It is going to be an intergovernmental treaty. It will have a board of governors made up of the Ministers of Finance of the eurozone countries. They will be the voting members, but the Commissioner for Economic and Monetary Affairs, currently Mr Olli Rehn, and the President of the European Central Bank will be present as observers. They will take major decisions by mutual agreement. In what is called the terms sheet, which was annexed to the Council conclusions, those major decisions were defined, at least in outline terms, as: the granting of financial assistance; the terms and conditions of financial assistance; the lending capacity of the ESM; and changes to the menu of instruments available to the mechanism.

Those will be subject, in effect, to unanimity, or at least to nobody formally objecting to a measure. Other decisions by the board of governors would take place under the qualified majority vote procedure.

I should also emphasise, in terms of the scope of this mechanism, that the language of the proposed treaty change under Article 48(6) and the conclusions in respect of the ESM make it clear that the ESM is meant only to be activated if it is indispensable to safeguard the financial stability of the euro area as a whole. That is a test that will be written into the treaty. I assume that in due course it will be written into the detailed arrangements agreed by the eurozone nations. As is set out in the terms sheet, there will be an effective lending capacity of €500 billion, based on a total subscribed capital of €700 billion.

A country that requires help will be required to observe some conditions that will be based on a macroeconomic adjustment programme and an analysis of that country's public debt sustainability, the analysis being conducted jointly by the Commission, the International Monetary Fund and the European Central Bank. Member States receiving help will also need to put in place what is described as an appropriate form of private sector involvement.

The first instrument that the terms sheet defines as one that should be used would be assistance via loans, but the ESM will be empowered to intervene in primary but not secondary debt markets if that is agreed mutually by the board in respect of an individual case.

In response to the two detailed questions about the design that Lord Harrison asked, these are primarily matters for the eurozone countries themselves. There are the issues of private creditors and secondary debt markets. There is flexibility in the terms sheet for the ESM board, if it chose to do so, to add to the instruments available to it if they are all agreed. As the Committee will understand, the terms sheet itself is, in classic European fashion, the product of a compromise by the eurozone countries themselves. It is something with which

they all feel able to live. It is primarily a matter for them to decide which instruments they want to have available to them. The United Kingdom would not be able to receive help from the ESM because that is a mechanism that is being created for the use of the eurozone countries only. Unless and until a future British Government decided to join the euro, we would not be eligible to take part in it.

Q2 Lord Harrison: But the point about Ireland, if I may say so, stretches much further than that because, should the eurozone have problems, it will affect our banking system quite considerably. Of course we do it partly in solidarity, but surely we do it mainly in self-interest. It may be the eurozone countries' pigeon, but it is in our interests to make sure that they come up with the very best solution. That is why I asked you about the civil servant sent because, given the expertise here in London, we have a good opportunity to secure our own backyard, if I can put it like that.

David Lidington MP: I must apologise to Lord Harrison because I did not respond to his question about the impact on the United Kingdom of a euro area Member State requiring debt restructuring. The Prime Minister has made it clear from the start that the Government believe that the stability of the eurozone and the return of the whole eurozone to economic growth are profoundly in the national interests of the United Kingdom. That is why—I am not trying to play the role of a spoiler—we want the eurozone to find a way forward out of the problems with which it is beset. However, when it comes to United Kingdom liabilities if there were to be some debt restructuring, the latest Bank of England financial stability report says that UK bank exposures to sovereign debt in Greece, Ireland, Portugal and Spain are fairly small. That is the precise phrase that the Bank of England report uses. United Kingdom banks are well capitalised and they are increasing their capital ratios in line with the Basel 3 core tier 1 capital requirements. Every UK bank, of course, as Lord Harrison will know, passed the stress tests last year. However, it is the case that that gives only part of

the picture if we look at sovereign debt exposure. If one looks at the exposure of United Kingdom institutions through loans to businesses and to families in the eurozone, the figures – particularly for Ireland and Spain – add up to a significantly bigger sum. That is why we gave the bilateral help that we did to Ireland and why the Chancellor made it clear at that time that we were doing so entirely out of national interest.

The Chairman: Thank you very much. We should probably move on.

Q3 Baroness O'Cathain: Minister, this morning we are told that Portugal has reached an agreement with the EU and the IMF over financial assistance. How will the UK be affected? What is the impact on the UK? What will the terms of Portugal's rescue package be and when is it likely to take effect?

