



European Scrutiny Committee

Oral evidence: UK's Commissioner-elect, HC 752

Wednesday 29 October 2014

Ordered by the House of Commons to be published on 29 October 2014

[Watch the meeting](#)

Members present: Sir William Cash (Chair); Michael Connarty; Nia Griffith; Kelvin Hopkins; Chris Kelly; Jacob Rees-Mogg; Henry Smith

Questions [1-45]

Witnesses: **Lord Hill CBE**, the new Commissioner for Financial Stability, Financial Services and Capital Markets union gave evidence.

Q1 Chair: Lord Hill, welcome to the Committee. I will start straight off with the first question. Last week, a leaked Commission document showed a significant increase to the proposed UK contribution to the EU budget. The Prime Minister has said that it is “unacceptable” for the Commission “to suddenly present a bill like this for such a vast sum of money with so little time to pay for it”. Do you agree with his view?

Lord Hill: Obviously I have seen the exchanges that there have been since last week. I ought to say at the beginning, to be clear, that obviously I am in a transition phase at the moment. I am no longer a member of the British Cabinet, nor am I yet a member of the next Commission. As a general rider to some of the detailed twists and turns of a particular policy, I ought to put that down as a disclaimer.

It is clearly the case, from the Prime Minister's reaction, that he and not only he—a number of leaders—felt taken by surprise. This strikes me as an example of the kind of situation that one can often get in Government, where something that seems to be a technical approach to something suddenly escalates into an extremely important political issue; that seems to be what has happened here. My own view as to the right way forward now is the meeting that, as I understand it, has been arranged for the statisticians to pursue the evidence and the statistical basis of the calculations, and then for finance Ministers to meet and discuss what that means. As the next step forward, that seems to me to be the right thing to do.

Q2 Chair: Of course we have summoned a Treasury Minister to appear before us, and indeed we have just heard, a few minutes ago, that David Gauke will be appearing before the Committee next Tuesday, on this question. Of course the system and the rules themselves that are being applied in this case were made in 1995, when Sir John Major was Prime

Minister. It does strike a lot of people that it has produced quite a weird result. I think I described it as “madness on stilts”.

The fact is that, in the meantime, we have had a new set of rules that were brought in, or meant to be brought in, in 2010, which actually have not been brought in because they had not been ratified by all the member states. We have a very strange situation. We have this Finance Ministers’ meeting on 7 November, at which David Gauke will be our representative, as we understand it. Do you agree that one of the best ways of trying to resolve this question is actually, as it were, to go back to square one on the whole question of how these rules are being put into effect and to turn around to the European Commission and the establishment there, which I suppose has to include you now—

Lord Hill: I would now have to turn around and look at myself, Sir William.

Q3 Chair: Perhaps you could give us an idea as to what you would say if you were asked, “Is it a good idea that there is so much unfairness here, with the Cypriots and the Greeks, for example, effectively using printed money that they have been receiving in bailouts to have to repay money when their economies are in such disarray, while we, on the other hand, are expected to pay up because apparently we are so much better off?” It is a very bizarre situation. Let us put it this way: it is a bit like the madhouse that Jack built. Would you take the view that a proper analysis would be a good idea, followed by some action to come up with some new rules and, in the meantime, we should not pay at all?

Lord Hill: My understanding of the current arrangements and the set of arrangements that has led to these results, with a number of countries being asked for additional contributions and a number of countries getting rebates, is that the origin of it, as I think you imply, was to go back and calculate the basis. The principle by which some people pay into the European Union and some people get rebates is one that is long established and, under this principle, I understand it is the case that, in previous years, the United Kingdom for instance has had some rebates.

One point of fact, which I do not think has been clearly understood generally—I am sure it has by this Committee—is about the notion that this was some kind of surcharge on Britain’s economic success leading to additional money for the European Union. My understanding is that the net effect of these various calculations is that the money available to the European Union will actually fall. I am not sure and I am not in a position to judge, or to be able to say to your question that, yes, I think the whole thing needs to be recalculated. I cannot say that.

Q4 Chair: I was not saying recalculated. I was saying that the rules themselves produce such extraordinary inconsistencies and absurdities that there is a very strong case for coming up with a completely new system.

Lord Hill: The principle of people making contributions and of those being revised according to circumstances is one that is established. There have been cases in the past, to do, for instance, with Britain’s rebate, where this country would be keen on those calculations and having such a rebate. There is a new Commissioner in charge of the budget taking post shortly, Madame Georgieva, who is an experienced person who has come from the World Bank. I am sure she will look at all these questions. As I said at the

beginning, the right way forward in the immediate term is for the meeting to take place about the statistical basis, the meeting to take place with the finance Ministers and then for whatever the appropriate steps are that flow from that to flow from that. It would not be sensible for me to prejudge that.

Q5 Jacob Rees-Mogg: On the point about the repayments from this amount, that is done by a draft amending budget, so it is the decision of the European Union to pay this money back. Although that is more than is being received, that is not an automatic follow-through from these levies, and the levy on the United Kingdom is because our economy is bigger than they had previously calculated. It is unquestionably a tax on our success.

Lord Hill: If that is the conclusion you draw, as I say, your detailed knowledge of it, I am sure, is accurate in terms of which aspect of the legislation covers it. I had thought that it was a rebasing exercise going back, in the case of most countries, to 2002, and in the case of one back to 1995. The statisticians who took part in it reached some statistical consensus as to that basis, and that then led to a series of requests for payment or rebate.

Q6 Jacob Rees-Mogg: Therefore it follows that economies that have done well, like the UK economy, turn out to be bigger on this rebasing exercise and, therefore, they pay more.

Lord Hill: It may be. Again, it is probably stupid of me to allow myself to get drawn down this route, because I do not know the detail of it. It seems to me it is possible, when you have a statistical reappraisal, that statisticians can recalculate certain elements, which may not be linked to the fundamental growth in the size of the economy, by taking factors into account that they previously did not, which then leads to a different conclusion. It may be that that is what happened. I do not know. Rather than a consistent base, there has then been economic growth and then they ask for more money.

Chair: That is as far as we need take this issue, because we are going to see David Gauke next week.

