



# HOUSE OF LORDS

Unrevised transcript of evidence taken before

## **The Select Committee on the European Union**

Inquiry on

### **EUROPEAN COUNCIL OF 23 OCTOBER 2011 AND THE EURO SUMMIT ON 26 OCTOBER 2011**

*Evidence Session No. 1.*

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*Questions 1 – 26*

**TUESDAY 8 NOVEMBER 2011**

**4.10 pm**

Witnesses: David Lidington MP, Simon Manley and Victoria Dean

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Members present

Lord Roper (Chair)  
Lord Bowness  
Lord Dykes  
Lord Harrison  
Baroness Howarth of Breckland  
Lord Jopling  
Lord Maclennan of Rogart  
Lord Plumb  
Lord Richard  
Earl Sandwich  
Lord Teverson  
Lord Trimble  
Baroness Young of Hornsey

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**Examination of Witnesses**

*Witnesses:* **David Lidington MP**, Minister for Europe, **Simon Manley**, Director, EU Directorate, and **Victoria Dean**, Head of EU Strategy Department.

**Q1 The Chairman:** Minister, we are very pleased to see you and your colleagues. We should warn you there is a risk of a Division in our House, and I am afraid that it is something where most of my colleagues will wish to depart and vote. We will adjourn for 10 minutes if there is a Division. I remind you that this session is in public, it will be televised and a transcript is being taken. You will have a copy of the transcript, and you will obviously have the opportunity to make minor amendments to it, although it will be published online in an uncorrected form first.

Perhaps I can ask you the first question. I wonder whether you could update us on developments on the euro area crisis, since the 26th/27th package was announced, perhaps with regard to the outcome of the G-20 discussions in Cannes. Perhaps also you might in that say something about recent developments in Greece.

**David Lidington:** Thank you, Lord Chairman, and I am very conscious that, after the events of the last couple of weeks, saying anything on the basis that this is providing a completely

up-to-date account of events in the eurozone is taking a pretty big risk, but I shall do my best. The Government's view was that what was agreed at both the eurozone summit and the informal European Council was welcome progress. The conclusions reflected three essential elements that we had been calling for for some time: the reinforcement of the bailout fund by eurozone countries to create a proper firewall against contagion, recapitalisation of weak European banks and a decisive resolution to the unsustainable position of Greek debt. But it is also fair to say that on all three of those counts there was quite a bit of detail that remained to be filled in at the conclusion of those meetings.

As far as the G-20 summit in Cannes was concerned, Lord Chairman—I think the Prime Minister's Statement was probably repeated in your House yesterday—there were three key aspects. The eurozone was the main subject of conversation. I will come back to that, but I think it is worth just pointing out in passing that the Cannes summit also agreed an action plan for growth and jobs and continuing work to identify and remove some of the key obstacles to growth, and those issues also featured in the European Council meeting. I have to confess that one of the really frustrating things for British Ministers is that, while there is a great deal of support around the Council table for the EU to focus much more on measures to create jobs and foster growth and global competitiveness, the inevitable consequence of so much top-level government time in Europe being absorbed with the eurozone crisis is that potential energy is being deflected from those crucial economic challenges.

Let me come back to Cannes and the eurozone. It was clear from the Cannes meeting that the major economic players in the world felt that concrete action needed to come from the eurozone and that there might be a case for specific eurozone countries to be helped internationally, in the way that any other country in the world might be helped

internationally, but that could not be a substitute for the eurozone countries facing up to the prime responsibility for restoring stability to their own currency.

As far as Greece is concerned, there is no doubt that the political developments there have added to instability and to market uncertainty, which has affected not just Greece itself but wider confidence in the eurozone. Ultimately it is up to the Greek electorate and Greek political leaders to take their own decisions, but we think it is important that all parties stick to the deal that they agreed on 26 October.

As far as British risks are concerned, our direct exposures to Greece are relatively low, certainly low compared with our exposures to some other troubled eurozone economies. But the intertwined and interdependent nature of European economies means that we would not escape a dramatic collapse in Greece, or a prolonged recession in Greece, because there would be consequential effects on other countries and on individual companies and financial institutions where significant British interests were involved.

I would just add, Lord Chairman, that, as of the time I walked into this room, the word from our embassy in Athens was that there had still been no announcement of a new Greek Government. There are a lot of rumours but there is no confirmation of the name of a Prime Minister, the composition of a Cabinet or the timing of elections.

**Q2 The Chairman:** Thank you very much indeed. On the question of the exposure of British banks, although we may not be directly exposed to a very significant extent to Greece, in so far as we are exposed to banks in other eurozone countries that are themselves in turn exposed significantly to Greece, our total exposure may be somewhat larger than the BIS figures might suggest immediately.

**David Lidington:** Yes. That is certainly true. There are significant United Kingdom exposures, we believe, to some banks that have exposure to Greece, and that is before you get on to the question as to whether contagion from a Greek crisis could be adequately

contained, and I do not need to tell the Committee that we have much bigger direct exposures to Ireland, to Italy and to Spain as well as, of course, very significant British interests at stake in Cyprus.