David Lidington MP: Like Lady O'Cathain, I read the *Financial Times* front page with great interest this morning. That article made it clear that the Portuguese Prime Minister, while announcing an agreement that he believed he had reached with the troika of the IMF, the ECB and the Commission, he had yet to put that deal before the Opposition parties. Of course, Portugal is on the eve of a general election. My understanding is that the troika is, either today or very shortly, going to be talking to the Portuguese opposition parties. If there is agreement amongst all the Portuguese political parties, there would then have to be agreement to the terms of the deal by the governments of all the eurozone Member States. There are obvious issues, particularly following the recent Finnish general election, that may or may not have an impact on how easy it is to reach such an agreement. So we are not yet at the stage where I can say, "There has definitely been a bargain struck and this is our analysis of the terms". I am sure that my colleagues in the Treasury will want to make sure that, if and when a deal is reached, they keep this Committee and the Commons Scrutiny Committee informed about our analysis. The key point I would make is that if there is some help for Portugal, then the United Kingdom's contingent liabilities would be through our

membership of the current European Financial Stabilisation Mechanism and through our membership of the IMF. Obviously, we would have no liability on the assumption that the European Financial Stability Facility were to be used. The precedent in the case of Ireland was that that package rested on a one-third share each for IMF, EFSF and EFSM, but I do not want to speculate about the detail of what or may not be agreed with Lisbon.

Q4 Baroness O'Cathain: Thank you very much, Minister, but on the basis of the experience with Ireland, are you going to allow some latitude or flexibility because, obviously, what happened in the case of Ireland is that interest rates were deemed to be too high and the Government have taken a sympathetic look in that direction. So, bearing in mind the experience that you have had in Ireland, will it be similar for Portugal, with a sort of contingency or softness if there is a real problem?

David Lidington MP: Again, these are details that I am not yet in a position to start to discuss in public because nothing has yet been agreed. I noted that the Prime Minister, Mr Socrates, claimed that he had reached a deal which was on rather more advantageous terms than those that had been offered to Greece and Ireland. We will want to see all the small print of any deal before coming to a conclusion on that.

Q5 Lord Jopling: As I understand it, the election in Portugal was announced in March to be held in June and, if the negotiations have got to start all over again, it could be something like July or even later before one gets total agreement. Are you not concerned that a lot of catastrophic things could happen as far as Portugal is concerned in this period of no decision which lies ahead of us?

David Lidington MP: There is clearly a significant political risk, for the reasons that Lord Jopling has pointed out. That is why such intensive talks have been going on with the opposition parties as well as with the governing party in Portugal. Clearly, a deal reached now is going to be of limited value if it is likely to be unpicked by a new Government coming

to office. But nailing down commitments by opposition parties, particularly on the threshold of an election campaign is itself quite a tall order.

Against that, I think that every Portuguese political leader understands the costs domestically of appearing to risk precipitating a much more serious crisis in their country. This relates to the comments that were made earlier about the precise terms of any deal. Obviously the more palatable the terms to Portugal, if they are agreed, the easier it becomes for all political parties to say that this is a deal with which they could live.

Q6 Lord Dykes: In the first two questions, there has been a slight hint of the United Kingdom hanging back from things but perhaps, with justification, it is waiting to see all the details. I think that you have tried to convey the impression that that is not so.

My question is about the euro plus pact but, again, there might be the impression, which has been mentioned in the press, about the UK seeming to hang back. As you know, this was announced at the March European Council. It is based on the 17 euro members, but also the additional countries that have come in. Interestingly, Denmark, Latvia, Lithuania, Poland, Romania and Bulgaria also want to be part of it.

Can you explain to us why the UK decided to stay out of the pact, because it is based primarily on existing instruments? There would be no need to construct any new ones in order to start this going. If Britain might say officially that it fears that there might be a two-tier Europe developing or whatever, would the UK Government also be anxious about the implications for the longer term of fiscal co-ordination between Member States, which was always badly written down in the British press?

David Lidington MP: The direct answer to Lord Dykes's first question is that the British Government have a clear position on solutions to ensure stability in the euro area. We are not in the euro. The coalition programme makes it clear that we will not join nor are

prepared to join the euro during the term of the Government; nor will we be drawn into further measures to support the euro. That is a responsibility for the eurozone countries.

Because the pact is an instrument that has been created in order to help the eurozone to overcome its problems, we think it is right for us, since we are not planning to join the euro, to stay outside that. I can understand why some of the countries that see their future as joining the euro have chosen to associate themselves with that. Of course, a number of those countries that have done so have committed themselves under the terms of their treaties of accession to join the euro at a future date.

We welcome what is in the pact about pushing forward structural reforms within the eurozone. We think this is very important for the future strength and stability of the single currency and, therefore, for the reasons I described earlier, of crucial importance to this country's future prosperity, and to our future patterns of trade and investment.

