European Scrutiny Committee

Oral evidence: EU Document Security, HC 1060

Wednesday 25 February 2015

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Watch the meeting

Members present: Sir William Cash (Chair); Mr James Clappison; Michael Connarty; Geraint Davies; Kelvin Hopkins; Jacob Rees-Mogg

Questions [1-48]

Witnesses: **David Gauke MP**, Financial Secretary to the Treasury, and **Jonathan Black,** Director Europe, gave evidence.

Q1 Sir William (Chair): Welcome, Minister. I will ask the first question. In your letter in relation to whether the overhang of payments due has been cleared by the agreement on the 2014 Draft Amending Budgets, you say that "the majority of the expenditure in the 2014 DABs went toward addressing the issue of the overhang, in particular the €2.8 billion"—which is £2.1 billion—"European Regional Development Fund payments in DAB No.3/2014". However, you do not actually say whether the overhang has been cleared. Has it?

Mr Gauke: No, it has not. There continues to be an issue for 2015. The point I would make, though, is that we believe that there is a responsibility for the Commission to manage the EU budget, bearing in mind that there are a number of unfunded commitments from the previous MFF period. It was known that there were a number of unfunded commitments from the previous MFF period, or that this was going to be an issue, when the MFF agreement was made. I do not believe that this in any way justifies a departure from the MFF settlement, nor, indeed, have we departed from the MFF settlement; but there continues to be this issue of an overhang. It will be largely dealt with once we have got through 2015. However, to answer your question very straightforwardly, the 2014 budget does not address it in its entirety.

Q2 Mr Clappison: Thank you for that, Minister. In your latest letter, you tell us about the commitment and payment ceilings for the Multiannual Financial Framework. According to my rough calculations, which are probably wrong, there is a margin of about €5.5 billion, but perhaps you could tell us, with greater accuracy, what you see the margin being.

Mr Gauke: There continues to be a margin. It is worth noting that, in percentage terms, that has reduced. I think, for 2014 and 2015, it is in the 2% to 3% range, whereas if you go back to earlier years, it was closer to 12%, so there continues to be an issue, albeit it is reduced. I might ask Jonathan Black, who I should introduce as the Director for Europe at the Treasury, to answer regarding cash terms. There continues to be an issue. As I say, in percentage terms, it is lower than it has been.

Jonathan Black: The forecast difference between commitments and payments for the 2015 year is 2.8%. The total payments appropriations number for that year is €141 billion, which would equate to a number somewhere between €4 billion and €5 billion for the difference between commitments and payments for the year 2015.

Q3 Mr Clappison: You also tell us about the 2014 ceilings. It appears that the payments ceiling was breached by about €3.1 billion. Could you tell us how this has happened and what it means for the Government's view of the need for adequate margins?

Mr Gauke: In terms of 2015, we do not believe that the margin is high enough. Although it would be fair to say that this is consistent with the MFF, because the MFF contains a contingency margin and money can be brought forward from later years, and that is still consistent with it, we have to continue to be wary. We have to continue to ensure that the overall budget does not lead us to a position whereby the pressures in later years are such that they are very hard to meet. I fully recognise that we need to remain vigilant in this area. It would be better, clearly, if the margin that we obtained on that 2015 budget was higher, even though it was consistent with the MFF.

Q4 Mr Clappison: Can I take it that is a view we put across vigorously at the ministerial level and official level?

Mr Gauke: You certainly can take that view. I would also stress that we were by no means isolated in making that point. A large number of like-minded member states made the point in the course of the negotiations over the budgets for 2014 and 2015.

Q5 Chair: This was what would be described as a hot issue a few months ago, and of course the truth is that nothing much has changed. For practical purposes, although I am sure you are working as hard as you can to try to resolve these questions, the reality is that when it comes down to overhangs and further commitments that the United Kingdom is expected to cough up, for practical purposes it is like hitting your head against a brick wall, by the sound of it.

Mr Gauke: What I would say is let us not forget the considerable achievement of the MFF settlement that was obtained by the Prime Minister in February 2013, and that, for example, if we look at the 2014 budget, it is a reduction in cash and real terms from the 2013 budget. That is progress. I would still say, nonetheless, and I would be surprised if you disagreed with this, that at a time when we are having to make very difficult decisions with our own public finances, and most Government Departments are seeing reductions in expenditure, it is also the case that similar discipline should apply with the European Union and its expenditure. Although there are undoubtedly frustrations in this process, it is worth pointing out that that MFF settlement was clearly a significant achievement.

Chair: Yes. If I can just make a personal point about this, in the last few years, one or two of us, including me, have put down amendments that were accepted by the House as a whole to ensure that there was a reduction in the budget. When you are talking about achievements, if I can put it this way, it is a parliamentary achievement and not just a Government achievement.

Q6 Jacob Rees-Mogg: Minister, I am sorry but I have to go to the Procedure Committee at three o'clock, so I am not going to stay for the whole thing. On the issue of bringing forward amounts under the Multiannual Financial Framework, what value do they have? Are they brought forward at net present value, or are they brought forward in simply nominal terms?

Mr Gauke: I may ask Jonathan if he can help with that question. I appreciate it is a point that you have raised in the past. I do not know whether we have got the details of that.

Jonathan Black: I assume you are talking about the use of the contingency margin and its application, which was used last year, and then has to be offset in the final three years of the MFF period. My understanding is that the number for that is around €3.2 billion in 2014. That will be offset in nominal terms at the back end of the financial perspective—the end of that period.

Q7 Jacob Rees-Mogg: It is therefore, from the Commission's point of view, very favourable to bring forward the expenditure, because they are getting a higher effective value.

Jonathan Black: It entirely protects the overall MFF ceilings that were agreed by the Prime Minister in 2013, and the numbers are offset within it.

Q8 Jacob Rees-Mogg: But €3 billion spent in five years' time is not worth €3 billion today. It is very straightforward.