**Q3 Lord Teverson:** Minister, thank you very much for that update. That was very good. I suppose it is quite easy to identify with President Sarkozy and his comments on our own Prime Minister's comments on how the eurozone is sorted out. Does that change the way that we think about it, or how do we respond to that in terms of our own engagement with the eurozone and sorting out their problems, when clearly we want to keep clear blue water between us and them in terms of both financial commitment and, I suppose, future and further integration?

**David Lidington:** There are a couple of key points. First, we need to continue to make it clear, both privately and publicly, as we are doing, that our judgment is that it is profoundly in the United Kingdom's national interest that the eurozone finds a way through this crisis and is able to restore stability. I think that any hint of gloating or Schadenfreude would be damaging to our interests. There is a great deal at stake here.

Secondly, there is, as the Chancellor of the Exchequer has said, a remorseless economic logic to the need for greater fiscal and economic union to balance the monetary union that the eurozone already has. For those who, like me, have been critical of potential British membership of the eurozone in the past, this has been one of the key elements in that critique. You cannot have an effective single-interest-rate monetary policy currency union unless you have a more closely integrated economy and fiscal policy, and policy on borrowing and spending as well.

Thirdly, alongside that remorseless economic logic, there is a political reality, and that is that greater economic union means giving to some kind of supranational authority the power to take decisions over what we would regard as key elements of economic policy. So there are

important questions for the eurozone countries as they move forward as to how they make these arrangements democratically accountable and how they secure public consent for what they are doing. I do not underestimate the challenge, whether we are talking about Greece or whether we are talking about Germany in different ways.

**Q4 Lord Teverson:** Can I just follow that up? How do you think Britain should start to address the fact that—the equivalent is the end of the Cold War—at the end of the eurozone crisis there will be one economic superpower in Europe, in the eurozone? Does that not destabilise power within Europe very strongly?

**David Lidington:** The European Union is a strange beast. It is not something that is trying to model itself upon a classical Westphalian-style nation state. One of the important challenges for the United Kingdom is to ensure that as the eurozone—as I expect—seeks to build this greater economic unity, the integrity of the single market is protected. I think that means, for example, us recognising and saying publicly that many of our strongest allies, on issues to do with the single market, with global trade and with less burdensome regulation, are countries inside the eurozone. I have come back this morning from the Netherlands. As a British Minister talking to Dutch Ministers, there is a tremendous fellow feeling on much of this economic agenda, even though one country is in the eurozone and the other is outside.

**The Chairman:** I think that one of your colleagues from BIS had a meeting recently of seven Ministers from eurozone countries and seven from outside to discuss some of these competitiveness matters.

**David Lidington:** Ed Davey has been doing superb work on bringing together like-minded member states and, as you say, Lord Chairman, at the last meeting there were seven outs and seven ins sitting around the table.

**Q5 Lord Richard:** I wonder if I could draw your attention to paragraph 29 of the summit conclusions. I would like to have a look at that paragraph, if I may, in some detail. It starts off

by saying, “We will further strengthen the economic monetary union and better co-ordinate macro- and micro-economic policies”. I assume that is fairly common language that one often sees in this sort of communiqué. There is nothing more definite than that in that sentence. “Building on the Euro-Plus Pact, we will improve competitiveness”; I suppose that is the same. Again, it is not quite Euro-babble but it is fairly normal Euro-language.

**David Lidington:** I will defer to Lord Richard’s much greater knowledge than mine of Euro-language.

**Lord Richard:** Mine is way out of date. The language has changed. Whether it has improved or not, I do not know. “Thereby achieving further convergence of policies to promote growth and employment.” Fine. It is the next two sentences I have problems with. “Pragmatic co-ordination of tax policies in the euro-area is a necessary element of stronger economic policy co-ordination to support fiscal consolidation and economic growth.” Pausing there for a moment, what is the thought behind that sentence?

**David Lidington:** It is a subset of the argument that the Chancellor of the Exchequer has advanced, that there is an economic logic in saying that if you have a single currency, you need to have much greater integration of fiscal and broader economic policy, and we do not have a problem with euro area members engaging in discussions about tax policy co-ordination. We think that, at the same time, where a tax policy issue could affect a single market, or indeed just all 27 member states, it is very important that discussions on that area of policy continue to include everybody, and not just the 17.

**Lord Richard:** Do you see the discussions on the co-ordination of tax policy within the eurozone being conducted with 27 members, and not just the eurozone members?