The other point I would like to make in response to Lord Dykes is that the language of the Council conclusions focuses primarily on areas that fall under national competence and not so much on those measures of economic policy that are governed already by various articles of the Treaty—a single-market Europe by 2020, economic governance and macro-economic surveillance. Those are all areas of economic policy in which the Europe of 27—before too long 28—will need to talk and to act together. We have an explicit commitment written into the March conclusions that the Euro Plus pact will respect the integrity of the single market and should not undermine the functioning of the single market.

I recognise the fears that have been expressed in Parliament and in some serious parts of the British media about the risk to this country of being somehow relegated to a slow lane in areas of policy where we want to be closely involved. I think that language—the very clear commitment on the single market—provides a measure of reassurance.

Q7 Lord Dykes: Forgive the interruption, but if it is a kind of Lisbon Mark 3, should we not appear to be more enthusiastic?

David Lidington MP: I think we are enthusiastic about the eurozone countries getting on and tackling these problems. We would accept that we in the United Kingdom have a responsibility ourselves to introduce the structural reforms and the kind of economic policies that will develop an enterprising economy that enables us to compete in a world that is more fiercely competitive than ever before. I see no sign, looking around the European Union, that there is some plan to push us into a corner—quite the reverse. President Barroso has made it clear that the Commission wants to see the single market areas of economic policy dealt with at 27. We are talking to the Germans about things like smarter regulation in a very constructive way. The Prime Minister sent a letter before the most recent Council that was co-signed by eight other heads of government—some non-eurozone members and some eurozone members. That indicates that we are continuing to be an active, constructive player but also that there is no wish on the part of the others to sideline us.

Lord Hannay of Chiswick: Following up that point, could you tell us whether the decision not to join the Euro-Plus pact is purely a political decision? I do not mean purely politically motivated; I mean is it a political and not a legal decision, or is it a legal decision? If, therefore, this Government or a future Government were to decide that it was in our interests to join the euro plus pact, would that be reversible simply by a political decision or would it require negotiation of a legal text? If that decision by a British Government were taken to join the Euro Plus pact, would that attract a referendum under the European Union?

David Lidington MP: I can see that Lord Hannay is getting his referendum campaign badge ready. I can give him reassurance. It is a political decision. The euro plus pact is an

expression of political commitment by those nations that have chosen to participate in it. This, or any future United Kingdom Government could decide to change policy and take part in the pact without the need for a referendum, or indeed legislation.

Q8 Lord Hannay of Chiswick: Could I follow that up, not on this exact point? If we find that there is some measure being considered by members of the Euro Plus pact that we ourselves believe is in some way inimical to us or damaging the single market, what is our recourse?

Q9 David Lidington MP: I would want to understand what Lord Hannay means by the term “measure”. If we were talking about a legislative measure, that could not be taken forward by the members of the Euro Plus pact. That can be taken forward only within the legislative powers given to the institutions and Member States under the treaties. Similarly, if the members of the Euro Plus pact were to decide, hypothetically, to act in a way that ran contrary to the principles of the single market, they would be open as individual Member States to infraction proceedings in a way that any other Member State would be for breach of treaty obligations.

Q10 Lord Hannay of Chiswick: So we depend on the Commission.

David Lidington MP: We always look to the Commission to be the guardian of the treaties.

Lord Harrison: But the Euro Plus pact is replete with single market items. After all, Lord Cockfield, who was a member of this House, was the architect of the single market, and we have often had political consensus in this country about the virtues of the single market. Is there not a problem that we appear schizophrenic in front of our colleagues who, as you rightly identify, seem to hold no malice against us holding our position? I understand your political view, but can you be enthusiastic when there are those items on the agenda that do not transgress your position on the eurozone but which fulfil British ambitions about a single market, which we could all be passionate about?

David Lidington MP: I draw a distinction between the Euro Plus pact, which has been created to help to restore greater stability and to provide some clear political commitment to structural reform among the eurozone countries and the bigger issue of the need for the European Union at 27 to—

The Committee suspended for a division in the House.

The Chairman: I think we can resume, as nine minutes have passed.

Q11 The Earl of Sandwich: Minister, my first question is what are the latest developments in Libya and what action can the EU take in this situation? How will the European Union help Italy to share responsibility for migration from north Africa? I note that one of the declarations talked about enhancing Frontex. Do the Government support the European Parliament proposal for a completely new instrument to deal with this wave of migration? Thirdly, moving across the Mediterranean, given the various meetings occurring today in Cairo and in London, will Her Majesty's Government and the European Union encourage Israel to meet its responsibilities to the Palestinian Authority?

David Lidington MP: Let me try to respond to Lord Sandwich's questions and then I might ask Mr Voase to say a bit more, particularly about Libya.