Mr Gauke: Although in current circumstances, there might be a question about that.

Jacob Rees-Mogg: If you deposit it in Denmark, there might.

Q9 Chair: I am going to ask you three short questions on the European Semester, which has been operating for a number of years. First of all, to what extent does the Government regard the European Semester as useful? Secondly, do you have any view on whether there is a need to improve the annual cycle? Thirdly, what influence does the Semester have on the Government's economic policies?

Mr Gauke: If I may, I will take the third question first. To what extent does it influence policies? It is the case that there are a number of organisations that provide advice, make comments and make judgments on the performance of the UK economy and Government policies. Of course, we yesterday saw the judgment of the OECD, and I will resist the temptation to discuss the very positive remarks made by the OECD in respect of the UK Government's policies. That clearly feeds into a general public debate, but if we disagree with a recommendation that is made by the European Commission or the OECD or the IMF, we will say so, and we will defend our position on that. In terms of the level of influence, of course Parliament is sovereign. We reach our own conclusions, but any Government will listen to comments and suggestions made by outside bodies. In some cases we will concur, and on other occasions we will disagree.

In terms of how useful the process is, it is a process that dates back, I believe, to the Maastricht Treaty. It is of perhaps greater relevance to those member states that are within the eurozone, which, thankfully, we are not. I do not believe it imposes upon us particularly great burdens. The information that we provide is largely information that is produced as part of our own domestic budget process. I do not believe that the burdens placed upon us are particularly significant. It is difficult to argue that it is a terribly unhelpful process. To what extent it is useful? Well, it is part of a general public debate, and sometimes attracts commentary and sometimes helps inform public debate in this area, but as I say, I am not sure that it is necessarily particularly influential in itself.

As far as improvements in the process are concerned, as I say, it permits the European Commission to express opinions, but it is by no means binding upon the UK Government. I think it is right that its recommendations are not binding, particularly in the circumstances of staying outside the eurozone. I dare say any process can be improved, but I cannot say that I have got a particular agenda in terms of what improvements I would make. I do not know whether there is anything you would add, Jonathan.

Jonathan Black: Perhaps from the point of view of an official who has to work with large parts of the process, there have been some changes introduced for this year. The Commission are slightly reordering the way in which they do some of their reporting, including, probably, next week on their annual update on their recommendations from last year. It is fair to say that some of the process is very intensive, and the more that it can be simplified and streamlined, the better.

Chair: Thank you.

Q10 Geraint Davies: In relation to the Investment Plan for Europe, what is the likelihood of a leverage ratio of 1:15 from use of the European Fund for Strategic Investments?

Mr Gauke: It seems to me to be a reasonable approach. There is quite a lot here that we can welcome, because of the fact that there is significant leverage from private investment and that the EIB is so heavily involved, and the level of rigour that is involved. The record, if you like, that the EIB has is something that we welcome. We believe that the governance process for this is what we would want, in terms of ensuring that projects are decided on the basis of the value added of the projects, as opposed to political considerations.

As a general point in respect of the investment plan, it is one that we can welcome. If I may, given there have been developments in recent days on this, I would like to write to the Committee, setting out some of the further details on that point, but as an approach, including the leverage point that you mentioned, Mr Davies, we think that there is much within it that we can welcome. There is potential benefit for the United Kingdom, as a country that has well developed plans in this area. We hope that we would see a significant part of the benefits coming to the United Kingdom as well.

Q11 Geraint Davies: Whilst we all understand the benefits of better leverage from the private sector, does that then discriminate in favour of more developed and successful economies like Britain and Germany, and against places like Greece that may have more need?

Mr Gauke: I think it favours those economies who can work up good plans.

Geraint Davies: That is what I mean.

Mr Gauke: I am not sure. I do not think it would be appropriate for me to suggest that we are uniquely qualified in this area. With a good pipeline of infrastructure projects, the potential for us is considerable. It is important that that fund is used in a way that can add real value and see benefit for UK taxpayers across the board. It seems to be right that those projects that benefit most from the support have got a good chance of getting that support.

Q12 Geraint Davies: I realise we are batting for Britain, and we are not trying to make value judgments, but on the empirical side, would you agree that these leverages will mean that, if you look at where the clusters of investment are being made, places like Greece will have fewer opportunities and we will have more, and that there is a sense in which they have got more need, even though we are able to get the private sector because we are lower risk?

Mr Gauke: It is obviously the case that we would look to ensure that the UK does well from this. Just this week, we have seen numbers showing the UK having a higher percentage of loans from the EIB than I think we have had in the past. There is considerable focus within Government on ensuring that we have got a good pipeline of infrastructure investments, et cetera. However, it is right that there are, if you like, incentives there for countries to come up with good plans, so that EU taxpayers' money is well used. For those countries that are perhaps not able to come up with good plans, it puts a pressure on them to develop good, commercial, cost-effective plans that add value. I think it is right that incentives point that way. Again, Jonathan, I do not know whether there is anything you want to come in on.

Q13 Geraint Davies: I am just wondering—I understand, but it might be the case that these accentuate each other and we are always in a better position than Greece. Can I just ask you whether you think these regimes for the direction of investment may be challenged in the future under TTIP?

Mr Gauke: I am not aware of there being a risk to the investment plan as a consequence of TTIP.

Q14 Geraint Davies: Someone might say it is unfair in the context of an arbitration in terms of whether investment goes to one place and not another place, or whatever.

Mr Gauke: It is not a risk I was aware of. Perhaps I can bring Jonathan in on that.

Jonathan Black: Perhaps I could also pick up on your earlier question as well. The picture is quite complex, in terms of the market and where some of the projects may go, partly because of how developed the infrastructure is in different countries. The picture in some of the southern countries is very different. There has been some analysis by some of the credit rating agencies—I think Standard & Poor's has been the most thorough one—which has looked at which countries potentially have the most to benefit. The picture is quite nuanced. Some of the southern countries are different from others, although, as it happens, the UK is also identified, partly because of how developed our infrastructure pipeline and some of our capital markets are, as a country that is well placed. If I may say so, it is quite a nuanced picture.