**David Lidington:** I think a lot will depend on exactly how they choose to take this forward. At the moment, the eurozone members are talking primarily about the common consolidated corporate tax base and they are also talking about financial transfer tax,

although we wait to see exactly what comes out of those discussions. Certainly on the common consolidated corporate tax base, we remain engaged in those discussions. If it goes beyond discussions—

**Lord Richard:** Sorry to interrupt. Discussions on tax co-ordination within the eurozone?

**David Lidington:** No. At the moment, those discussions are at the level of 27. Even if there were to be, at some stage, a 17 initiative only, that could have implications for British companies operating across the national frontiers of Europe. So we have an interest in being participants in a discussion, but the point I want to make is that there is an important difference between a discussion which, in our view, should take place primarily in Council and the various official gatherings throughout Europe and so on, and a measure—obviously it is possible within the treaty for a group of countries, nine or more, to take forward a measure under enhanced co-operation if they wish to do so and there cannot be the necessary agreement among the 27. Tax policy is, for the most part, a matter where unanimity still applies—and there is talk among some of the eurozone countries that perhaps they might want to go down this path using enhanced co-operation. One hears that from their Ministers from time to time. Of course there are clear conditions written into the treaty—Articles 326 to 334 of the Treaty on the Functioning of the European Union make it clear that any enhanced co-operation measure must not infringe the single market or distort competition, and that it must respect the rights and competencies of non-participating member states, and those non-participating member states, while they do not have a vote, are entitled, as of right, to a seat at the table when those who are participating in enhanced co-operation are discussing and taking decisions about that measure.

**Lord Richard:** You see the impression one gets—at least that I get—is that the UK Government is saying—

**The Chairman:** I am sorry, we have to adjourn, I hope for no more than 10 minutes.

*The Committee was suspended for a Division in the House.*

*On resuming—*

**Q6 Lord Richard:** Minister, I think I was talking about impressions when we were interrupted by the bell. It does seem to me that the impression that the Government is presently giving is to say, “Right, we are in favour of greater fiscal co-ordination, indeed, quite close fiscal co-ordination within the eurozone, and we want to be part of the discussions, as close as we can get to those discussions, in the hope of influencing them.” But in reality, almost everything that is likely to come out of those discussions, as the UK, we are almost certainly going to be against.

**David Lidington:** We have to see what comes up, because if we look back at the statement that was made by the euro-plus pact member states earlier in the year on pragmatic tax co-ordination, they talked not about specific new taxes. They talked about exchange of best practice, avoidance of harmful practices and proposals to fight fraud and tax evasion. I do not want to prejudge what my colleagues in the Treasury will think of a particular idea, but it strikes me that there might well be ideas that come out of that discussion that fit the way in which we see the world. It is certainly the case that we are less enthused about some of the other ideas, and the Government has said publicly that it is not going to support new European-level taxes.

**Q7 Lord Richard:** That was diplomatically put, if I may say so. Would you agree with this, finally, that however you look at it the tectonic plates have moved, that power is not going to be the same in the future as it has been in the past if the eurozone gets its act together and co-ordinates, and apparently they do not have a group, so—

**David Lidington:** I think that it is going to be different however the current crisis pans out. It is too early to make firm predictions about future patterns of power within the European Union. To take one obvious example of that, those member states that are in financial

difficulties are going to need to follow through with some very demanding programmes, not just of immediate austerity but of fundamental structural reform of their economies, if they are not to become a long-term drag on the prosperity of the eurozone overall. It is in our interests that the eurozone is very prosperous and growing fast, but there is a lot to be done before we can reach a firm view about how power will be disposed, and certainly the UK is not going to be sitting on the sidelines. We are going to be extremely active in engagement, both with euro-outs and euro-ins, in the way that best suits our national interest.

**Q8 Lord Jopling:** Minister, my recollection is that all members of the Council always have at the back of their minds how much support and how many votes you need to create a bloc within the meetings of the Council. Just for the record, because I have lost touch with this—and certainly I remember always being able to calculate very quickly whether I had enough for a bloc or not—of the 10 members who are not within the euro, how many votes is that, and how many more is that than you need for a bloc?

**David Lidington:** If your Lordships will forgive me, I will ask my officials if they will provide me with a note on the exact numbers, but I think the key point behind Lord Jopling's question is that when the new voting weights provided for in the Lisbon Treaty come in in 2015, at that stage the 17 current members of the eurozone would have a built-in qualified majority, should they vote as a bloc. Clearly there is an inherent risk, just in that arithmetic, that you could have, I suppose, a stitch-up of a single-market issue, but I would say by way of reassurance, Lord Jopling, that there is no evidence whatsoever that that is how eurozone countries themselves are thinking at the moment. It is quite the reverse. What many eurozone members are saying to us is that they very much want to defend the integrity of the single market. They do not want to have the European Union divided into rival blocs of those who are in the eurozone and those who are out. I think we certainly need, as the UK,

to be looking for agreement on rules of process that protect our national interests and the interests of everybody who is not part of the euro.

The European Commission has an important role to play here. It is the guardian of the treaties and of the interests of the 27 as a whole, and we look to President Barroso and his team to live up to those responsibilities fully, but also it is about a culture of working, which is why I put huge stress upon the need for British Ministers to be actively working alongside and seeking common cause on various dossiers with not just fellow euro-outs but with euro-ins.

**Lord Jopling:** Minister, I saw a note being passed. I am very surprised these figures are not available. I hope that note says what they are, but it seems to me absolutely crucial on this arithmetic, and if that is what the note was, would you tell us what it says?

