European Scrutiny Committee

Oral evidence: Scrutiny of EU Business, HC 789

Tuesday 4 November 2014

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Watch the meeting

Members present: Sir William Cash (Chair); Mr James Clappison; Chris Heaton-Harris; Kelvin Hopkins; Chris Kelly; Jacob Rees-Mogg; Henry Smith

Questions [1-22]

Witness: **Mr David Gauke MP**, Financial Secretary, HM Treasury, gave evidence.

Q1 Chair: Good afternoon, Minister. It is very good of you to come along. Of course, we understand now that the Chancellor of the Exchequer himself will be dealing with the questions and matters at the finance meeting on Friday. We are grateful to you for coming because this is an extremely controversial question. We are very concerned about the massive budgetary surcharge that has been peremptorily demanded of the United Kingdom and, indeed, how it has been arrived at. We regard the question of how the present situation has arisen as secondary to the workings of the system itself and whether, in practice, it is fair and honest, and its implications for the United Kingdom in particular. But before we get on to the question of the workings of the system, would you be good enough to tell us exactly when you and those officials from the United Kingdom and other member states became aware that this year's GNI revisions were so unusually significant, and when did UK Ministers receive that information?

Mr Gauke: Yes, thank you, Mr Chairman. I am grateful to have the opportunity to give evidence to your Committee. In terms of the timeline, the point at which UK officials were first informed of the payment—the surcharge, as you put it—was in a meeting in Brussels on 17 October. That was a meeting with junior officials. That was the point at which all the information was available and details of all member states and the adjustment that needed to be made was available. Senior officials worked up advice on the following Tuesday. That was then shared with the Chancellor. The Prime Minister was informed on the Thursday, so that was 23 October. That was also the day that I was first aware of it, but the Chancellor was aware beforehand. So, that was the information that we had.

There have been reports that this was raised at the October ECOFIN on 14 October, which I attended. That is not correct. The issue was not raised at that meeting. There was a discussion at that meeting to do with EU spending, and I made an intervention on that issue, but the issue of the adjustment to contributions was not raised in that meeting. I should also say that, in terms of the timeline that I have outlined, both the Dutch and the

Italian Governments have set out timelines along very similar lines. In particular, there is a letter from the Dutch Finance Minister, Mr Dijsselbloem, which makes it clear that he was only aware in the days running up to 24 October.

Q2 Chair: Now, these GNI calculations are presently based on the requirements of the 1995 European System of Accounts, which is known as ESA 95. No member state has yet ratified the new ESA—the European System of Accounts—for 2010, so we are told. What difference would the use of the 2010 accounts system have made in this case?

Mr Gauke: You are right to say that this is based on the 1995 ESA. On the 2010 ESA, my understanding is that it has been ratified by a number of member states, but it is not what we are talking about here and that does not apply yet. It is likely that will take effect in 2016 or so, and there will then be an adjustment that will go back to 2014 onwards. As we understand it at the moment—obviously to make an assessment of the impact of the 2010 ESA—there is an upwards adjustment to the UK's GNI. However, our understanding is that there are similar adjustments to other member states and the UK's GNI adjustment is not out of line with other member states.

The reason I make that point is obviously because this is a matter of relative changes. The issue that we face with the 1995 ESA and the adjustment that we learned about on 17 October arises because the UK's positive uprating in GNI is out of line with what is happening with most member states, which is why we have the issue of a surcharge. It looks like the adjustment as a consequence of the 2010 ESA means that member states are moving broadly in line with each other. In those circumstances, we do not anticipate there will be a major change, but, as I say, I have to be slightly tentative in that because we do not have the final numbers.

Q3 Chair: Of course, in 1995, which is the basis for the current rules, the economic situation was very substantially different from what it is now. Given that the existing rules are so out of date and have produced such a bizarre outcome, isn't there a case for revisiting the calculations wholesale and saying that the United Kingdom should not pay this sum because it is based on out-of-date assumptions? Throughout the documents that have been supplied to us by the ONS and by the European Commission, it is absolutely clear that the documents are headed up with the word "provisional". There are references to reservations. It appears that matters are not going to be finalised until well into next year—maybe later next year—and, in the circumstances, on what basis would the United Kingdom, on Friday, put forward a case for accepting this demand by 1 December, when everything appears to be so speculative, so uncertain and, at the same time, based on out-of-date assumptions?

Mr Gauke: Mr Chairman, you make an important point about the numbers being provisional. This is what is set out by the European Commission itself in its document that it produced on 17 October. It is the case that the European Court of Auditors issued a report in December last year—a document you may or may not have seen—where it raised questions about the efficacy of the Commission's scrutiny in this area and whether the GNI data were sufficiently examined by the Commission. It questioned how effective it had been in terms of ensuring that there is, in practice, equal treatment of member states, so I think there are questions to be raised about that. As the Prime Minister has made clear, we do want to ensure that we have got a proper understanding of the numbers that have been put before us and that we have an understanding of the calculations that have been made. We want to ensure that all of these points are examined very carefully.