Q7 Michael Connarty: I have a question. The Commissioner will hopefully be helping to deal with the problems. I state my case and people know I am opposed to the eurozone. I think it is a disaster. It does seem to me that, if the calculation of a contribution is proposed as a share of EU GNI, and if the Commission pursue a policy through the eurozone that reduces a country's ability to contribute to the GNI of the EU, which has happened in many countries—the eurozone has gone into recession now three times—and the UK is outside that and is successful, and it therefore increases, it is increasing because others are decreasing, because of the failure of the eurozone policy. I have had this debate with Olli Rehn and Mr Van Rompuy before. Is it not time to look at whether the eurozone in fact should be completely collapsed and people should be freed from their positions that are used? It does in fact reduce their contribution to the GNI of the EU.

Lord Hill: You are going from a narrow point to an extraordinarily broad point about the future of the eurozone. It is clearly the case that there are currently 18 and soon to be 19 member states, which are completely committed in every way to the success of the eurozone. Actually, it is my view that the eurozone needs to succeed both for those members of it and the 10 that are not members of it. I am sure I agree with your fundamental point that we need to have a strong economy growing in Europe. That is good for British exports into Europe and it is good for every member state. In terms of the precise detail of the calculation, Sir William is wise in saying that Mr Gauke next week will probably be able to help you more accurately with detailed calculations than I am, I am afraid, able to.

Michael Connarty: Yes, but he will not be culpable at Commission level.

Lord Hill: That is true. On the broad point, I hope I have answered your question.

Q8 Chair: Now we will move on to something on which you will have personal engagement. That is, as you have acknowledged, the new Commission will take office, in your own words, “at a crucial moment for the relationship between the UK and the EU”. In your written answers to the European Parliament, you expressed your view that the UK “is stronger as part of a stronger EU”. What exactly do you mean by “a stronger EU”? It seems to some of us that actually the EU is getting weaker and weaker.

Lord Hill: My basic feeling about the whole question of the UK-EU relationship, which lies behind your question, is that Britain is best served by being part of a trading bloc of 500 million people. The advantages are access to that single market and being part of a large bloc that has a stronger hand in terms of trade negotiations with other parties. In terms of diplomatic and geopolitical engagement, those are the reasons in main why I think that Britain’s interests lie in being in the EU.

The EU needs to be reformed in a number of areas, and perhaps we can talk about those. I think an EU which at the moment suffers from two great challenges—the competitiveness challenge and the democratic deficit challenge—would be stronger if it, first of all, were able to take measures to address the democratic deficit and address the concerns that many citizens, in many countries, have. As a parenthesis, we have a tendency in the United Kingdom to think in terms of British exceptionalism. Sometimes in the EU, people look at some of these issues from the point of view of British exceptionalism.

My observation from now spending more time in Brussels and talking to my European partners is that many of the concerns that are expressed in the United Kingdom are expressed and shared in many countries around the EU. You make the EU stronger if you take it closer to the people. You make it stronger if you have enshrined the principle of subsidiarity. It is stronger if you take measures to complete the single market in my area, the capital markets union. There are a number of ways but I do, at bottom, think that Britain’s interests will best be preserved by being an active part in a reformed EU.

Q9 Chair: Of course there is a contrary view, is there not? It is namely that, if you look at the single market, as it happens, in our trade relations with the other 27, we run a trade

deficit of £56 billion a year, which is pretty bad in terms of deficit. I am not sure that that makes us any stronger. In relation to the whole question of turnout in the European parliamentary elections, nobody could conceivably argue that the level of turnout demonstrates huge confidence in the system. On the question of subsidiarity, I have been on this Committee 30 years and I have not yet come across a single case where subsidiarity has been applied. Then of course there is the whole question of the riots, the protests and the obscene levels of unemployment for young people in several countries. Some countries have unemployment levels of 20%. The list is endless. How does all this make for a stronger Europe and how do we benefit from it when our own growth is being inhibited by the failures of the euro system itself?

Lord Hill: Some of the problems you outline clearly are problems—problems with the scale of youth unemployment, the scale of disaffection. I agree about the point you rightly make about popular engagement in the May elections, where turnout fell in 18 out of 28 member states. That those problems exist is the greater reason why they need to be addressed. When I look at the priority, which is put in the political guidelines of Mr Juncker, when I look at my fellow Commissioners and the priority that they are placing on jobs and growth, when I think and hope that I may be able to make some contribution to economic growth through trying to make sure that the financial plumbing of the European economies is improved and strengthened, those are all causes worth fighting for.

I understand the points you make. I observe and, as you say, some people will draw a different conclusion, that British businesses, small and large, including the City of London, seem to be strongly of the view that Britain's interests are best served by being a member of the EU. I look at the figures for inward investment coming from countries around the world, including to Britain, because they see this as a way of having access to a European market. Those are all reasons why we should remain a member. I hope that, when we have the debate about this, which I believe we will have, and have a referendum, those arguments that are practical hard-headed arguments, not the emotional arguments that we hear quite a lot of externally at the moment, will be arguments that are made.

Q10 Michael Connarty: In the same general area, in the political guidelines that Mr Juncker has set out, he says he wants a EU “that is bigger and more ambitious on big things, and smaller and more modest on small things”. Specifically referring to the subsidiarity principle, which you mentioned, what does this mean in practice and in your portfolio? What are the big things and how do you stop the EU spending a lot of time interfering in small things?

Lord Hill: It is a good question and I take Sir William's point before that people have been talking about this for a long time. Making it happen is hard and it requires hard work. One reason for feeling more optimistic about it this time is that Frans Timmermans, the Senior Vice-President, who will be known to this Committee because of his championing of the principle of subsidiarity, has been given the key job of overseeing all proposals that are made from all Commissioners for taking further legislative action. Having that kind of filter is a good step forward. Having that filter being operated by that particular

Commissioner is also an encouraging sign. That sends a clear signal that President-elect Juncker is serious about trying to address this question.

On my own area and the approach that I will try to bring to bear, I take to it the same principles I always try to apply, both in my business and in Government here, which are to start from the point of view of looking at measures that will increase competition and will increase choice. I would be keen to try to develop ideas to extend the single market in retail products for consumers, whether that might be insurers or in mortgages. It is difficult to do, but doing some tangible steps to bring prices down for consumers in Europe on basic financial products would be a good thing to do.