**David Lidington:** Yes. You want the numbers for euro-outs and euro-ins at the moment, and we will give those to you as soon as we have them. My point, Lord Jopling, though, would be that although the eurozone at the moment is short of a qualified majority, it does not get that until the Lisbon weighting comes into effect. The political reality would be that if the 17 wished to act as the core of the bloc, then, with the support of euro-outs that are very keen to get into the euro as quickly as possible, it could be assembled, but I do not see any evidence at the moment that that is how they are thinking or that that is their intention.

**Lord Jopling:** We would like the figures for the present and post-2014.

**Q9 The Chairman:** Minister, can I just get you to repeat what I think you said? There is really not very much evidence of homogeneity either within the ins or among the outs, and I think there is an assumption too often that there is rather more homogeneity than is in fact the case.

**David Lidington:** I think that is certainly the case, Lord Chairman, and it is worth reminding ourselves that it is some years since the euro was created. When the euro was set up, there

was a great deal of fear that this might prompt the division of the European Union into two blocs. What we have found—in the present Government and our predecessors in the Labour Government—was that when you went into Council meetings, the Ministers from the various eurozone countries came in and they were perfectly happy to disagree with each other where it was in the interests of one country to do so.

**Q10 Lord Harrison:** Minister, I, too, would like to submit you to some textual analysis, followed by inviting you to give your best intellectual punch. Paragraph 34 of the 26 October summit conclusions says, “The euro is at the core of our European project. We will strengthen the economic union to make it commensurate with the monetary union.” This morning, in interviewing and concluding our own evidence-taking sessions on this matter in the Economic and Financial Affairs Sub-Committee, I posed the question that there had been a change, in the sense that it had now been decided among the 17 that indeed they would repair the fault line of the origin of the EU, and in a sense bring together economic and monetary union and fiscal and monetary union. Our witness replied that indeed it was centred on Germany and that he had detected a sea change, so there may be Prime Ministers around the European Union doing this and doing that, but this change had occurred that now concluded and understood that there was a need for bringing together the two sides—the economic and fiscal side—with the monetary union. Is that your hunch?

**David Lidington:** I would say yes, up to a point, and of course I should start by saying, as Lord Harrison knows, that the paragraph that he quoted was from the eurozone summit conclusions rather than the summit of all 27, and yes, those words did demonstrate the commitment of the 17 to trying to make their monetary union work and to strengthening their economic union so that it matched it in the way that my colleagues and I in the present Government would argue needs to be done.

I am reluctant to be drawn too much into speaking on behalf of German Ministers. If I confine myself to those things that are in the public record, yes, I think you see in the statements and speeches of German Ministers an understanding that there has to be greater integration in order to keep their currency union stable, but you also see in the Bundestag, in particular, a great concern about trying to avoid moral hazards. There is still an understandable fear, when you look at Germany's history in the 1920s, of them being expected to stump up for the debts and liabilities of other people. They are also, understandably, very conscious of the role of their constitutional court and the importance of democratic accountability within the German system for the key issue of where the power to take economic decisions should lie.

**Q11 Lord Harrison:** Let me then revisit some of the ground already covered by Lord Teverson and Lord Richard about the role of the United Kingdom in the EU 27, of which we are a part. It is surely more subtle than you describe. After all, we already rightly contribute to the element of the European semester in sharing our annual budgets, and that is right and proper. But when it comes to the division between 17 and 10, that is not subtle. There may be no great homogeneity among the 10 outside or the 17 inside, in some instances, but there are ins and there are pre-ins. They are not only determined, but it is part of the treaties to go in, and then there is us. Even the euro pact that you mentioned, there are now 23 countries signed up to it. So it is no longer 17; it is 23. Actually, on the euro pact, you may be wrong. I will go and check it myself. I think the CCCTB actually comes into that. That is one of the suggestions. I may be wrong, but I think it is, in which case it does begin to trespass into the area that you might think from the United Kingdom perspective is much more difficult. I think that you have said many of the right things. That, as the Government, is a positive approach, but the reality is that it is not quite that we are on the outside and the

others are on the inside. It is much more subtle, and the waning of powers may develop as this begins to bed down and develop in time.

**David Lidington:** It certainly is the case that among the 10 euro-outs there are some who see themselves as on the verge of entry. I think Latvia and Lithuania would be the two I would point to in particular. It is not just the UK, but Denmark of course is not intending to join the euro. Sweden has the commitment in her accession treaty but her people voted against it, and the political reality is that that is not on the agenda at the moment in Stockholm. Different countries have to be understood individually, but I think the same is true of the countries inside the eurozone.

If I go into a discussion about, let us say, an EU free trade agreement with Canada or Japan, the division on that issue does not by any means fall neatly into euro-ins and euro-outs. The same is true when we get into a discussion about the extension of the single market, or a discussion about common foreign and security policies. I do not think that there is any reason to believe that there is some automatic trend that we are on for the eurozone to act as a cohesive bloc. It is certainly in our interest to be active players, and we are looking at multi-dimensional chess games here, but it is a cause for concern. We want to make sure that we do not get caucusing and the development of rival blocs, but it is not by any means a cause for panic. It is a cause for sensible active diplomacy.