Q15 Geraint Davies: Is it in general the case that the stronger economies like Germany and Britain, as opposed to the weaker ones like Greece, Spain and even Italy, are getting the lion's share, and the weaker are getting less? I understand the reasons why—

Jonathan Black: We obviously do not know for the EFSI yet, because it has not yet been set up. However, on previous EIB lending—I do not think I have got the exact breakdown here— traditionally Italy and Spain have had the highest share and probably fall into both your categories a bit. The UK is one that has seen more recent growth, partly because there is a deliberate strategy in relation to it. The pattern from EIB lending, which I accept may not be a complete read-across but is a reasonable starting point, I think, would suggest that the EFSI should be reasonably Union-wide, although the governance, obviously, is designed to not be geographically selective in that way.

On your question on TTIP, I do not see a particular concern from that point of view. The arrangements on this are within the state aid regime, which is important in terms of the within-EU set of laws. Obviously, TTIP has still some way to go, but I do not see in principle any reason why it would be an issue of concern.

Q16 Geraint Davies: We are about to sign off CETA, are we not, and there is a lot of the ISDS and stuff in that?

Jonathan Black: We are, but, as I say, I do not see in principle concern on why EFSI would be at risk as a result of this.

Q17 Geraint Davies: On CETA, we will be signing up to 20 years at the end of this year, so it might be worth looking at it. On the next question, are the proposed drawdowns from the EU budget for the EU Guarantee Fund in connection with the investment plan a reasonable use of the programmes concerned? In particular, does the proposed use of Horizon 2020 and European Research Council appropriations make sense for the UK?

Mr Gauke: The first point to make is that it is accepted that the contribution from the EU budget is included within the MFF settlement. That is not an additional sum, so it is coming from the existing budget. It is worth pointing out that Heading 1a, which includes the Horizon 2020 element, is something where we saw a significant increase in the MFF settlement. This is an area where the budget has gone up—33% or something—in a declining budget, so there is scope for a contribution from that budget there.

As I say, particularly given the leverage and the various aspects of this, including the involvement of the EIB, in terms of value for spend, this will rank pretty highly in terms of EU expenditure. In those terms, from what we have seen so far and the information that has been given to us—I will write to you with further details on that—we believe that this seems to be moving in the right direction.

Q18 Michael Connarty: First, Minister, can I thank you for your letter, which answered a lot of the questions that we had put to you in writing? I am anxious to move on to this very interesting topic, basically moving from an austerity-based drive by the European Union to an investment and growth-based drive. There are lessons to be learned there for every Government, I think. On the leverage question—looking for a sum of €245 billion to be leveraged by €12.5 billion from the European budget—you used the word "rigour", but that is not a thing that a lot of people associate automatically with European Union budgets, so can I just ask a simple question on this? In the UK's approach, would this all be expected to be private sector-sought investment money borrowing? One of the problems, I am told by the finance sector when I go to the meetings, is that there is a problem with finance for small, medium and growing companies in this country.

The second thing is that it mentions here that it would allow the Commission to implement and deliver the plan jointly with the European Investment Bank. The Commission tended, in the past, to be involved with encouraging and financing infrastructure by countries, rather than in doing a great deal to drive the private investor and entrepreneur. How clear are you that these things will be safeguarded, and it will not become yet another fund for the Commission to give aid to Governments to drive their infrastructure programmes, rather than the private sector?

Mr Gauke: They are perfectly fair questions. I would answer, in a way, all of those points by pointing towards the involvement of the European Investment Bank. I do think that the European Investment Bank has a pretty good reputation when it comes to rigour. I would also point to, in the general sense, the governance and perhaps some of the details, which I will ask Jonathan to say a little bit about but I will also write to the Committee about, which is the way in which this is going to work and the degree to which this is not going to be 28 Governments fighting it out with the Commission and saying, "Come on, we want our share." This is going to be a question of a rigorous analysis of the particular projects that are put forward to see where the value for money is.

In terms of making any contribution towards making the European Union more competitive, in terms of spending money more wisely, I would say that the indications are encouraging. This does seem to be a move in the right direction. There is a widespread view among member states as a whole that we do want that rigour and determination that the money is spent wisely and we do not fall into some of the traps that you identify. Jonathan, do you want to just come in on that?

Jonathan Black: I would agree entirely with what the Minister said, in terms of the relationship with the EIB. The whole governance of the scheme will be one that is joint between the EIB and the Commission, but, importantly, the project selection will be through a separate piece of governance that is consistent with the way in which the EIB does its governance, and the selection process will go ultimately through the EIB's structures, in that sense. I think you can have some reassurance, if I have understood what your question was driving at, in respect of the rigour of the selection process around the funds.

On your question about the public money, if I have understood it right, it is quite possible that the co-financing, if you like, of the money from this fund could be a mix of both public and private on both the infrastructure and the SME side. On the infrastructure side, that already happens in some respects with EIB lending, including in the use of structural funds as well as domestic spending. On the small business side, which is the point you drove at, one point I would note on this is that, while traditionally the UK has had a lower share of core EIB lending in relation to small business, we have quite a high share through something called the European Investment Fund, which is a facility within the EIB, which is where the EFSI money will go. We are working with the British Business Bank on how we can develop UK-related platforms to get into that.

Q19 Michael Connarty: I think the answer to my question about the financial consequences, both positive and negative, of the plan for the UK might be contained in this letter you have offered to write to the Committee. If you have any comments at the moment about where you see this impacting, positively or negatively, on the UK specifically, you might want to put it on the record.