In terms of my approach to regulation generally, when I look at the area and the steps that have been taken over the last five years, huge amount of legislation has been introduced. A lot of it—all of it—in terms of sorting out problems is essential. When you undertake that amount of legislation in a short period of time, in crisis conditions, my view is that it would be extremely unlikely that one has got the balance of regulation absolutely right in every respect. Therefore, it is only common sense to step back and have a look at how that bears. I also think, when you legislate quickly, you should look at the cumulative effect of the legislation, so that would be another approach that I would hope to bring to bear.

In terms of the capital markets union and trying to address this question of the different models between the United States and Europe, as you will know, Europe is heavily dependent on bank finance, unlike the United States, which has more diverse funding streams. To increase the ability of small and medium-sized businesses, people wanting to invest in infrastructure to get access to investment from a broader range of people to break down some of the market fragmentation, would be of benefit to the economy, it would be of benefit to businesses and it would be of benefit particularly to well-run competitive businesses wherever they are placed in the European Union. It so happens there is a concentration of them in the City of London. If they do their job well, while there are no special favours for any sectors, if you get the regulation right—you need to have a well regulated financial system—those businesses that run themselves well should be placed to extend and grow.

Q11 Michael Connarty: Could I just make a comment? You do not have to look at the United States. Just look at Germany. Why do we not have proper regional funding stream, which they have in Germany? We set up the system in Germany; it works perfectly well. This is one of my areas; I am an economist. That is the problem: it is not regional enough. There are lots of big funds held by companies that will not invest in their own, but there is no way for them to put it into a banking system that would get to SMEs. You do not have to look too far abroad to find good models that work at the moment.

Lord Hill: I agree. One of the things that I am very keen to do on the whole approach to the capital markets union—and I would welcome a conversation with you when you are ready—is that my approach would be to start from the bottom up, analysing what the cause of fragmentation is, the problems and the obstacles, and how they can then be overcome. I take your point that there is not a common picture across the whole EU. In Germany, they have a model about which many Germans would say, “That works fine;

thank you very much. Why do we need anything different?" I agree with that, but will start with the analysis. I will invite contributions on that.

Chair: Nia, you have a question on the priorities of the new Commission.

Q12 Nia Griffith: Perhaps before I get to that, could I just pick up on one of the key challenges that you have identified? You mentioned when you went before the ECON Committee that there is a huge loss of trust in the European Union. Could you give us a little bit more of an idea of how you would try to rebuild that trust? You have mentioned business; would there be partnerships that you would build and how would you get that message out, because it is going to be a very difficult message to get out to people?

Lord Hill: I think it is. There is obviously not a simple answer to your question and the issue of building trust. The question of trust and whether there is a lack of it exists, as Sir William was saying, between the citizens in many countries and the institutions, between parts of the triangle of the institutions and between member states, to some degree. Therefore, addressing that partly is to do with explanation, but also it comes back to these core issues of being big on the big things and small on the small things, removing the causes of irritation and frustration that exist, where citizens in many countries say, "Why on earth are they fiddling around with this that and the other?" and trying to concentrate on some of the big things. For me, the biggest of all is how you get jobs and growth going.

In my own area, how do you build trust between financial institutions, for instance, given what has happened in the banking crisis, and the public more generally? That is something that is incumbent in part upon the financial institutions themselves to play a part and realise they need to explain better than they have done how they link to the rest of the economy and the benefits they bring. Clearly you need good and effective regulation so that some of the problems that happened and caused the breakdown of trust between the business and the consumer are addressed and cannot happen again. There are areas outside banking, which has been the focus of activity, where we will need to focus some regulatory action to try to make sure that there are no other cases and that we are not back where we are five years ago.

Q13 Kelvin Hopkins: I have to say, Lord Hill, that it sounds all Panglossian to me—all is for the best in this best of all possible worlds—when actually we are looking at something that is a disastrous failure, at least so far. In his political guidelines for the new Commission, Mr Juncker set out an agenda for jobs, growth, fairness and democratic change, which focuses on 10 policy areas. In your view, what are the key parts of the agenda that should be pursued first and foremost?

Lord Hill: Without doing me a viva on his political guidelines—

Kelvin Hopkins: Shall I read them out?

Lord Hill: No, it is okay. That will take up the rest of the session. It was quite a long document, if I recall.

Kelvin Hopkins: They are just headings.

Lord Hill: In my areas, and the thing that struck me when I went through it, and some I have touched on, he talks in particular in one of the sections, I remember, about the importance of the relationship with national parliaments and the principle of subsidiarity. He talks about the importance of regulation being done properly and not being too burdensome and this basic point we have already discussed about trying to get the balance right, trying to get the big things right and not fiddling around with the small things. The capital markets union in my area is one that he, I recall, highlights as being an important area. Those would be some that I would highlight, but you may have others that you wanted to bring to my attention.

Q14 Kelvin Hopkins: Just take the first heading, “A new boost for jobs, growth and investment”. You have actually seen the eurozone Chairman and my colleague Mr Connarty point out that it has gone disastrously wrong. You say that everyone is committed to it but, if unemployment in Britain was the same level as that in Spain, we would have 7.5 million unemployed. Ireland has overcome its problems in a way, but it has done that through exporting 300,000 people, the equivalent of 4.5 million people in Britain. If we had had 7.5 million unemployed and 4.5 million had had to go overseas to find work, we would have thought that was a tragedy, and yet this is somehow accepted as, “Everything will sort itself out. It’s all going to work in the end.” It is not true, is it?

Lord Hill: Two things: first of all, the Panglossian view. I have not this afternoon set out a Panglossian view. You may not agree with the view I have set out, which is perfectly proper, but I hope I have been clear that there are a large number of challenges of the sort we have already discussed, which I will not run through again. My instinct and approach is to go somewhere and try to do my best to address those problems and come up with solutions. That is the spirit with which I will approach it.

In terms of the eurozone, again no one in the eurozone would say to you, “It is all fine; there are no problems.” Of course they recognise that there have been problems and I am sure that they recognise that the original architecture was not sufficiently robust to deal with what happened with the sovereign debt crisis. A number of steps, and it is right to recognise those, have been taken to address some of those structural problems, through issues like banking union, with the two-pack and the six-pack. There may well be other steps that need to be taken in future.