**Q12 Lord Harrison:** Of course you are right, and we need to be graduated in our approach to the 17, but I am saying the world is such that we may find ourselves with Denmark at a very small table indeed, the others being gone. It may be that others are coming in. If you think about the seven countries described as the West Balkans, already three of those match their currencies to the euro. That is where things are moving, and it would be perilous indeed for the United Kingdom not to be awake to that and to respond to it in as graded a way as possible.

**David Lidington:** I am certainly not for one moment suggesting that we are going to be inactive in doing this. I want to make one further point, which is that it is not just a matter of United Kingdom policy, or Danish or Swedish policy, and it is written into the treaties that what ought to be discussed and decided at 27 should be discussed and decided at 27 using the methods for taking decisions and legislating that are set out there, which is why, as I said earlier, the Commission and, for that matter, the President of the European Council do have important roles to play here in safeguarding the interests of the Community overall and in respecting what is in the treaties.

**Q13 Lord Trimble:** Minister, I will not be asking you to engage in any close textual analysis, but I will refer you to paragraph 6 of the 26 October paper, which is dealing with Italy. It refers to proposals of the Italian Government for structural reforms and fiscal consolidation and so on. What is the Government's view of those proposals?

**David Lidington:** We think that they are sensible proposals that the Italians should implement. It is fair to say that most if not all of the proposals that were in the Italian Government's letter were measures that had already been announced. They included labour market reforms, privatisations, pension reforms, a formal public administration of the welfare system, fiscal system, and a greater competition in fuel distribution vehicles, insurance and local public services. These are all measures which—with all the respect that I as a British Minister must give to Italian elected politicians to determine their country's future—it seems to me, as a friend of Italy, are in Italy's interests to implement in order to get Italy back on the path of increasing its rate of growth and finding jobs for its unemployed young men and women.

**Q14 Lord Trimble:** Minister, earlier on in another question you referred to how Europe has consistently failed to grasp the issues that would lead to increased competitiveness. It is the loss of competitiveness in these countries that is the root cause of the problem they

now have. Is there any likelihood that these measures, which the Italian Government is currently putting forward, will lead in the near future to a significant increase in competitiveness?

**David Lidington:** While one cannot ever be certain about what impact any one particular measure will have, all of us these days are influenced not just by domestic political decisions but by what is happening globally. We believe that those measures would help to modernise the Italian economy and to provide for a better growth rate than they have at the moment.

**Lord Trimble:** In the near future?

**David Lidington:** I would not like to put a timescale on it, because I think that does depend on what is happening more generally in the eurozone and what is happening in the global economy.

**Lord Trimble:** If there is not an increase in competitiveness in the near future, the fiscal problem will just simply get worse.

**David Lidington:** That is true. If one is wanting to look for an example of how tough reforms can have a beneficial impact, relatively smoothly, of course it is the Republic of Ireland, where we have seen a return to growth in the relatively few years after desperately painful decisions were taken by the previous and present Irish Governments.

**Lord Trimble:** I note the example, but they started off very quickly with a very commendable energy that seems to be absent elsewhere.

**David Lidington:** That is why we are certainly urging all concerned in the common interest to demonstrate energy and commitment.

**Q15 Lord Richard:** I really wanted just to come back to one point on the co-ordination of fiscal policy, which I should have perhaps asked you about and did not. In paragraph 29 you say, "Legislative work on the Commission proposals for a common consolidated corporate tax base and financial transaction tax is ongoing." Do you mean that that is totally

outside the eurozone movements? That is the ones that the Commission has been looking at for quite a long time.

**David Lidington:** Yes. The two things are different. On the CCCTB, we remain engaged in discussions to try to shape that, given the implications to UK companies operating across the EU. Whatever the outcome, it is important that there is clarity for businesses and tax administrations whether a particular country is taking part in this or not. The FTT is different. We are still engaged in the international discussions about this, but we have made very clear our view that the idea of a European financial transfer tax would be counterproductive, and again it is not just us. The Commission's own impact assessment says that to introduce a financial transfer tax in the European Union would lead to a loss of economic growth of up to 1.76% and a loss of jobs as well. We are keen to see growth-enhancing measures, but not growth-reducing ones.

**Lord Richard:** Thank you.

**David Lidington:** Lord Chairman, let me briefly give the figures that Lord Jopling was asking me for, for the record. Under the current voting arrangements, the euro-outs have 132 votes and the euro-ins have 213. A qualified majority requires 255, and a blocking minority 91. So at the moment the 17 are a little way short.

**Lord Jopling:** You might say that is a comfortable cushion.

**David Lidington:** I never take any cushion for granted, however it looks.

**Lord Jopling:** No. That is fine.

**Q16 Lord Dykes:** Can we now, Minister, come to the rather delicate but fascinating area of possible treaty changes? You mentioned the Bundestag in Germany returning to the idea that was promulgated by them as a proposal that there might be a treaty change to incorporate a specific mechanism for handling any future euro-area crises, and indeed possibly including sanctions for those who do not follow budgetary or financial rules. Of

course, you might say that the last few days' developments have put that slightly back, but not very much. Would the Government support a proposal for a treaty change along those lines, applicable only to eurozone members?