The Gaddafi regime is still attacking its own people and deliberately killing its own civilians. The heaviest fighting is taking place around Ajdabiya, Misrata and Zintan. The position of the coalition remains that, as long as the regime continues to attack areas of civilian population, military action by the coalition will continue to implement the two UN Security Council resolutions. The EU is involved through implementing Security Council Resolutions 1970 and 1973. The EU is a member of the Libya contact group, which will meet again in Rome tomorrow under the chairmanship of the Italians and the Qataris and the Foreign Secretary will attend on behalf of the United Kingdom. The EU has also agreed, subject to getting a request from the UN Office for the Co-ordination of Humanitarian Affairs, to conduct

military operations to support humanitarian assistance in Libya and neighbouring countries. For now, the OCHA has held back from making such a request, but on 1 April the Council agreed that there should be some more detailed EU contingency planning so that, if and when such a request came in, action could be taken swiftly. An Italian operational commander was appointed and an EU operational headquarters established in Rome so that, as I say, the EU could be ready to act to protect humanitarian efforts as soon as the OCHA asked for that support.

For the longer term—this is relevant not only to Libya but to other north African and some Middle Eastern countries—the Commission, under the Enlargement Commissioner Štefan Füle, is conducting a review of the European neighbourhood policy, focusing on the southern neighbourhood but the lessons to be applied will apply to the east as well. We as a Government have been urging that an ambitious offer should be made to help with the longer-term process of economic and political democratic reform in those countries. We see that that is the way to try to get jobs to those millions of unemployed young men who have high aspirations but too little to do and to provide the kind of political developments in the rule of law, respect for human rights and more democratic systems of government which will help to give the governments of those countries greater legitimacy, and therefore greater stability. One of the lessons that is clear from these events is that, unless a Government has a measure of legitimacy in the eyes of its own people, it will be increasingly difficult for it to maintain political stability, which is something we want to see.

On the issue that Lord Sandwich raised about migration, I do not want to duck the issue, but he will be aware that this is a Home Office lead and I will ask my colleague, probably Damian Green in the Home Office, to write to the Committee to give more detail on this matter. We recognise the importance of the issue in the light of what has been happening in the Mediterranean, and French and Italian proposals on Schengen will be on the table for

discussion at the June European Council. Because the United Kingdom is not in Schengen and we have no plans to join, we take the view that this is ultimately a matter for the Schengen countries themselves. I have already picked up different views among the governments of Schengen countries on whether, as President Sarkozy has been urging, there needs to be a whole or partial suspension of Schengen or whether, as other governments have said to me, the Schengen area of free movement is such a great prize that they would not want it put at risk. We are not supporters of the idea that there should be automatic burden sharing. I will look into the point about Frontex and either I or my colleague from the Home Office will write to provide the detail about that.

On the announcement by Fatah and Hamas about trying to establish a Government of Palestinian national unity, this is a step that the Government welcomes in principle. However, I add a cautionary note that there are a fair number of steps to be taken between that initial declaration and an actual Government of unity being formed. We continue to take the view that the quartet principles are a cornerstone of taking this process forward and of seeing the two-state solution that we, like our predecessors in office in this country, are committed to. On the particular issue about the decision by the government of Israel to suspend payments to the Palestinian Authority, on the basis of what has been said so far we seen no reason for a change to be made in the arrangements for collecting money and passing it on to the PA. We would urge all parties in the region to dedicate themselves with renewed energy to the search for a peaceful two-state solution, based on Israel and the Palestinian state leaving peacefully and with mutual respect alongside one another. What has happened in the Arab world in the last three months reinforces the need for urgency in the search for an Israel-Palestine settlement. To put that subject on the back burner is the last thing that we should be doing. I am sure that the Prime Minister will be making those points to Prime Minister Netanyahu today.

Q12 Lord Foulkes of Cumnock: Perhaps I may look further ahead. In the countries of the Middle East and north Africa, where the opportunity arises for encouraging democratic development, building up civil society and a free media and helping with elections, DfID and the FCO are doing a lot of work through the Westminster Foundation for Democracy—in which I declare an interest—and other bodies. However, there is some work that might better be done by the EU collectively. Have you thought of raising that in the EU? Are there any plans to do so?

David Lidington MP: We see this as something that should be an integral part of the new European neighbourhood policy. Our criticism of the way in which the southern neighbourhood has been handled is that, through various instruments providing financial assistance, we have been shelling out very large sums of money—roughly €1.5 billion a year—to countries in the southern neighbourhood. If we look in a hard-headed fashion at what has been achieved, we have to conclude that we have seen neither the economic reforms that deliver sustainable growth and greater prosperity to those societies, nor the democratic reforms that are needed. So we want to see greater conditionality. Baroness Ashton prefers the term “mutual respect”, but the idea is that we want to see a bargain struck so that the money provided through the EU’s neighbourhood instruments should go to those countries that demonstrate a commitment to implementing and carrying through both economic and political reforms. We think that that is in the interest of those countries, in our interest and in the interest of Europe more generally. That is our hope for what will come shortly from the Commission.