How one then goes about trying to deal with the problems that there are—jobs and growth, as you say, are a terrible challenge, particularly for young people—making sure that the structural reforms are delivered, making sure that the investment plan that Mr Juncker is in the process of working up delivers, looking at questions in my area of how I can try to increase flows of investment and therefore support the economy, there are practical steps that one can take to address them.

I am absolutely not sitting here saying everything in the garden is rosy and all we have to do is sit back, put our feet up and everything will be fine. The phrase I have heard Mr Juncker himself twice, most recently at the hearing for the Commission—whether the phrase was “the last chance for the Commission”, he is seized of the fact

that there is an enormous job of work and urgency. That is the spirit in which I believe he and the Commission will approach it.

Q15 Kelvin Hopkins: A slightly different question now: you were interviewed, apparently unprecedentedly, twice by the Economic Committee for the job and even then there was a significant negative vote. Had you taken a more euro-critical position, would that vote have been bigger? Can you explain roughly what the problem was so that they needed to interview you twice? Was it because you happen to be the British Commissioner?

Lord Hill: For a number of people that particular portfolio being given to a British person was a sensitive matter. In much the same way, it has to be said, when my predecessor was given not exactly the same portfolio that was thought to be an extremely sensitive appointment by many people, including in the City of London. In these matters, there is always a fair bit of politics. We had a brand new European Parliament settling down, so there was a bit of that going on.

In terms of the vote I ended up getting, I would say in my defence that, of those of us who were voted on, I did rather better than a number of my fellow Commissioners. That was part of the process. I am, after the event, glad to have gone through it, because I got a strong vote of support. Actually, I think it was probably better to have those things out in the open and to go through it a couple of time. Having after that been back to see all the Members of the ECON Committee, I am absolutely clear that we will be able to work together extremely closely on trying to address these big questions of regulation, stability and building a capital markets union.

Chair: We move on to the relationship between the Commission and national parliament, Michael Connarty.

Q16 Michael Connarty: It is rather obvious, I am sure, that given our Committee's remit is to hold the executive to account in here and hopefully to influence the executive in the Commission and elsewhere by our work, the relationship between the Commission and national parliaments is an area in which we are particularly interested. You will know that, at the end of this month, we recommended the 2013 report on relations with national parliaments for debate on the floor of the House to try to engage the wider Parliament in this discussion.

I understand, in his mission letter to you and to other Commissioners, Mr Juncker explained that he wants you and other Commissioners to commit to a new partnership with national parliaments. I stress parliaments, not governments, because people sometimes in the Commission think talking to Ministers is talking to the Parliament, and it is often not. Talk is appearing more before parliaments, but I am not sure that is the model, because that is often combative and not productive. I wonder whether you have some idea of how you might do that. Is it feasible to expect all Commissioners or even yourself to appear before all parliaments? If this new partnership is put in place, either how often do you see yourself appearing before—and I have a worry about this “appearing before”—or do you have a new model in mind for an ongoing dialogue with Parliament, so we feel we are engaged more in the work of the European Union?

Lord Hill: That is a good question, and I do not have highly developed thoughts as to how it should best be done. I would say a number of things, and I take your point about not thinking, and I agree with you that that general requirement is discharged by a periodic or infrequent set-piece event. It would be sensible to try to find additional ways of doing that. I know Members of this Committee will often go to Brussels. There are ways of thinking about that. As it happens, I am here; I am doing another Committee tomorrow and another Committee on Monday. My view would very much be that Commissioners need to take that seriously. The point you also make is about how practical that is. If I were to have to go to all 28 regularly, and where you have bicameral systems, one has to balance that against the responsibility of discharging the portfolio and also the important work off portfolio as well. It is not straightforward.

The principle is clear. Again as you were saying earlier, if this Committee has suggestions it wants to make to me personally, I would welcome them. It may be—and this is maybe a question for the Chairman, given that the area generally of the question of subsidiarity and relationships with parliaments is in the hands of Mr Timmermans—that fairly early on you may want to meet him, discuss this with him or invite him here. Whatever you might think, I would be very happy to help set up what might be the appropriate forum for such a discussion.

Q17 Chair: You did raise the question just now of the architecture, which I think I referred to in a letter I wrote to the *Daily Telegraph* last week. That raises questions of fundamental change in the context in which we are concerned about the manner in which the European Union is not functioning as effectively as it sometimes claims. The national parliamentary situation, vis-à-vis the Commission and the EU, is of course right at the heart of the other matter you mentioned, which is the democratic deficit. It is a pretty dangerous situation where you have this ongoing deficit reflected in comments even made by people of great distinction, Prime Ministers and others. It is a recognised feature of the European Union.

The Prime Minister in the Bloomberg speech—I think it is the fourth principle—was very clear. He says—and he is right, I should say, and I hope you would agree—that national parliaments are the root of our democracy. This is a very big statement about a very fundamental question, particularly regarding the United Kingdom, which does not have a written constitution and whereby, under the European Communities Act, we voluntarily agreed that we would engage in this enterprise. On the other hand, President Barroso, leaving aside his rather tendentious speech at Chatham House the other day, was quite clear about a year ago when he stated that the European Parliament and only the European Parliament is the Parliament for the EU. How do you reconcile those two positions and on which side of the fence do you fall: the Prime Minister on the one hand or President Barroso on the other? What would you say, and what would Juncker have to say about it himself?

Lord Hill: In terms of President Juncker, he said in his political guidelines, to which reference has just been made—I am not sure I have the precise words to hand, but he recognised the important role of national parliaments.

Chair: Only role?

Lord Hill: I fear I do not have the precise words immediately to hand. In terms of the role of the two different parliaments—the national parliaments and the European Parliament—it is clearly the case that, on the legislative side of European proposals, the European Parliament has a role in scrutiny and in legislating, as a co-legislator, but I completely subscribe to the view, in terms of closeness to the electorate and holding the governments of the member states to account, that that is obviously something that national parliaments do.

Q18 Chair: Do you not think that, if you have a system in which the voters at general elections decide the Government they want and, in the words of the Prime Minister, quite rightly in my opinion, national parliaments are the root of our democracy, that when it comes to the question of what kind of laws those people should be subjected to, ultimately it has to be within that architecture of the national parliament that makes the decisions. Is that not right? It follows logically from what he says.