**David Lidington:** The main effort should be on the immediate problem. The concern I have about some of the talk on treaty change—and of course we have not had any text tabled as yet—is that it simply distracts attention from the need for eurozone Governments to sort out the package on bank recapitalisation on Greece and on the firewall. A treaty change cannot be a substitute for that because, by definition, a treaty change is—if historical evidence is a guide—unlikely to be either quick or straightforward. It risks being complex. The German Government have openly said that they want to see a treaty change to provide for automatic sanctions using the European Court of Justice. It seems likely that they are talking about Article 126, although there are various options on the table. We would look at any proposal for treaty change on its merits. We are not saying that we will sit there and block it and veto it. We are saying, “We will look at it on its merits, but please, colleagues, don't let this distract you from what needs to be done, and done urgently.”

**Q17 Lord Dykes:** Of course that sounds as though you are saying, rather encouragingly, that the Lisbon Treaty provides an ample framework anyway, with the modernisation procedures and the co-ordination implicit in that, and that that is mutual between the ins and the outs and so on. But as you were implying before, there is no automatic clash between them and, therefore, the Germans could think again about that and not have the idea of a separate new treaty change applicable just to themselves and the other eurozone members. It could be done under Lisbon.

**David Lidington:** I completely understand why German leaders, with the Bundestag and the Constitutional Court, are saying that they feel that they need to have the certainty of treaty change. It is also fair to say that there is no enthusiasm around the table for another round

of treaty change because of all the uncertainty that that entails. What would be interesting to see, when Presidents van Rompuy and Barroso report in December, is what they say about the ability of existing instruments under Lisbon to address the problems that everybody has identified.

**Q18 Lord Dykes:** Are you implying that you are in favour of that and the Government is as well—I am not criticising at all; I quite understand—because that would be a convenient way of avoiding any difficult referendum decisions under the European Union, which might be more than a—

**David Lidington:** I think it is completely straightforward in what it requires. I do not think there is a huge appetite anywhere in the European Union to have a British referendum, but the—

**Lord Dykes:** Is there an appetite in Britain to have a British referendum?

**David Lidington:** That depends on whom Lord Dykes speaks to, but as far as the immediate issue is concerned, it is certainly argued, “Let’s see what can be done under existing instruments.” But more important than that, it is the view of a fair number of eurozone countries and the present European Council that one should look first at what could be done under existing instruments. Then, if there is a proposal for treaty change, let us consider that on its merits. If there is a debate and a negotiation about that, then clearly the issues that we have discussed earlier this afternoon about protecting the interests of the 27 and other various national interests are ones we would have in mind.

**Q19 Lord Dykes:** You would understand readily, Minister, that close observers of this complicated scene—and Members of this Committee are automatically close observers of this scene—would be a little bit puzzled, because the Government has to some extent proceeded from the original triumphalism of “Thankfully, we’re not in the euro” to now a much more earnest and serious decision to really be supportive of eurozone members in

finding solutions to this crisis problem, because it does affect us, and not just because of our possible exposure to the banks, which you described earlier on. The Chancellor spoke, on 27 October, in the House of Commons discussion on further limited treaty changes to rebalance Britain's powers and Britain's interests and powers of the European Union, and maybe bring some back to Britain—repatriation. Could you guide us by telling us what this now means and what the Chancellor meant then, and what you now think this will mean?

**David Lidington:** When the Chancellor talked about rebalancing within the European Union, he was echoing a phrase used by the Deputy Prime Minister, when he coined it in an interview that he gave on Tuesday last week, and the coalition has a commitment, as the Committee knows, to look at the current balance of European Union competencies. That is work that is at its very early stages, and we will be taking that forward, and I am sure there will be opportunities to discuss that in detail as that work develops.

**Lord Dykes:** But that is bound to mean treaty change proposals for the UK, isn't it?

**David Lidington:** It depends on what the outcome of that examination is. I do not want to pre-empt that work at the moment.

**Lord Dykes:** Are you are returning to the original government position that you have no intention of using the European Act in this Parliament?

**David Lidington:** Again, I do not know. The European Act is being used already in this Parliament, not least because we have used it in order to make a judgment about the proposed legislation on the European Stability Mechanism and because that Act will require all changes to the Treaties to be ratified in this country by primary legislation, even if they do not require a referendum under the terms of the Act. So Lord Dykes is right; it has always been the intention of the Government not to support any transfer of power or competence from the United Kingdom to the European Union institutions.

**Lord Dykes:** I would like to thank you for restoring the powers of this Parliament.

**Q20 Lord Bowness:** Minister, do you think this statement by President Barroso and Commissioner Rehn, that they look forward to seeing a unity Government in Greece, amounted to a justified or unjustified intervention in domestic Greek politics, and does it suggest that Commissioner Rehn is ready to assume or has already assumed the role of European Finance Minister?