Mr Gauke: I think the main point I would make is that, given that we have quite a well developed pipeline and given the fact that there is greater lending from the EIB into the UK as a whole, and, as Jonathan says, it is not a precise read-across but may be indicative, in those circumstances the UK should be well positioned to come forward with good cases. As there is a rigorous selection process, the hope would be that we would be presenting the cases that would be selected. In that sense, there is potentially considerable opportunity for the UK as a consequence of this plan.

Q20 Michael Connarty: Will you involve the devolved Administrations in this—for example, Scottish Enterprise and Scottish Development International? These people will be, I am sure, keen to tap into funds as much as any other part of the UK.

Mr Gauke: Indeed, and a few months ago—I cannot remember the date off the top of my head—we had a cross-departmental ministerial meeting with Ministers from the devolved authorities there discussing what could be done in terms of the Juncker investment plan and the opportunities throughout the United Kingdom. It is one that we are already engaged with devolved authorities on, and I know there has been significant interest from them in the benefits for Scotland, Wales and Northern Ireland.

Q21 Michael Connarty: The European Investment Bank have been involved in raising this money. What is the assessment of the risk they take to other guarantees where they are fundamental? It is a very interesting and attractive model, but it clearly does increase the risk in the market.

Mr Gauke: One of the points that I intend to write to the Committee about, but I will touch upon now, and Jonathan can elaborate, is we do want to ensure that the EIB maintains its AAA rating, and, indeed, I think we have made some progress on that.

Jonathan Black: Indeed. We have two strands of work that we are doing on this, which the Chancellor and the Minister have asked us to pursue. One is in relation to the domestics of UK interest, and the other is about the design of the European scheme. On the latter, one of the most important things that we have focused on is maintaining the EIB's AAA rating. You are right that this involves some extra degree of risk in the EIB's approach. That is something we have traditionally been keen for them at least to explore within that, and it is indeed an area the UK potentially can benefit from, but the governance of the scheme and the underlying structure is designed to make sure that that does not run in conflict with the EIB's creditworthiness.

Michael Connarty: Thank you.

Q22 Geraint Davies: Can I ask about a particular example from Swansea, which is my constituency? The council is looking at regenerating the city centre but moving the centre of gravity of their administration to the centre, basically changing their asset portfolio, regenerating the city centre, trying to attract bigger retailers and all this sort of stuff, and more, better office space. Is that the sort of thing that you feel the European Investment Bank could look at and support, generically? I do not mean necessarily Swansea itself.

Mr Gauke: Do I detect a press release for your local newspaper, Mr Davies?

Geraint Davies: No, no. I am interested in investment and jobs, not just words. It is a serious question.

Mr Gauke: Of course it is, and I would not want to suggest anything to the contrary. In terms of specific projects, I obviously do not want to be drawn into commenting on particular projects at this stage. The point is that if there is a project, and if there is a good case that can be made with value-added expenditure, and there is a commercially driven case, that is something that, as a Government, we would want to take and push forward. It would be for the EIB, as part of the process, to apply the rigour, if I can use that word again, to see whether there is a good case in the selection process. There would be a selection process, but anything in this area that is likely to result in an improvement in the economy and a good return would be potentially considered.

Q23 Geraint Davies: In what timeframe?

Mr Gauke: For the purposes of the Swansea Echo, or whatever it might be.

Geraint Davies: Not really, no.

Mr Gauke: In terms of the timetable for the process, it is fair to say we are still at an early stage. I know the Commission is understandably ambitious to proceed with this as quickly as possible. I do not know whether there are any details you want to share with the Committee, Jonathan.

Jonathan Black: Obviously, already the EIB does its lending, so there are current schemes in place. For individual projects, it depends on the complexity of the projects and their scale, so it is hard to think of a definitive answer in that respect. If it is more small business-related, that lending is done through an intermediary, which is then picked up. In terms of EFSI, the anticipation is that schemes will start being approved through the fund during the course of this calendar year, but there is still a bit of governance that needs sorting out before that happens.

Q24 Chair: Could you write to us about this, regarding the European Investment Bank? The amount of money that the European Investment Bank handles these days has become enormous. I would be grateful if you could write to the Committee telling us just how much money the EIB is disposing of, and in particular what that represents in terms of the guarantees that the United Kingdom Government provides.

As I understand it, we have a percentage commitment. We underpin the EIB by making guarantees, which therefore, I suppose, become off-balance-sheet commitments like pension funds, Network Rail, nuclear decommissioning and the rest. You do not have to answer the question now, unless Mr Black has got the answers at his fingertips. Are you able to answer it now? I am quite happy to have a written explanation, because it is a very large sum of money, both overall and how much, on the other hand, the UK is committed to.

Mr Gauke: I will not pretend I am insulted by the suggestion you do not think I would have those numbers at my fingertips.

Chair: I would not dream of anything of the kind.

Mr Gauke: However, you would be right to say I do not have those numbers at my fingertips. I do not know whether Jonathan has, but we can include that within a letter; we are happy to do that.

Chair: Thank you very much.

Q25 Kelvin Hopkins: Minister, I do not know if you are aware, but I asked a question of the Prime Minister on Monday, after his statement on the European Council, about Greece and the euro. It seems that Greece has put off the day of reckoning for at least four months, at least, but we have our views. Given the apparent difficulty of being able to reconcile both Greece's wish for austerity-lite financial support and its wish to remain in the eurozone, what view does the Government have on how matters are likely to turn out? That is question one. What is the UK Government's liability if Greece defaults on its loans? Thirdly, what contingency plans does the Government have in place in case of a Greek default and/or exit from the eurozone, or does it regard such plans as unnecessary? I know there have been discussions, it has been reported, of the implications for Britain of the Greek exit.

Mr Gauke: On how matters will turn out, I am not sure it would be helpful to try to speculate. As the Chancellor and the Prime Minister have said, it is for the eurozone member states, including Greece and, of course, all the others, to make progress and to reach agreement. There does appear to have been some progress this week. I do not think we should underestimate the challenges that the European economy would face if progress cannot be reached.