Q13 Lord Jopling: You promised a note to us about Frontex. We are not members of Schengen or Frontex. A couple of years ago, a Sub-Committee of this Committee did a study of Frontex and took evidence. This was long before the present crisis. We heard that there were horrific problems with illegal immigration into Malta. It must be infinitely worse

now. Could the reply please include the point that Lord Sandwich made about the possibility and good sense of having a “Frontex 2” with a wider membership beyond the Schengen area, in order to deal with what must be an overwhelming crisis of immigration, and in particular illegal immigration?

David Lidington MP: I will certainly make sure that that point is passed on. I am due to meet the Prime Minister and Foreign Minister of Malta next week. I am sure that this will be a subject of discussion then.

Q14 Lord Hannay of Chiswick: I have one additional point on Frontex. Perhaps you could encourage the Home Office to recall the Government's defence strategy review, in which it was stated that the British Government intended to continue to increase their support for Frontex. It would be nice to know how they plan to do so in the present context. On the Palestinian point, is not now, with the apparent Fatah-Hamas agreement that is to be signed today, the moment to revisit rather than simply to roll over again the quartet conditions, which are antique in the extreme but contain two perfectly understandable conditions, namely the cessation of all hostile action and the acceptance of the Arab peace initiative, as well as a third, which I and many members of this House consider completely unreasonable, namely prior recognition of the state of Israel? To say simply that, in this entirely new context, with both risks and opportunities, we are standing pat on those three conditions would—I hope the Government would think—be a bit conservative.

David Lidington MP: What I hope we will see, following the announcement of moves to try to elect and form a Palestinian unity Government, is a change of heart by the leadership of Hamas. I recall British and United States leaders saying very plainly that, if Hamas were to change and accept—to borrow a phrase from Northern Ireland politics—that it would use

exclusively democratic and peaceful means to seek its objectives, we would be in a different place.

Q15 Lord Hannay of Chiswick: Will we put that point to Hamas?

David Lidington MP: As Lord Hannay knows, the British Government do not talk directly to Hamas. Hamas talks to a number of European governments, in particular to the Norwegians, and it has various indirect contacts with western governments. I do not think that the Hamas leadership is in any doubt about what it needs to do if it is to be taken seriously as a political player.

The Chairman: I should warn the Committee that the Minister is on his feet for the reply to the debate in the House, so we probably have until about half past 5 before the Division in the Commons. In putting supplementary questions, people should bear that in mind.

Q16 Baroness Howarth of Breckland: Minister, in your replies you have been talking a great deal about critical societal challenges, but this question marks a slight change of pace, if you like, to the previous questions. The European Council of 4 February concluded that, “Innovation contributes to tackling the most critical societal challenges we are facing”, and recommended that Europe’s expertise and resources be mobilised in order to ensure that innovations with a “societal benefit” get to the market more quickly. We have been looking at this pretty closely in the sub-committee on agriculture, so perhaps we may have something to say about this issue too. Could you expand on the societal challenges considered and the actions anticipated by the EU and the UK Government?

David Lidington MP: The major challenges that we would identify are climate change, food and energy security and the challenge posed by accommodating an ageing population. They are very different, but they are hugely important to every society in Europe. When the Prime Minister and the eight other leaders sent their joint letter recently, innovation was one of the priorities identified in order to get Europe moving forward in the modern world.

In the Prime Minister's pamphlet, which he subsequently published, he set out as one of his objectives making Europe number one for innovation. Following the February Council, this is the early stage of trying to consolidate some of the good work that has already been done by, for example, setting up innovation partnerships. I do not want to denigrate them by saying that these are think-tanks or talking shops, but the idea is, at the European level, to bring together people who have a knowledge of and interest in innovation in particular areas of science or industry and to explore how some of the innovative ideas that are around can be given practical application, whether in the field of social policy or in that of business and enterprise. On the EU 27 level it is, if you like, what was attempted in the UK-Nordic-Baltic summit earlier this year. That was a new-style summit with workshops where Prime Ministers would wander in, sit in the audience and ask questions—looking at things like climate change, renewable energy, and how to encourage and sustain the growth of small and medium-sized enterprises. That creative pooling of ideas, both theoretical and practical, is what needs to happen. Then policymakers, parliamentarians, officials and Ministers can learn from the ideas coming out of this habit of working.