Lord Hill: Again, I did not write the Bloomberg speech but, in terms of the lines of accountability, clearly national governments in our system are accountable for the decisions that they take and the actions they pursue in other fora to the national parliament. On the back of that relationship, they go and pursue policy, for instance in the European Union. That is the basis on which it has worked.

Q19 Chair: Do you think that we should be able, as we recommended in a report last year, to override European legislation where necessary?

Lord Hill: That is a tricky area from a practical point of view. I read some of that report and the report of this Committee, which I know included that suggestion. Whereas I agree entirely—it seems to be an incontrovertible principle, on which I think your idea is based—about the sovereignty of national parliaments, the practical application of that approach would mean that any rules-based system, which clearly the European Union is, would, in practical terms, break down immediately. If you have governments signing up to agreements as part of that rules-based system and then those are subsequently, as a matter of course, trumped or undone by a national parliament, it would render the whole system completely unsustainable.

Q20 Chair: Why, with the Stability and Growth Pact in 2003, when Germany and France just simply ignored it, are you prepared to accept that as a principle, without infringement proceedings, with massive consequences incidentally for the whole of Europe, possibly even leading to some of the difficulties that followed? There is an inconsistency in allowing that to happen and yet not insisting on the principle of the democratic efficacy of national parliaments, where you take a different view. It seems to me completely irreconcilable.

Lord Hill: In terms of the underlying question you have asked about the idea, that would be my view. I know it was the British Government's response to the scrutiny report on that idea that that could be a role for national parliaments. That would be my answer.

Q21 Chair: What would you do in your role as Commissioner if France, as it appears likely, is going to now insist that it does not comply with the Stability and Growth Pact? What is your answer to that?

Lord Hill: My answer to that is that when whatever matters come up within the College of Commissioners—and we have not yet had our first meeting of the college—I will go and argue on the issue, whatever I think the right course of action is. Whether in those circumstances one carries the day depends on where the numbers and the votes are in that meeting, but that would be my job as a Commissioner: to go and argue for what I think the right course of action is in any given circumstance.

Q22 Jacob Rees-Mogg: I just want to come back to the issue of European Parliament or national parliaments. Mr Juncker, in his letter of appointment, says the Commission's relationship with the European Parliament is the source of our democratic legitimacy. It says quite clearly that the European Parliament is the superior parliament in that respect. All he says about national parliaments is that they are a stakeholder that deserves particular attention, which is not really very important at all. I just wonder whether you feel that your democratic legitimacy comes because you were appointed by the British Prime Minister, who has the legitimacy of commanding a majority in this House, or whether you in fact, as Mr Juncker says, have it in some ethereal way from the European Parliament.

Lord Hill: The facts are I have been through two processes, as it were. You are absolutely right that the nomination by the British Commissioner came from the Prime Minister, and the authority for that rests on the legitimacy he has from this House. There was then a process by which the Commission as a whole was voted on by the European Parliament.

Q23 Jacob Rees-Mogg: Which do you think gives you your democratic legitimacy?

Lord Hill: That is one of those exam questions that I am not sure where I want to answer, other than saying, as I said, that there are two legs to the process that I have been through.

Q24 Chair: It reminds me of somebody who was once doing a religious doctrine examination. They took one look at the paper and said, "God knows; I don't." Moving on to the Commission structure, we are conscious of the fact that the Commission has changed, with Vice-Presidents leading and co-ordinating work across the Commission in various areas. We also understand that you are going to be working with Jyrki Katainen, the Vice-President for Jobs, Growth, Investment and Competitiveness, and also Valdis Dombrovskis, who is the Vice-President for the Euro and Social Dialogue. How is this new structure going to work in practice?

Lord Hill: The honest answer is that we will have to see how it works in practice, which is the only sensible answer I can give, because it has not been tried before. It is a good initiative and it is the right thing to try. It comes back to the earlier part of our conversation about prioritisation. That is the logic that is driving it: to try to stop 28 different Commissioners with their own Directorates pursuing their own agendas in silos and not working in a collaborative way, necessarily. Something that brings the different

Commissioners with their Directorates together to work in a more focused and co-ordinated way, and a more collaborative way, is sensible and is the right thing to try. It reflects the more political and focused approach that Mr Juncker wants to try to bring.

The answer to how it will work is the same answer that I would give about all sorts of structures: often it is not the structure; it is the personal relationships, how people approach things and how they work. You can have a structure that looks jolly good on paper but, if people are determined that it will not work, they can make sure that it will not work. My approach will be to want to make it work and to build alliances with my colleagues. That way, we are more likely to be able to get things done.

The only other point briefly comes back to our earlier conversation about Frans Timmermans. He has an overall responsibility for making sure that, in terms of regulation generally, very careful attention is paid to make sure that the burden of regulation is considered appropriately across the whole waterfront.

Q25 Chair: There is a sort of difficulty here, is there not? Mr Juncker said that, generally, he will not take forward an initiative unless, first of all, it is recommended by a Vice-President. The structure has quite considerably changed, has it not? If you and the relevant Vice-President were to disagree on a proposal, would this prevent you from taking it any further? Does he really have a veto? I listen to what you say about personal relationships but, actually, this is a new system put in place for a purpose and the purpose is to retain control. Mr Juncker looks to me as if he is going to take control and enforce it. How is that going to work in practice?

Lord Hill: I take at face value the idea that the intention and the purpose is to increase focus and get a greater concentration on working properly as a college and delivering things quickly. In terms of vetoes, I think I am right in saying that the point I made before about Mr Timmermans having the right not to approve a measure, if he thinks it does not pass the regulatory hurdle, that clearly does amount to some sort of block or veto, if you want to use that word. That is quite a good one to have.

More generally, it will be the case that, by working together, we do not get into a situation where there is what you would describe as a veto. I do not think it has been the intention that the Vice-Presidents would be able to exercise a veto and, in any case, all of these matters, in due course, are discussed in the college fully by all Commissioners. I am confident that it can be made to work. I do not see it as a land grab or a power grab; I see it as a sensible attempt to deal with the opposite problem of silo mentality and dissipated effort.

Q26 Chair: For example, already Martin Selmayr has been heavily criticised for, as it was put, interfering” in the portfolio of one of the Commissioners. It naturally looks rather as if Mr Juncker’s protégée, most significantly—I think he is his chief of staff—has already taken a proactive role in establishing what he wanted to see done. Structurally, who is going to be responsible for the cross-co-ordination of the work and what role do you think the central secretariat of the Commission will play in relation to this, having regard to what we have already witnessed?