In terms of the UK's liability, we are not as exposed as we would have been as a consequence of the new arrangements that have been put in place under this Government on bailouts and the fact that we are not on the hook for these matters. We are, of course, a member of the IMF, and that may involve some risks, although not necessarily particularly considerable ones. It is worth pointing out, of course, that Europe is a big export market for us. We have seen, on a number of occasions over recent years, the difficulties within the eurozone having an impact on our economy and our ability to increase exports, for example. I would not be dismissive of it, but we are clearly not facing the level of risk that we would be were we members of the eurozone.

In terms of contingency planning, probably the safest thing I can say is that of course the Government at all times considers potential courses of action, and potential risks and dangers, and gives due consideration to what we should be doing in those circumstances.

Q26 Kelvin Hopkins: The Prime Minister gave me a fairly lengthy, measured reply. It was not as illuminating as I would have liked, but it was at least measured and he took my question seriously. My view is that Greece will one day, fairly soon, leave the euro; beyond that, other countries will be tempted to follow, especially if Greece starts to reflate and recover as a result of devaluation straight after its exit. There are other countries clearly in difficulties, and there are movements in those countries calling for leaving the euro. If other countries followed and there was a meltdown of a significant proportion of the eurozone, that is obviously much more serious. Have these matters been discussed privately within the Treasury?

Mr Gauke: The point I would make is that of course the Treasury always thinks through potential eventualities.

Kelvin Hopkins: Scenario planning.

Mr Gauke: Yes, scenario planning, but I do not think there is anything I can particularly say or reveal to the Committee that would be a surprise to you. The Treasury will consider a number of eventualities and what the consequences for the UK would be at any one time.

Q27 Kelvin Hopkins: I have suggested to the Chancellor in questioning in the past that we might advocate the advantages of having one's own currency, and the ability to flex it when necessary, and putting that to our European partners.

Mr Gauke: Let me put it this way. You and I share a view as to whether we should be within the euro. I think we have held the same view on that subject consistently, but you are not going to tempt me to go any further in that. As for other countries, it is for them to determine what their currency arrangement is.

Kelvin Hopkins: Thank you.

Q28 Michael Connarty: The Government made a virtue of not being involved in the bailout process. That has fallen, let us be quite frank, mainly on one economy. We correctly boast that we have done well, and our economy is growing, and we are outside the euro and have not had to flagellate ourselves before the altar of austerity in the way that all of the members of the eurozone were forced to by the European Commission. It might be for political advantage, but it does seem to me to be a rather selfish approach to our prosperity in Europe. If, in fact, we do not think we have any need to be engaged in the process of bailout, given that we are, as you say, an economy that is recovering, would it be such a great hardship to the UK economy if we were to engage in some form of shared responsibility for the problems that are faced in the European Union, given that the eurozone is not in a good state at the moment, maybe because we are not engaged? We are not members of it, but should we engage with the process?

Mr Gauke: As members of the European Union, we are engaged in the process, but I, for one, would not want to go back to my constituents to say that we were involved in a bailout process to maintain a currency union among other countries. The other countries have made the decision to enter into a currency union. There are certain consequences that flow from entering into a monetary union. Those member states in that situation have to face those consequences and find a way of making that work. I think the fact that we are outside the eurozone is to our advantage. The fact that we do not face some of the challenges that exist as a member of the eurozone I think further underlines that we have been correct not to join the euro.

Q29 Michael Connarty: You did not take that decision as a Government at the beginning of your term of office.

Mr Gauke: We as a country.

Michael Connarty: You, as a Government, took a decision to withdraw from any formal contribution. No one was asking you to join the eurozone. It just seems to me that we laud ourselves for keeping the 0.7% for international development, but we somehow also try to sell our political colours on the basis that we do not want to help build Europe.

Mr Gauke: We will have to agree to disagree. We faced significant challenges. We had the largest deficit in our peacetime history. We still have a deficit that we need to reduce. I do not think it would be a good use of UK taxpayers' money to be contributing towards a bailout regime as part of the eurozone. I do not think my constituents would agree with such an approach either.

Q30 Geraint Davies: Minister, you mentioned that the Treasury of course look at all risks and scenarios. When it has looked at the prospect of Greece leaving the euro and joining the rouble, given that there have been various relationships between Russia and Greece, how does the Treasury feel that would impact, economically and politically, for that matter, on Europe and Britain?

Mr Gauke: As I say, the Treasury, and I am sure the Foreign Office as well, will consider all possible scenarios. In terms of that particular scenario, I am not sure there is anything I can say.

Q31 Geraint Davies: You guess somebody has thought about it, but you do not know what they have thought about it.

Mr Gauke: The point I was making is that, in these matters, it is reasonable for me to confirm that of course the Treasury looks at all sorts of matters, but I do not think it is necessarily helpful if I get into great detail as to what all possible scenarios might be and provide a running commentary on our views on the various scenarios and their consequences.

Q32 Chair: Could I offer you one or two thoughts on this myself? I would like to ask you a few questions, because I raised this with the Prime Minister on the European Council summit. I do not know whether you were there. I asked him, in the context of the Greek situation, whether he had any concerns about the assertiveness of Germany in relation to the Greek situation. I mentioned in particular the remarks of Wolfgang Schäuble, and another Minister—I think it was a Minister—who referred to the Greeks as "the Taliban", which seemed to be going a little bit over the top. It is indicative of an attitude of mind that concerned me. You say, and indeed the Prime Minister and Chancellor repeat and have been repeating it now for a very long time, that we want the eurozone to succeed because it is so important to us. Of course, we run a deficit with the 27 member states of over €50 billion a year. It has been going on for a long time. That is a very big loss, in broad terms. The Germans, on the other hand, run a surplus of over €50 billion with the same 27 member states.