Q17 Lord Richard: I wonder if I could follow on broadly in the same field as the last question. I shall be fairly specific in what I ask you because it is based upon what we know the Government said in their response on 8 February. The Government said that they are “working closely with the RDAs and other partners to put in place new delivery structures for European Regional Development Fund (ERDF) programmes by 1 July 2011”. What sort of structures are needed to do that, how far has the project got to, and can we have an assurance that the Government will still want to take maximum advantage of the funds that are available through the ERDF?

David Lidington MP: The short answer to Lord Richard's last question is yes. What has happened is that the RDA staff and functions that dealt with the ERDF have been brought

into the Department for Communities and Local Government. Teams of people are being transferred into DCLG so that there will be continuity of knowledge and expertise. We think that that will bring some benefits by realising economies of scale, but it will also improve the continuity of the operation over the ERDF. But we are not taking everybody out of the regions. There are project teams that are active in those areas—

Hermione Gough: Local management committees.

David Lidington MP: Local management committees is the term, and they operate at the more local level. We are trying to make sure that the new local enterprise partnerships are encouraged to become members of those local management committees so that this new structure, with a rather more diverse geography of public and private sector institutions, can fit into the ERDF arrangements. I do not want to rehearse the arguments that were debated last year about why the Government took the decision to get rid of the RDAs because that was argued at the general election and subsequently, but this is what is happening now.

Q18 Lord Richard: Very briefly, you are saying that you have different arrangements at this end to receive the money. The way in which applications are made to the regional fund in Brussels presumably stays the same.

David Lidington MP: Yes, I think so. Is there anything you want to add to that?

Hermione Gough: Yes, they will largely stay the same. The arrangements that are being discussed will be put in place and will come into force on, I think, 1 July.

Q19 Lord Richard: As far as the Commission is concerned, it will be the same.

Hermione Gough: We will still have these local management committees, which will be the implementing committees from the Commission's perspective.

Q20 Lord Richard: Will they make the applications to the fund themselves?

Hermione Gough: This is getting into the detail. We can perhaps make sure that colleagues from CLG give you the detail. It is more our arrangements that are changing, rather than the interaction with the Commission.

Q21 Baroness Young of Hornsey: The Member States are committed to Europe 2020 and the desire to implement measures to combat poverty and social exclusion. In February 2011, the European Anti-Poverty Network published a report on the social impact of the crisis and of the recovery policies in 2010, in which it is critical of the social impact of measures taken so far. What do you consider to be the impact of austerity measures on Member States' efforts to lift people out of poverty and tackle social exclusion? How effective or otherwise do you think they are?

David Lidington MP: I will try to avoid getting drawn into what would be an enjoyable bit of partisan knockabout on the Government's economic policies. I would argue first that some of the austerity measures that have been necessary to reduce the deficit that this Government inherited are essential. To leave those unaddressed will be a lot worse in the medium and longer term for people at the bottom of the heap in income. The Government has, of course, introduced measures to lift significant numbers of people on low incomes out of tax. The policies taken forward by the Department for Work and Pensions are designed to help more people who are long-term unemployed back into employment. We can argue the cases for and against those schemes, but that is the Government's ambition and intention. These are all set out in the Government's national reform programme, a copy of which, Lord Chairman, you said the Committee had seen. That reform programme has been submitted to the European Commission as part of our obligations under the Europe 2020 framework.

Q22 Baroness Young of Hornsey: That is helpful and I accept that, but the question was slightly broader. It is not just about the UK but about the Member States as a whole. Could you perhaps pass comment on that?

David Lidington MP: It is up to each Member State to say what it is doing nationally to respond to the policy objectives set out in Europe 2020. They will each have published their own national reform programme and sent that in. Then there will be a process of comment, examination and collective discussion around the table on that. It is not for me to speak for other governments.

Q23 Lord Hannay of Chiswick: Minister, you talked in January about the scrutiny of opt-ins and said that the Government would set aside time for a Motion when there was particularly strong interest in whether to opt in to a measure. I thank you, or rather your colleagues in this House, for having made that possible in the case of the Passenger Name Record directive, which was debated on a Motion in March. The Motion urged the Government to opt in. Can you say what weight the Government give to the views of the House in this respect, and perhaps give us a feel for what the outcome will be, which I gather is fairly imminent?

David Lidington MP: Lord Hannay will understand if I cannot pre-empt the decision on the PNR issue that the European Affairs Committee of the Cabinet will take fairly soon. In response to his general question, we will take the views expressed by both Houses very seriously indeed. It is right that there should be greater accountability of government to Parliament, and greater scrutiny by Parliament. I do not think that a Government of any political stripe have anything to fear from well informed, thorough parliamentary scrutiny of proposals coming out of Europe. In fact, I would very much welcome both Houses of Parliament spending more time and energy examining some of the proposals that come from the European Union and perhaps looking more strategically at how best to examine things

like Commission White Papers, Green Papers and work programmes. Ultimately it is for the two Houses to decide the right way institutionally to carry out this examination. The Lords and the Commons, as this Committee knows, have very different structures for European scrutiny arrangements. We will take the views of this House very seriously indeed.