Lord Hill: Again, this is not me trying to avoid answering the question because, in all honesty, I do not yet know. We have not started. We do not start until next week. The sensible thing perhaps would be that we have a discussion about this at a later date, when I can report accurately to you how it has worked in practice.

Chair: That would be extremely good, if I may say so. I am grateful to you.

Lord Hill: I am happy to do that. I can do that in writing or I can do it in any way that you want.

Q27 Henry Smith: Thank you, Chairman, and thank you, Lord Hill, for appearing before us. Mr Hopkins has already alluded to the area that I was wanting to question on, but perhaps I could probe that just a little bit further. As Mr Hopkins was saying and is well known, there was quite a degree of scepticism about your appointment across Europe, because of the financial stability aspect to your Commission portfolio. You mention the fact that you have obviously been through a fairly rigorous appointment process and that we have a new European Parliament. I was just wondering, going forward, how you envisage really pursuing the importance of particularly financial stability in the EU, given the fact that you are a UK Commissioner, both from the point of view of scepticism within eurozone countries, but also with regard to perhaps some euro-scepticism in this country and the fact that you are a UK Commissioner but, nevertheless, have a Europe-wide portfolio. I suppose that ties in with what Mr Rees-Mogg was saying in terms of exactly where you see the legitimacy of your appointment coming from.

Lord Hill: In terms of doing the job, given the fact that there are currently 18 member states that are euro-ins and 10 that are euro-outs, whoever did the job that I am doing would come either from a euro-in country or a euro-out country. When Mr Barnier was appointed, he had in many ways the mirror image of the reaction that I had. There was a great deal of concern from euro-outs as to whether the appointment of a euro-in would mean that euro-outs would be disadvantaged. A number of steps were taken to address that possibility, structural and in other ways.

The answer, therefore, to your question at bottom, and that was something that I was clearly able to persuade the European Parliament of, is that it is my job to uphold the integrity of the single market and to build trust—we talked about trust earlier on as being an issue—between the euro-ins and the euro-outs. Actually that is something that I am placed to be able to do.

Chair: We now move on to the question of the City of London. Jacob Rees-Mogg is going to ask you a number of questions. I would just like to preface that, if I may, by saying that the legislation has already been put in place, the regulatory framework, which you have inherited. Of course, it goes back to some extent to what we talked about earlier, which is the question of how that really fits in with the wishes of the United Kingdom and the United Kingdom Parliament.

I did on a previous occasion suggest that perhaps you have been given a poisoned chalice. I imagine you have noticed that, but what I meant by that was simply that you are in a very difficult situation, if there are things that turn out, for the City of London, which are not in the national interest as a result of the application of these rules. Indeed, the

Government has already taken the rules to court on several occasions and, in fact, lost on every single occasion. There is still the outstanding question of the financial transaction tax. What are you going to do about that? At that stage, I will hand over to Jacob Rees-Mogg, because he has some detailed questions that he would like to put to you about your role in relation to the City of London.

Q28 Jacob Rees-Mogg: Thank you, Chairman. While Lord Hill ponders your introduction, may I remind members of my declaration of Members' interests? Despite becoming a Commissioner representing European issues, can you assure us that the special interests of the UK, in light of the particular situation of City of London, will be given appropriate weight when developing proposals? Is there a danger that you will over-compensate in response to criticism about your suitability for this post as a UK Commissioner and fail to give adequate consideration to the UK's interest?

Lord Hill: I understand the question and why you ask. My only honest answer is that the proof of the pudding will be in the eating. In some ways, clearly the question that you ask me is the opposite of the questions that I was asked from other quarters. My approach—and perhaps that is the best way of answering your question—which I made clear to everyone in the European Parliament, because there were, from their point of view, doubts about my being too close for the City of London for a variety of reasons, is that my obligation is to act in the interest of the 28, and that I will feel completely at liberty to talk to all the people who can best advise me and talk about the impact of regulatory change on their business. That does not mean I will do what they say, but it does mean I think it is important that I should talk to businesses, consumer organisations and all sorts of people, because I do not believe you can regulate in an intelligent way by trying to cut yourself off from that information and act as though you are part of some Trappist set.

I am obviously conscious of the contribution that the City of London makes to the whole of the European economy and its importance. I would expect to, therefore, talk to them. In the approach that I bring, I will do my best to follow the logic of the argument and to bring to bear the approaches that I have always had to do with a belief in markets and a belief that you do need regulation. What happened over the last few years showed what happens when there is not the right kind of regulation. There were regulatory gaps. As I said to the EP and I would say to you, so there is no confusion, I am not saying that we can go back to how things were. I am not saying we can have a jolly great bonfire and get rid of all the regulation, but I do believe that, if we have intelligent, proportionate regulation, that will be good for the European economy and for those businesses that are well placed to compete within it.

Q29 Chair: On that, if I may, Jacob, are you in favour of the financial transaction tax?

Lord Hill: You know the situation that the Commission has taken on the financial transaction tax. My view personally, in the past, has always been that, if there were to be a financial transaction tax, that is something that should happen at a global level. The Commission has put a proposal forward. At the moment, I do not believe that there is consensus around that proposal. I do not know what future developments are likely to be, but that is my personal view.

Q30 Jacob Rees-Mogg: To come back to the main line of questions, the UK is currently bringing an action, as you know, against the Commission regarding the legislation introduced that places a cap on bankers' bonuses. Do you think this is the reason why responsibility for bankers' bonuses does not fall within your portfolio?

Lord Hill: When the new Commission was set up, quite a lot of portfolios were changed and reconfigured. All sorts were changed in different ways; energy was put together with climate change and various things. As part of that process, a decision was taken that putting a number of issues to do with corporate governance together, under the leadership of one of my colleagues, Věra Jourová, was a sensible thing to do and that is what happened. It would be idle speculation on my part to try to establish some kind of causal link.

Q31 Jacob Rees-Mogg: You do not think they are worried you will stick too rigorously to your privy councillor's oath.

Lord Hill: Again, I would not like to speculate how close a knowledge they have of the Privy Council oath. As you know better than anyone, were I to tell you the nature of the Privy Council oath, I would myself have broken the Privy Council oath and we would all have to be executed.