**David Lidington:** I think what those words indicated was the sense of real urgency that there is in the Commission, and in a sense is shared by countries both inside and outside the euro, that the political leaders in Greece decide on the way forward and then stick to it. We know that Commissioner Rehn is not a European Finance Minister. He has been appointed now as a Vice-President of the Commission for Economic and Monetary Affairs, and I think that is perfectly appropriate, given that he has taken on an enhanced role with the travails of the eurozone, and I would say he is doing a pretty effective job in doing it. Of course, it is worth noting that President Barroso, in appointing him as a Vice-President, specifically drew attention to the point that Commissioner Rehn would have a key responsibility for ensuring that the interests of all 27 member states and the integrity of the European Union as a whole were respected in the discussions about the future of the 17.

**Q21 Lord Plumb:** Minister, it is inevitable that the discussions so far and the questions posed have all been related to financial crises. You will be aware that we produced a report on the single markets a while ago, which had a good hearing when it was debated in the House, and I note that on 23 October the report was preceded by a comment on the single market. I hope that because of the financial crisis and because of the difficulties that exist, this is not going to become a minor issue or an issue that is not so important. Surely the single market is a way forward in creating economic growth, and it is something that obviously is of great interest to this country. We all fully supported it, and I hope it can be used more fully than it has in the past.

**David Lidington:** I agree completely with Lord Plumb. This is a key priority, probably the single most important priority in European policy for a British Government, and what is heartening is that there is, in my experience, a growing recognition across the European Union, including from some countries that previously have been sceptical, about the need to develop the single market further, if we are not to condemn future generations of European citizens to a lower standard of living than that which we have taken for granted for so long. We have a detailed British agenda, which ranges from completion of the single market in services, through full implementation of the services directive, to subjecting restrictive practices that are permitted to a proportionality test, to reducing the number of regulated professions, to creating a fully functioning digital market in the EU by 2015 and a single market in energy by 2014. There is a lot of very important work that the European Union can do that could improve the chances of job creation and wealth creation in every one of the 27 member states.

If I may—if I have time to do it—it is worth drawing attention to and paying tribute to someone with whom the Government crosses swords on a number of occasions, Commissioner Barnier. I do not resile from the criticisms that we make of some of his initiatives, but last week he did announce that he was taking Germany, Austria and Greece to the European Court of Justice over their failure to implement the services directive fully, and I think that is a good example of the Commission acting as the guardian of the single market and of the treaties in the way that we hope they will continue to do.

**Lord Plumb:** Do you see this mostly in industrial growth, in development in different countries and cost compliance?

**David Lidington:** It depends very much on which country we are looking at, but what I am struck by is the degree of common accord across the European Union that, whichever

sectors a particular country is strong in, to have a developed, single market will help us to deploy resources with greater efficiency.

**Q22 Lord Dykes:** Minister, subject to your time for consultation with your Treasury colleagues, there is one area where there does appear to be slowness. I think three years ago the Commission promulgated the single bank transfer system throughout the single market, and that is bank transfers between banks, and so on. There are disturbing signs of that being very slow in a number of member states that I will mention now, and also that the costs of it still remain international, rather than in a single market context. There are much lower costs for what is really just pressing a button for an electronic transaction, as you know. Would the Government be able to pursue that to make sure that that single bank transfer in the market, particularly for ordinary customers but also commercial companies and SMEs, would be implemented quickly?

**David Lidington:** I can certainly see the attractiveness of that. I think the best thing, Lord Chairman, is if I consult with my Treasury colleagues and write to Committee Members.

**Lord Dykes:** Thank you.

**Q23 Lord MacLennan of Rogart:** Can I just ask how the consideration that has been given to repatriation of powers conforms to the objectives of achieving an improved single market?

**David Lidington:** The coalition Government's commitment is to examine the current balance of competencies between the EU and its member states. As the Committee knows, the Conservative Party manifesto in 2010 was committed to a given range of repatriation of competence. It is the coalition programme that forms the basis on which the Government is taking forward its policy, and that is what we are now doing, but when it comes to the single market, we have a very clear view that this is at the heart of what the European Union is

about economically, and we want to see the single market enlarged and deepened further, not reduced in scope.

**Lord MacLennan of Rogart:** Sorry, I was trying to understand whether, in considering the commitments that parties have made in the past, their attitude to repatriation is affected by the priority that you have given in your evidence today, to the need to improve the single market.

**David Lidington:** If it may be a reassurance to Lord MacLennan, I am happy to send him a copy of the Conservative Party manifesto for 2010 if he is really short of reading, but the particular proposals that that manifesto included did not impinge upon the single market.

**Q24 Earl Sandwich:** Minister, can we move to asylum policy, which is back in the news today. We are not in Schengen, but the last Government had opted into the key three directives that form the cornerstone policy. Where do we stand in the UK at the moment? There are ways of taking part. Do you think, as the Minister for Immigration said to us the other day, that the policy is too prescriptive, and is that one reason for not opting in? Is it a major change of policy on our part?