On that basis, when you look at the Greek situation, what is really happening is that the exposure of the German banks and the French banks is of the order of 25% of the total exposure to Greece. Mr Jonathan Black has probably got the answer to this, but he may not have. Some of us are following this quite closely, because the underlying politics of this are every bit as important as the apparent overt statistics. What, effectively, is happening is that we were told that there was going to be no bailout. The no-bailout clause was absolutely written in tablets of stone, but now there is a bailout. Why is there that bailout? Is it not really in order to make sure the money goes back to France and Germany? On top of that, with regard to the question of the writing-off of debts, are you familiar at all with the London Debt Agreement of 1953? Do you know what it did?

Mr Gauke: It wrote off debts.

Q33 Chair: Do you know how much it wrote off of Germany's debts, after the war?

Mr Gauke: A very considerable amount.

Q34 Chair: I can tell you I have converted it into English pounds, and in present day values the Germans had £86 billion written off by the Allies, post-war. In 1953, I call that more than magnanimous. The question I am therefore putting to you is: are you happy with the manner in which Germany is using its power, its influence and, indeed, its control over large areas of European policy making through its economic and political strength and its voting since 1 November 2014 in particular? Are you, as a Government, happy that that should be a continuing trend?

Mr Gauke: What I would say to that is—I come back to what I was saying earlier—it is for members of the eurozone to determine how they go forward. They all willingly entered into a monetary union some years ago. As a consequence of entering into a monetary union, there are consequences, and to some extent we are all living with those consequences now. It is also the case that Greece, as a country, entered into a number of commitments. Other member states are seeking to hold Greece to those commitments.

Q35 Chair: Despite the election, which demonstrated that the people of Greece, whilst wanting to say in the eurozone, which may be regarded as a bit of a contradiction, also wanted to have a completely new structure with regard to the whole of the financial arrangements between themselves and the EU?

Mr Gauke: Yes, that is the case, and it is principally a matter for those eurozone countries and the members of the eurozone other than Greece—obviously, Germany is the largest and, I suppose, most powerful of those countries—to make a decision as to how they respond to a change of approach by Greece as a consequence of a change of Government.

Chair: Basically, "Not me, guv."

Mr Gauke: It is a matter for the eurozone countries to reach a sustainable solution to the problems that they currently face.

Chair: I wanted to get that on the record, because I did not have an opportunity to put this to the Prime Minister. At least I can put it vicariously to you.

Mr Gauke: I feel honoured.

Q36 Geraint Davies: You are making the case that it is nothing to do with us—we are not in the eurozone; it is nothing to do with our interests—but surely, coming back to my previous question, one of the primary reasons we have got this awful conflict in the Ukraine is because of the way the EU approached Ukraine, in terms of embracing it economically. The aggressive response of Russia to that embrace shows that they are playing a game in which they may consider the fragmentation of Europe in its interests, and therefore want to embrace Greece at a time when the Germans are basically saying, "Pay up now," despite the bit of history we have heard from the Chair, and might drive Greece into the arms of Russia. Meanwhile, you are sitting there, saying, "It is nothing to do with us." Yet these things clearly have an impact on our interests. I know you say someone has made an assessment, but it seems like you have made no assessment of that. What is more, you are saying, "Oh, it is nothing to do with us, and whatever happens will happen," but these issues, and these dynamics, do have a bearing on our interests.

Mr Gauke: You are drawing me, understandably, into wider geopolitical points.

Geraint Davies: You deserve it.

Mr Gauke: I would make the point that, in terms of the situation in Ukraine, I really do think that principal responsibility lies with Russia and Vladimir Putin. I am not sure this is a view that every member of the Committee would share.

Geraint Davies: I understand.

Mr Gauke: I do not think that the European Union can be portrayed as the villain in these circumstances in offering a trade deal to Ukraine that would be of benefit to the Ukrainian people. The point I would make, and apologies for repeating myself, is that essentially it is a matter for the members of the eurozone to work out a sustainable way forward with Greece. The people of Greece wish to continue to be members of the eurozone, but understandably creditor nations of Greece want to get their money back at some point. That is an understandable position to have.

In these circumstances, as I say, it is for them to find a way of working this through. It is in our interest that they do so, but I do not think it is necessarily right for us to prescribe a precise solution or the terms of the deal, and say, "We think you should do it this way". It is for the members of the eurozone to work it out for themselves.

Michael Connarty: My conclusion would be that it is better that we have to deal with the banks than the tanks.

Chair: I think we want to keep off the Ukraine-Russian situation as far as we can for today's session.

Q37 Geraint Davies: I did not want to give the impression I somehow wanted to justify Vladimir Putin's aggressive response. I am simply making the point that the Treasury should flag up the risks surrounding what is happening, because what we do know is that there is, obviously, an illegitimate and aggressive response from Russia to the economic relationships with Ukraine. Given that, we should not be surprised if something out of the ordinary happens with Greece if we push them into the corner, in terms of the alliances there. If those are risks that cover the eurozone and, indeed, ourselves, you and others should be flagging up those risks in the discussions that will ultimately be decided elsewhere. Would you agree with that?

Mr Gauke: Of course, across Government, we look to identify consequences and possible courses of action. I come back to your earlier point in terms of the relationship between Russia and Greece. I am not sure that the rouble offers a viable source of currency.

Geraint Davies: It is a good time to buy in; it is very low.

Q38 Chair: I would just like to conclude this session, because I have got two more questions to ask about scrutiny. I just want to make this one point, Minister, and you can disagree with me if you wish. There is no such thing, certainly in the legal framework of the treaties of the eurozone, as a eurozone as such. The eurozone exists because a number of countries have decided to take certain actions together. We are within the European Union, and the legal framework is prescribed by the treaties, and we are part of it. You, and the Government and the Prime Minister and the Chancellor, repeatedly say we are affected by what goes on in the eurozone and we do not want it to collapse. I understand perfectly well that we want to have a prosperous and stable Europe.