Lord Hannay of Chiswick: Thank you. I think we can predict that shortly you will get a quite substantial report on the internal security strategy, with its five priority objectives, ahead of consideration of the instruments that will be needed to implement it. This endorses what you said about taking a strategic view.

Q24 Lord Carter of Coles: My question is on the annual growth survey. Are you able to provide any indication that the targets set at Member State level in the final national reform programmes will, when they are added together, meet the Europe 2020 headline targets that were set in June 2010 at the European Council?

David Lidington MP: I will say two things in response. In the British Government's view, the most important thing for Europe is not targets but the actions that we take together to increase employment, improve our capacity for research and development, reduce greenhouse gas emissions, improve education levels, promote social inclusion and so on. The actions that Member States take individually, such as those set out in our national reform programme, are important alongside those that Member States take together, which include those listed in the Prime Minister's recent pamphlet on policies to promote growth at European level. We see actions such as implementing the Services Directive as an important complement to the things that are defined in the form of targets in Europe 2020. Those areas where the EU needs to act together will not necessarily be reflected in any individual Member State's targets. For that reason, the total of national targets when added up will not be directly comparable to the Europe 2020 headline targets. The Commission has stated in its progress report on Europe 2020 that the EU globally is likely to fall short of the majority

of its headline targets. I do not think that it would be right for the Commission then to go round and say to individual Member States, “Well, the 27 have to reach this figure, so you need to adjust your national target so that it delivers something that has been set somewhat arbitrarily at an EU level”.

Q25 Lord Carter of Coles: So the sense is that the targets will not be met?

David Lidington MP: Our view as a Government is that targets are not the most important thing. Achieving your objectives is the key. The Commission has already said that it does not expect that those global targets will be met.

Q26 Lord Carter of Coles: But you would agree that there is a purpose in having some targets?

David Lidington MP: There can be a purpose in having targets. It is important that any objectives are set in a way that respects the competences of EU Member States, as defined in the treaties. Clearly, that is something that not just we but other Member States took account of in framing our response to the original 2020 proposals.

The Chairman: As you do not seem to be having a Division in the House of Commons, perhaps I can ask Baroness O’Cathain to ask the last question.

Q27 Baroness O’Cathain: It relates exactly to what we were talking about. With targets, it is much better to have a direction of travel and to encourage people to go along that direction of travel. The targets, as far as I am concerned, are nine years out. However, the joint letter of 18 March 2011 by nine European Union Prime Ministers, including David Cameron, to the Presidents of the Council and the Commission states that, “many sectors still remain closed off by opaque, disproportionate and disparate regulation”, and that, “restrictive practices are rife”. How do the Government intend to help remove restrictions in those areas at an EU level? Is it just by example?

David Lidington MP: It is not just by example; it is by a determined campaign of action, in alliance with like-minded Member States and with people who sympathise with our objectives in the institutions, in the Commission and in the Parliament, to achieve this. We think this is important and urgent because of the competitive challenge that is increasingly facing Europe, most obviously from the emerging economies of Asia and Latin America. We should also look at the recent history of the United States, where a developed economy has managed very recently to enlarge its competitive advantage compared with the European Union. Lady O’Cathain asked about which sectors and what are the problems. We could give a list of small examples. In Italy, British lecturers are barred from working as English language lecturers; in Portugal there are minimum distance requirements between driving schools; in Greece there are minimum distance requirements between petrol stations; a UK tax adviser, fully qualified and a member of the leading professional body for tax specialists, was unable to register in another Member State, which refused to recognise his qualifications as he did not have a degree in Economics. In particular sectors there is an issue over the mutual recognition of professionals. I have been advised that people such as accountants, architects, lawyers and engineers face nearly 3,000 regulatory requirements in the EU. Certainly there are different rules in practice in different countries. For example, some countries are saying that to recognise a British professional in a particular field they need to have an attestation from the Government that this person is qualified, and British governments do not do that.