Jacob Rees-Mogg: Fortunately it was made public, I think by the late Tony Benn.

Lord Hill: Well, he should not have.

Q32 Jacob Rees-Mogg: On a number of occasions, you have acknowledged the work that your predecessor, Michel Barnier, has done in regulating the financial services industry and you have made it clear that we will not be seeing a similar volume of primary legislation in the next five years as we have in the last five years, which in brackets, as a practitioner in this business, is enormously welcome. To what extent will you be willing to propose changes to, or repeal of, legislation introduced by your predecessor, if you consider that it is necessary?

Lord Hill: Again my answer to that falls in to two parts. First of all, I do think that, in response to the huge challenge that the whole European financial system faced, my predecessor, in putting together the building blocks of banking union and other steps making banks safer and regulatory risk more transparent, took a series of steps for which he should be commended.

In terms of going forward, my approach will be the same as what I was trying to set out before more generally, which is that one should look at the evidence and make sure that, in the circumstances in which legislation is implemented through either delegated acts or implementing acts, the appropriate balance between, using shorthand probably, risk and regulation is struck. I cannot give a blanket answer, because I do not yet know what the detail of each of those measures is but, if I were to give an example, the recent decisions taken by my predecessor around some of the calibration on the CRD IV and Solvency II to

encourage more high-quality securitisation would be an example of the way in which it is possible, in implementing the legislation, to make judgments that are appropriate.

Again, as I said before, one of the challenges I will have is to try to work out the cumulative effect of regulation across a number of different areas. As you will know, the way that a lot of European legislation works is more on a kind of silo approach. Although each of those has built into them automatically a review of their impact after a period of time, which I think is a good principle that we might think about in the British context, as it happens, there is not really a mechanism for trying to look at the cumulative effect across all those different pieces. That is something that would be sensible to do.

Q33 Jacob Rees-Mogg: In summary of that answer, so much was done in the last five years that inevitably it will be necessary to review parts of it, as to its overall effect, but it is not your ambition to come in and rewrite the whole thing in any way.

Lord Hill: You have put it much more precisely. Those are your words rather than mine, but the essence is: no, I am not coming in to have a great big bonfire. There are areas where there is going to be the need for further regulation, because further risk is clearly apparent. I do not think one can say that is all fine. The whole question of “too big to fail” is out there.

It is important to make a general point in this regard about the overall global supervisory framework. There is sometimes a sense that regulation of financial services is something that is just flowing from the EU and the Commission and done to member states. You will be aware, since you understand this area, both that member states themselves—and Britain would be a good example in certain areas—go beyond EU legislation, but that an awful lot of it is being driven by global agreements and standards being set by the FSB, G20, Basel and other bodies.

Q34 Jacob Rees-Mogg: One of the tasks that you have been given is to put in place a capital markets union by 2019, and you have said that SMEs will benefit from a capital markets union. Why do you believe this to be the case and what risks do you see in the creation of a capital markets union?

Lord Hill: One of the challenges is that, partly because of some of the changes in banking regulation—and again this will vary from market to market, as we were discussing earlier with the German example with Mr Connarty—there are areas where SMEs find it difficult to get access to capital for investment. Again I come back to the point that the sensible place to start with developing the capital markets union is not with some theoretical construct, but with some sensible economic analysis in all of the member states to try to identify what problems on the ground are, whether they are problems to do with having access to information about SMEs in a consistent fashion. Given that people would often think investment in an SME is intrinsically a riskier business than in a bigger established business, not having access to reliable information about that SME, if you are sitting in Frankfurt and you are thinking about investing in Sofia, information on credit, prospectus and that kind of thing might be an area where one can take some practical steps.

There are a number of areas that one could pursue. It comes back to your earlier question. I would be extremely open to suggestions and contributions from a wide range of people, as to what the issues are and how best we could approach it. The risks with SMEs would be, if one did not get the calibration of risk right in some of those investments, the thing might not work. The bigger risk at the moment is that, in many cases, they are not having access to that capital. Those are the kinds of businesses that, if they can grow, we can do something about unemployment.

Q35 Jacob Rees-Mogg: Is that not as much a cyclical thing as anything? Actually, if Basel is increasing the capital requirements for banks at the low point in an economic cycle, then availability of capital to SMEs is likely to shrink. I am slightly wandering off topic, but there is a much bigger problem than simply a capital markets union.

Lord Hill: It is also the case that, if you look at the difference in the underlying structure, the shape of the market and availability of capital in the United States, and look at it in Europe, one might think, separately from the point that you have made, that that would be a good area to address. If we can diversify sources of funding, then that is also a way of mitigating risk and ideally of bringing in more investment.

Q36 Jacob Rees-Mogg: I certainly agree that the American model is an attractive one. My last question is that another one of your key areas of responsibility would be implementing the banking union. During your second hearing with the ECON Committee, you predicted that more countries would have joined the banking union by 2019. On what basis did you make that prediction and how big do you expect the banking union to be by then?

Lord Hill: I do not know how big it will be, because it is a sovereign decision for each member state as to whether they would want to join or not. I note that Lithuania is due to join the euro shortly and then would be coming into banking union. As you all know, it is also open to non-eurozone members to join the banking union should they want to. That is a decision, though, for those member states. The role of the Commission would be to support them in that decision, if that is one they wanted to take, and to explain the benefits and the process that would be undertaken.

Q37 Jacob Rees-Mogg: You are not hoping to persuade the UK to join.

Lord Hill: Of all the difficult tasks that I have to undergo over the next five years, I would put that right at the end of the list probably.

Q38 Michael Connarty: Before moving to tease out a bit more of the problems with the financial transaction tax, when we went to Lithuania as a Committee, when they were in the Presidency, the chamber of commerce there told us that 40% of all transactions are under the table with no tax paid in Lithuania, and it is going to join the euro. Having destroyed their economy and pitched it to less than 3 million of the population with population loss, joining the euro is not the solution.

Moving to the financial transaction tax, I totally agree with you and I have been the supporter of the concept of a Tobin tax for the world for international development, for more than a decade. With the financial transaction tax, in the EU context, I understand that 50% of the income generated would be from transactions in the UK. I just wonder how you are going to progress in that matter. It is not part of your remit but, dealing with banking, it must impact on many of the aspirations you have and many of the responsibilities you will carry for banking, should the 11 countries set up a financial transaction tax. Mechanistically, how do you think you can persuade people that they do not require that tax?