However, first of all, it is neither prosperous nor stable at the moment, and probably will not be for a lot longer. The second thing is that the United Kingdom is affected by another aspect of this, which is that, because we are not members of the eurozone, which is undoubtedly dominated by Germany and has an enormous impact on the United Kingdom, we are effectively being put into the second tier of a two-tier Europe, which is aiming towards more and more political union. I just think it is worth reflecting on the fact that it would affect us so adversely if we were to accept as a given that we are in the second tier of a two-tier Europe. Chancellor Merkel only very recently talked about the necessity to go for a political union, rather in the language of Chancellor Kohl in the 1990s, when he was talking about the "convoy" and how other countries would have to catch up, using similar analogies in the speech that she gave. I simply want to put that on the record, because we are affected by this—the Greek situation, the EIB and our exposure to that—but we are also exposed to the whole of the structural problem that emerges out of the things I have mentioned. There is no need for you to comment on that if you do not want to, but I want it on the record that these are serious and important questions that need to be borne in mind by the Government.

Mr Gauke: If I may, let me make two points in response, the first of which is that the Government, or at least the Conservative part of the Government, are strongly of the view that we should remain outside the eurozone, and that is a view most of us have held for very many years. The consequence of staying outside the eurozone is that we are not involved in some of these discussions and so on. We are not as closely integrated as some member states, but that is a position that we believe is in our national interest, and that is a long-held position.

There is a second point. You touch on a very important point here, which is that there must be fairness for those member states of the European Union that are not part of the eurozone. We are full members. We are entitled to access to the single market in the same way as any other member state is. It is certainly key to the Government's approach, in our dealings with the European Union and other member states, to protect the interests of EU member states that are outside the eurozone. Fairness to the euro-outs is key to everything we do in terms of the negotiations.

I can point to, for example, the arrangements on banking union, where particular measures were put in place to ensure that the interests of the euro-outs were protected, so that we were not in a position where members of the eurozone could caucus and outvote us, and through the use of QMV essentially leave a major member of the European Union, but not a member of the eurozone, in a very vulnerable position. I think, Chair, in terms of your making that point, I would accept the importance of protecting the interests of EU member states who are outside the eurozone.

Chair: It may not be possible in the long term.

Q39 Michael Connarty: Can we move on to a more focused subject, in a sense, where you come in? We all, in this Committee, recognise the timetable pressures on the annual budget negotiations in the European Union, particularly in those concluding stages. Obviously, the Committee hopes that the lapses, which we wrote to you about, do not reoccur. In that connection, would you ensure that the Treasury considers the revisions of the outdated special arrangements for scrutiny of the annual budget process proposed both by our staff and by the staff of the Lords EU Committee, so that they might be agreed soon? Clearly, it is the procedures that hold us back. The alternative is to revert to the normal scrutiny process, which is much more honest in what is demanded of the Treasury.

Mr Gauke: I agree that we need to consider the scrutiny process specific to the EU budget. I was involved in it last year at a personal level for the first time. It is a process that can be both drawn out and fast moving, and that can make it difficult in terms of the scrutiny process, but we always endeavour to improve the scrutiny process wherever we can, and are keen to engage. Jonathan, I do not know if there is anything you want to say from the point of view of an official working on this.

Jonathan Black: On your specific question, I was not in post at this time last year, but I understand we began a process to revise the specific arrangements for scrutiny around the budget, and that events began on the 2015 budget and we paused on them. As the Minister said, we would be very happy to engage again in looking at those with you and your colleagues in the House of Lords EU Committee as well.

Q40 Chair: I have got two questions, which relate to some very current matters. We are concerned by the apparent Treasury inability to secure timely dates for debates that we recommend. There is one in particular that falls into your field, and you know what I am going to say. It is the EU budget. We had to demand the presence of the Leader of the House. You can look at the transcript later, if you like. We had a meeting with him last week, which was pretty unsatisfactory for this reason: there are a whole series of outstanding debates, one of which is the EU budget. We understand Number 10 gets involved in the timing of these debates. We know the whips do, but there are other factors as well.

What we cannot understand is how it is that, when we have proposed a debate on the Floor of the House on a matter as important as the EU budget, it does not happen. What is the reason for this? I have asked the question of the Leader of the House, and I have written him another letter. I have asked him to let us know by Friday of this week whether, of the debates that he said he was going to try to bring forward, the EU budget would be one of those that he would bring forward, because he promised that there were some that they would bring forward. Unfortunately, we do not have the power to insist, but we do have the power to point out.

I am repeating it to you, because you are a senior Treasury Minister. You can go back and see the Chancellor and try to get that debate agreed, so that we do have it on the Floor of the House. That is the first question. If you could just enlighten us, what is it that is causing the trouble? Is it Number 10, as we put it to the Leader of the House, because apparently they get involved these days? We hear, from internal networking discussions that go on within the Civil Service and Parliament, that Number 10 does get involved in the tabling of debates. Do you know anything about this?

Mr Gauke: I am not intimately involved in this area. All I would say is, in terms of the business managers and so on, and in terms of finding the appropriate time and place for these debates, there are competing pressures. It would be fair to say, from my own point of view, that we have tried to accommodate this Committee, in terms of proper matters.

Q41 Chair: You certainly have not succeeded. We have gone to the point of having to haul in the Leader of the House, which has never happened in the whole history of this Committee, because of the complete failure by the Government to schedule a whole series of debates.

Mr Gauke: The point I was going to make was that, following your representations, you obviously had the debate on financial management earlier this month. We have a debate on the European Semester, I think, next week, following your representations.

Q42 Chair: I am talking about debates on the Floor on the House.

Mr Gauke: As I say, there are competing demands on that point.

Q43 Chair: There are not really. It is so obvious that the EU budget, together, as it happens, with free movement of persons, is such a huge issue facing the country. We have spent the last hour and a half talking to you about the implications. They are fundamentally important. The whole House of Commons, on behalf of the voters of this country, has an absolute right to see a debate between the respective merits of the way the budget is being run, and all the implications, including the Greek questions we have raised now. These are huge issues. Nobody can say that you are doing your best, when, in fact, we are not having the debate.