There is a particular problem with the services sector, where the existing Services Directive is not being implemented in the same way in each Member State. There is still a problem over the digital economy, where Commissioner Kroes is coming forward with proposals which we strongly welcome. There has been a long-standing problem over patent law. Businesses throughout Europe have been calling for some kind of common European patent

system that they can opt into if they would rather do that than go through the national patent registration requirements in different Member States. That has been blocked at level 27 by Spain and Italy because of the language requirements and so there is an enhanced co-operation proposal now going forward, which we have strongly supported, which would have a language requirement for English, French and German only and which almost all of the other Member States want to pursue as well. That is now beginning to move forward. There are issues of energy, too. There is not a proper single market in energy. When I talk to some of my European counterparts I sometimes say to them that if I go to my constituency home when I get back to Heathrow, I am travelling from an airport which is owned by a Spanish company; if I switch on the electricity, that is supplied by a French company; and if I get on my local railway service, it is owned by Deutsche Bahn. I say to some of my colleagues, "Look, can you tell me that if a British company wanted to buy into that sort of utility in your country, that they will find it easy to do so?". They shuffle their feet; they are a little bit embarrassed and say that it is all very difficult. So there is a great deal still to be done to make a proper single market a reality.

Q28 Baroness O'Cathain: Lady Young and I went to a meeting in Brussels some time before Christmas. We heard about the problems with doctors. Some issues are health and safety related. There are others that are sheer non-tariff barriers to trade, such as being unable to buy a cheese company in France.

David Lidington MP: With something such as healthcare professionals or, perhaps, architects, the justification for regulating access to the profession is demonstrable. However, such a wide variety in the number and profile of regulated professions across the EU suggests that this is an area that should be reviewed pretty thoroughly.

Q29 Lord Hannay of Chiswick: You said that one of the priorities you were pursuing was the better implementation of the Services Directive. Are you also thinking of mounting

some kind of medium-term campaign for a Services Directive that would complement and go beyond the terms of the existing one, and remedy its failings?

David Lidington MP: I think we would be very sympathetic to what Lord Hannay says, although I should make it clear that this is an issue where the Business Innovation and Skills Department is in the leading role. However, we have an existing Services Directive that is already available. Lord Hannay will know better than anyone else here—apart from Lord Richard, I suspect—that the procedure for devising and drafting new European legislation and taking it through all its stages can be very complex and time consuming.

We have the existing Services Directive. One of the things that the Prime Minister has set out in his growth pamphlet is an ambition to implement fully the current Services Directive by the end of this year. It will have “A tough and transparent approach to enforcement, through measures such as national scorecards”, so that we can measure the progress of each Member State in meeting those objectives.

If I may add briefly, I was delighted that the PM’s pamphlet was brandished by Commissioner Barnier when he held his press conference to launch the Single Market Act.

Lord Bowness: We might have brandished it if it had accompanied the letter that was circulated.

The Chairman: It is available from the secretariat. I will make sure that members of the Committee get it.

Q30 Baroness Howarth of Breckland: I was disciplined as I thought we were going to stop. I will come back to whether it is a question of getting Europe going or getting it growing. I say this in relation to the work that we have been doing on the sub-committee on agriculture, looking at where we are falling seriously behind, particularly some of the countries you have described—Brazil and others in the Americas—in productivity. I just wondered how you saw Europe coming together to move that forward. I was particularly

David Lidington MP: I will draw the attention of my colleagues in Defra to the general point about food technology and to GM in particular. However, Baroness Howarth knows only too well that GM is an issue that divides members of political parties and divides European Member States. It would be unwise of me to offer hope that there was likely to be a breakthrough in the near future. It is important that in areas such as biotechnology we generally make sure that Europe remains one of the leading players. The Americans are certainly going all-out to develop these new technologies but, as the committee knows, the emerging economies will not be content with taking the low-paid, low-skilled jobs. They have much higher ambitions than that.

Q31 Baroness Young of Hornsey: Like Lady Howarth, I held back a bit on our exchange earlier so I want to return to it. I was not asking you to give an assessment of the national reform policies of other Member States. I wanted your assessment of the impact of austerity measures as a package, not a critique of austerity measures but whether you think that it will have some kind of impact on the target for reducing poverty overall.

David Lidington MP: I think that the key, the single measure, that would most help to reduce poverty across Europe, above anything else, would be getting more people back into work. If one looks at a country like Spain with youth unemployment at around 40 per cent, according to the official statistics, that is a quite intolerable position. We can argue about whether there is a large unofficial economy there as well, but it is still the case that there is a real problem in Spain and in a number of other European countries.

While measures that involve structural reforms, which can be defined as austerity measures, do cause dislocation and pain for individuals, families and companies in the short term, the

lesson of our economic history and Europe's economic history is that you need to have that reform to make your economy competitive in the world we live in today and to stand the best chance of getting those people back into work and long-term employment. That is the way that I would look at this.

The Chairman: Minister, there is a Division in the Lords, so this is the moment for me to thank you very much indeed. As you approach the first anniversary of your appointment as Minister for Europe, we want to say how helpful you have been to the Committee and we hope you will continue for much longer. Thank you very much.