**David Lidington:** No. We are actually to a great extent following, in this respect, the policies of the previous Administration. The decision not to participate in the recently amended directives had already been taken by the Labour Government. Those directives were re-amended versions of measures brought forward under the second phase, which that Administration did not opt into. So, when we decided in our turn not to opt into the re-amended directives published in June 2011, we were continuing with the policy that our predecessors had adopted.

Where there is a difference between us and our predecessors is that the present Government does not accept, in principle, that a common European asylum system is right for the United Kingdom. We think that practical measures of co-operation, rather than a

common European system, are going to be more effective in helping us with the immigration and asylum system that we want. The UK has opted into two of the amended instruments, which are the Dublin and the Eurodac regulations, and those form the backbone of good migration policy, but we decided that opting into the other three was not going to be in the interests of the country. Obviously, as Lord Sandwich knows, there is the option under the treaties to opt in retrospectively at a later date by agreement of those who are taking part. If we were to consider doing that, we would need to have some clear and compelling evidence that this was going to be of positive benefit to the UK.

**Earl Sandwich:** So we have not taken any new direction, in your view. We are just sitting in on—

**David Lidington:** On the particular directives, our decisions not to opt in followed that of the Labour Government not to opt in. Where there is a difference is over the principle of whether to support a common European asylum policy.

**Q25 Baroness Howarth of Breckland:** Minister, I am told that over the last few weeks we thought that the major problem facing us, in terms of challenge, was climate change. It rather seems to have taken a back seat in the last few weeks. But the European Council of 23 October did discuss the preparation for the Durban Conference on Climate Change, and that underlined the need to agree on a process towards a comprehensive, legally binding framework and a clear timeline ensuring global participation, including from major economies. We were wondering how hopeful the UK Government is that this ambition will be achieved. In the light of the turmoil in the European Union, do you think it has established how it will work together to negotiate effectively in Durban?

**David Lidington:** On the last point, we agreed on a team EU approach that has been adopted in international climate negotiations before, and the framework agreement that all 27 have agreed on. Representation in external relations makes it clear that however you are

represented at a particular meeting does not affect the competencies as laid down in the treaties. I think it is making it easier to come to pragmatic arrangements for external representation that work in the circumstances of particular gatherings.

In terms of how optimistic we are, the safest thing to say is that we remain very ambitious. There cannot be any getting away from the fact that the eurozone crisis has absorbed an enormous amount of top-level political attention and energy in recent months, but Lady Howarth is quite right: we must not forget about how serious the challenge of climate change is, particularly for some of the poorest and most vulnerable populations in the world, and we are failing in our duty if we lower our ambitions for Durban. So what we are hoping for is progress, at least, towards a legally binding instrument that would commit all major economies to binding targets on lower emissions. We do not think that is likely to be the fruit of Durban, but we hope that Durban can make considerable progress along that route, and we think that there needs to be global agreement also on a road map as to how we are going to meet the 2 degree goal and mitigate the impact of climate change that is already under way and unavoidable.

**Baroness Howarth of Breckland:** The timetable and road map are important in terms of ensuring that there is a level playing field and clear monitoring. Is the UK absolutely into that sort of detail of taking those issues forward within the strategic framework?

**David Lidington:** Yes, it is very important that we do so. Chris Huhne and his department are very committed to this, and you have a special envoy to the Prime Minister, who goes and bangs on the doors of the most senior Ministers of the Government to make sure that they do not forget about this.

**Q26 Lord Teverson:** Minister, we have taken in a situation where the proof on climate change is getting stronger, given the number of studies that have been undertaken recently, yet it is quite clear there is no political will in the United States under the present

Administration, let alone any potential new one next year—or the year after, should I say—to actually go down the classic Kyoto route that the EU is following. Do you think there is going to start to be a plan B of any sort in the European Union in its approach to climate change, given the fact that the problem is still there but the present process is going to miss the bus, in terms of the plus 2 degrees centigrade, at the rate it is going at the moment?

**David Lidington:** I do not think we want to start talking about a plan B in the run-up to Durban. What we have to do is go in very determined and united to Durban to try to obtain the most ambitious optimum outcome from that meeting. Despite the fact that some member states are less enthusiastic for measures to combat climate change than others, the European Union has singled a willingness to commit to a Kyoto protocol mark II in the context of a wider deal that includes all the major emitters of carbon. That does mean parallel action from other economies, particularly the big emerging economies. The EU has to be pragmatic and nimble in trying to work out when it may be possible to clinch that sort of global deal. I do not want to pre-empt where detailed negotiations might take us, but the political will is certainly there on the part of British Ministers.

**The Chairman:** Minister, thank you very much indeed. We have taken up rather more of your time than we intended, but it is a very important opportunity for us to discuss these difficult and moving subjects. We are obviously hoping that you will be able to come back after the December Council and before the Christmas Recess to talk to us about that, but in the meantime we thank you again very much and wish you well for the next two months.