Mr Gauke: Let me take your representations away, if I may, Mr Chairman.

Chair: Please do.

Q44 Kelvin Hopkins: One point that might arise in such a debate is that our net contribution to the European budget has surged. I know it was partly a decision by a previous Prime Minister, which I did not support at the time. I did not support it at the time, and I said so, and spoke volumes about it many times in the House—about the fact that we have given away a significant part of our rebate. Since then, it has surged. That surge is no doubt as embarrassing for your Government as it was for the previous Government. I just wonder if that is one of the factors in not wanting to debate the budget.

Mr Gauke: Mr Hopkins, I will take away your comments as a representation for a debate on the Floor of the House on the failures of Tony Blair's Government, in terms of the renegotiation of our financial contribution to the EU.

Chair: Minister, could I say I do not really think that is a proper answer, if I may?

Geraint Davies: You are being flippant.

Chair: Quite frankly, irrespective of any merits that it might involve, the fact is this Government have been in power for four years. Our contributions are going up exponentially.

Geraint Davies: That is right.

Chair: I am not going to go into the detail. You know what it is. There is a reason why they are not putting that debate on the Floor of the House, and I want to know what the answer is. I would like you to do it this afternoon. Speak to the Chancellor or whomever, and the Prime Minister if necessary, and the Leader of the House, and get this debate on the Floor of the House before the House prorogues for the General Election.

Kelvin Hopkins: I have said on more than one occasion that if the Government are so concerned about that decision taken 10 years ago, they could seek to reverse it. I have suggested this to the Chancellor from time to time.

Q45 Chair: I want to move on to the last question: can you assure us that Treasury Ministers will always vote against COREPER decisions that would effectively bind ECOFIN Minsters on matters still subject to parliamentary scrutiny?

Mr Gauke: There was an exception to that, which was in the context of the EU budget negotiations last year, and you will be aware of the issue with the surcharge that was presented to us. We lobbied for a regulation that was very clearly in our national interest, in terms of the timing and in terms of interest paid. In those circumstances, we did override scrutiny. I have written to you and set out those circumstances. They were exceptional circumstances. This was a measure that we had specifically lobbied for, and it was a very fast-moving process. In those circumstances, it was not possible to obtain clearance from this Committee. That is not ideal, but I believe that, in the circumstances we were in, that was the right decision.

Q46 Chair: I would go further and say that it was unacceptable. I raised it with the Prime Minister yesterday, in the following context—you can answer the question, as you are the Treasury Minister responsible in this context. Can you explain why, on 9 December last year, a Council press release indicated that the Council had agreed the new 2015 budget, when in fact it was endorsed by COREPER? This, as I put it to the Prime Minister yesterday, is unbelievable—the fact that this is being decided by COREPER and not by Ministers accountable to this Parliament.

Mr Gauke: The position is that budget was completed. I think it was 12 December when the European Council agreed it, and I think that it was 17 December when the European Parliament agreed it. Jonathan will correct me if I am wrong. It is regrettable if a press release gives that impression. It is not for COREPER.

Q47 Chair: No doubt the Prime Minister can answer the question in the Liaison Committee correspondence, or you can on his behalf, or somehow we can get the record completely straight, so we know exactly how it happened, and secondly what the explanation is. We take this very seriously. The idea that COREPER could make decisions and effectively bypass ministerial accountability is, of course, a very grave question.

Mr Gauke: I would stress that it was not a press release that we issued.

Chair: I understand that, but we can only go by what we see.

Q48 Michael Connarty: On the impact of setting up the fund, are you aware that 28 Nobel laureates, and 30 laureates of other international prizes, signed a letter expressing dismay at the short-sightedness of the proposal to take, during the 2014-2015 MFF period, money from the Horizon 2020 fund? The Horizon 2020 fund has a very high level of funding of basic research, from which, as they say themselves, the research community in the UK significantly benefits. The intention would be to take, I think, £42.5 million out of that fund in 2015. There are consequences, which you did not speak to. Maybe they have not been brought to your attention, but it was a very significant protest.

The question is: are the proposed drawdowns from the EU budget for the EU Guarantee Fund, in connection with the investment plan, a reasonable use of the programme, given that that was the impact? We have a world-leading research base in this country. We get money from this particular fund, and yet that is the fund that is going to be pillaged to provide that guarantee for the EU Investment Bank. What they do admit, and they are reasonable people, is that it is likely that there will be research innovation projects that may get money from the investment, but it will be for developmental research, not for what the UK is famous for, which is basic science research. They will be harmed, and it does seem to be very short-sighted.

Mr Gauke: I would repeat the point I made earlier. It is worth bearing in mind, again coming back to the MFF settlement that was reached in February 2013, that we did see a significant increase in the Heading 1a expenditure. If I remember correctly, it was 33%. This is a growing part of the EU's budget, at a time when we saw a real-terms reduction in the value of the EU budget, and we saw things like a 13% reduction in the CAP budget.

This is a growing area. We have long been advocates of the importance of Heading 1a expenditure and Horizon 2020. However, it is also the case that the proposed investment plan has benefits as well. These are two areas of EU expenditure where the value-for-money case is much stronger than many other parts of the EU budget. This money does have to be found from somewhere. A contribution is being made from that Horizon 2020 budget. Jonathan, is there anything you want to add on the numbers?

Jonathan Black: I only want to agree that you are right about how the MFF has been rebalanced overall, with the growth in Heading 1a and the reduction in Heading 2. It may also be worth noting that, even following the reallocation for this fund, Horizon 2020 overall will still be growing and increasing in size in this MFF period, compared with the previous one.

Chair: Thank you very much. That is the end of this session. I am most grateful to you for coming. Thank you very much indeed. Thank you.