Lord Hill: As you said, this is not my policy lead; it is the lead of Mr Moscovici. Given where it currently is, to invite me to speculate on what steps I might take in various hypothetical circumstances, I do not think I am going to be able to help you very much. Until I were to know what the circumstances were, what the proposal was and all the rest of it, I do not know how I can answer the question. The only thing I can say is that, were that to happen, and as you will know very well it is clearly a highly contentious issue, there would be discussion about it within the college and I would want to approach that discussion from the point of view of looking at its implications in terms of financial stability, the operation of financial markets and all the rest of it. I do not think I can go any further at this point on that.

Q39 Michael Connarty: Looking at it as a problem you may have to face, do you really think there will be any agreement on the proposal, even in the term of your commissionership?

Lord Hill: I do not know, because again it is not my brief. We have not started, so it would be complete speculation and also unfounded on any detailed appreciation of what the dynamics are. I would be ill advised to do that.

Q40 Chair: On the question of the relationship between the fiscal compact and the banking union in terms of the whole of the economy of the European Union, of which we form a part, do you think the Prime Minister was right to veto the fiscal compact?

Lord Hill: In terms of what has happened in the past and the approach that he took, he took the approach that he felt was right. Meanwhile, the rest of the EU has got on with things. In terms of how we are applying banking union and the double-majority voting, it has come up with a practical solution to address some of the concerns. That is where we are.

Q41 Chair: Do you agree that we will be affected and are affected by the proposals for the banking union?

Lord Hill: As I said before, in terms of banking union and in terms of the relationship between the ins and the outs generally, one of my tasks is to make sure that I do the best that I can to reconcile the interests of both and make sure that the integrity of the single market is preserved. The negotiation that there was under my predecessor to have the double-majority voting is one practical way of providing reassurance to the euro-outs that the interests of them and the euro-ins in the banking union can be reconciled.

Q42 Chair: Of course we are now in a situation where we effectively have two Europes within one legal framework. There is a two-tier Europe, one of which is largely dominated by Germany. We are in the other tier; I would regard it as a lower tier. How do you reconcile preserving British national interests in that context, when we are going to be so affected by what goes on in the eurozone? As Michael Connarty was saying, if I can use an expression, it looks much more like a basket case than anything else at the moment.

Lord Hill: If I think of a practical example in my own area, one of my priorities is to make sure that the capital markets union is a union for all 28. Preserving the integrity of the single market is something that is incumbent on the Commission to do. I will certainly work as hard as I know to do that.

Going all the way back in history to debates that you will remember much better than me about variable geometry, speeds and all the rest of it, going back into the 1980s and 1990s, the recent conclusions of the European Council, conclusions, for instance, about ever-closer union, the wording around that and the recognition that different member states mean different things to different people—we are not all headed in the same way and, therefore, there is not this concept implicit in it of two tiers. They are all important developments. I think Britain has demonstrated that, outside the euro, the economy has flourished. It is still able to play an important and active part in a European Union of 28.

Q43 Michael Connarty: Looking over the things that you have to do, and I think your remit has huge potential, one of Juncker's instructions was that, in three months, you should put forward how would you draw up a set of proposals "contributing to the jobs, growth and investment package ... by setting out proposals designed to improve the investment environment and to support the financing of the economy". All the meetings I go to talk about risk aversion in small and medium enterprises; they do not want to grow because they have to hand over the capital control of the company to banks or other organisations. There is a problem with the demand pool. There are large companies with substantial funds that are inactive; they just put them into the market. There are no ways of channelling those funds. Given the experience of lots of medium companies, to see people who have taken debt, tried their best and then been stripped of their assets and put into receivership during the collapse, small and medium enterprises have suffered greatly.

I am not going to ask you how you are going to do it, but will you ensure that, as a Commissioner, we as a parliament are somehow involved in that dialogue and we see these documents, so we can discuss them in some detail? I believe that that is something that has been missing in the past. They come through from on high when they end up at Council, rather than coming to us when we can actually discuss them in their original form.

Lord Hill: I am happy to reflect on what might be a sensible way. Saying yes now to whatever a proposal might be, which might lead to a deluge of goodness knows what is not very sensible. If you will allow me to think, it goes back to an earlier part of our conversation, which I think is an important part of the conversation that you have also brought up, about how Commissioners will work with national parliaments. The sensible thing is to see if there are some practical steps that do not end up having either a lunatic

volume of paper or a lunatic diary commitment that means that none of us can do our jobs properly. If I can think about how to do that, again my instinct would not be to have some kind of institutionalised formulaic process, but, when I am thinking about a capital markets union, which is part of that, I would think, “I am consulting member states about this. I am working out my plans. I have to produce a plan to set out an approach. When I do that, let me make sure I remember to send it to the European Scrutiny Committee,” for instance, but I am happy to reflect on that.

Q44 Michael Connarty: Do you know we deal with papers? Tell your people never to put a limited sign on the paper, because that says we hide this from the national parliaments.

Lord Hill: I cannot say that to you, but I note the point.

Q45 Chair: Thank you very much. Just to conclude, you did mention that you would be judged by, as it were, the proof of the pudding being in the eating. I had suggested to you that you had something of the nature of a poisoned chalice, because you had been presented with all these laws and rules, many of which the United Kingdom Government does not agree with. We are challenging them in the courts; we are losing them. We are losing every court case so far, so there is quite a challenge in there, if I may say so, for you, given the fact that you have a Privy Council oath on the one hand and a Commissioner’s oath on the other. Could I just say it has been very interesting listening to your responses? I am very glad that you have said that you would come back and see us, because this is going to be a continuing dialogue and I am glad that we can get going on that basis.

Lord Hill: I am grateful to you for having invited me. I was keen to come as soon as possible. I am keen, for a whole variety of reasons, that we should continue the discussion, and it may well be, depending on what I think is likely to happen next May—others may have a different view—that the whole topicality of the issue, the EU and the British relationship is going to go higher up the agenda, if possible, even than it now is. Both in terms of my portfolio, which is extremely important for the future of financial services, but also off-portfolio more generally, I am sure that we will be in touch to carry on this conversation, and I look forward to that.

Chair: Thank you very much indeed.