I think, Mr Chairman, that you have put forward the idea that the fact these numbers should be produced on 17 October means that there is little opportunity for member states to properly scrutinise them, and then a bill has to be paid by 1 December—a bill of the size that we are talking about, which is of a very different order from the type of adjustments that we have had before. You make a very good case. So, as the Prime Minister has made clear, we will not be paying £1.7 billion on 1 December or, indeed, a sum anything like that, because, of course, we do have to have an understanding.

You make the point about whether it is outdated or not. It is a system that is based—or part of the calculation in terms of contributions that member states make is based—upon the size of their GNI. The Commission endeavours to ensure that that GNI is calculated in a consistent way. As the Prime Minister has said, adjustments as a consequence of revisions of GNI are part of the system. However, I think with something of this scale, at the very least member states are entitled to scrutinise these numbers very closely indeed before making any payments.

Q4 Chair: Of course, you say before making any payments and refer to 1 December, but if, as it turns out, the calculations are based on out-of-date assumptions and also are themselves very uncertain, speculative, with reservations and are not yet finalised until late next year, surely there is a case for not making a payment at all until the payments have actually been properly assessed.

Mr Gauke: I do not disagree with you. I think the point is that we do need a proper assessment of these numbers and a better understanding of how the calculations were made and how these numbers were reached. This is not, I stress, just a position of the United Kingdom Government. If you look at what the Dutch Finance Minister has said, he has been making points in a letter to his own Parliament very much along similar lines. If I just quote one line that Mr Dijsselbloem stated in a letter to his own Parliament: "The lack of a clear and unambiguous explanation of the outcome of the GNI review raises questions about both the procedure and the results." So, I think we would very much share that view.

Q5 Jacob Rees-Mogg: I want to follow on from that, because there are two halves of this, aren't there? There is the GNI calculation that leads to the extra payment that ought to be made and then there is the Draft Amending Budget No. 6, which rebates back the amount that the European Union is collecting in in excess. I wonder whether you think that the draft amending budget has been done in a proper or sensible way. I am thinking particularly of those countries that were not in the European Union in the period in question who are getting rebates under this, which seems slightly peculiar when they were not expected to be paying in or receiving for a large portion of the period under review, and also the very substantial repayment that this leads to for Germany.

Mr Gauke: Yes, there are a number of points to address there. First of all, you are right to highlight that there are two aspects: there is a gross payment. Then, because this is not money for the European Commission to then spend, it is redistributed to member states.

And, as a consequence, it means, in some cases, that countries that are making a gross contribution are benefiting from a net basis. In the case of the United Kingdom, to put it in sterling terms, our gross surcharge is £2.9 billion, but £1.2 billion would come back under DAB 6. I think the issue there is that, as a Government, we have to go into discussions with other member states with a view to protecting the UK Exchequer—the UK taxpayer—to ensure that we get the best possible deal. The extent that DAB 6 plays a part in that is something that we would have to consider as part of our options.

You also raise the point about the fact that some of this goes back; in the case of the UK, this is a revision going back to 2002. Some of the current member states were not members of the European Union in 2002 and that raises questions as to whether it is right that they should benefit from that. I think that is a perfectly fair question. I would perhaps make two points in response to that. First, let us not think that that is a sizeable part of the numbers involved. There is a principle point but, in terms of the actual numbers concerned, the countries we are talking about are relatively small economies and we are talking about relatively small numbers. It is also the case that that appears to be how the rules work and that has also worked, at times, in terms of calculating the UK's rebate. Some of those more recent joiners as member states might make the point in return—it is not for me to make their arguments, but they might make the point—that it is important that there is consistency of rules and that sometimes that approach has benefited us. However, I do think you raise an important issue and it is one worth reflecting on as part of this process.

Q6 Chair: Are you and the Chancellor content to rely on the honesty and accuracy of the statistics produced by other member states, particularly in areas such as the black economy? There has been some talk about illegal payments. We understand that they may amount to something in the order as calculated of 0.6% of the total in relation to matters affecting drugs, prostitution and things like that. However, there is also another very large black hole in relation to some other member states' economies—namely, the black economy. Now, this could be a very large proportion of their GNI. When you get down to the meeting on 7 November and the Chancellor is talking to the other member states, and the officials that you have at your disposal and also the statisticians from the ONS get their teeth into this, is it not possible that the extent to which the black economy distorts the figures will be shown to be having a very serious adverse impact on the UK and that it is leaving us to pay a significantly disproportionate amount of the overall budget?

Mr Gauke: Well, again, Mr Chairman, I think you raise an important issue, because what is clear is that, for this system to work fairly, there needs to be a consistent approach with regard to the statistics of all member states. If, for example, the UK's approach is out of line with other member states, that could result in unfair treatment. I think it is a fair question to ask. It is difficult for us, of course, to be well placed to necessarily make an assessment on the size of the hidden economy. The hidden economy is a notoriously difficult thing to measure. There are substantially different views as to the size of the hidden economy just within the UK. The ONS is not particularly well placed to make the assessment of other member states' hidden economy themselves, but it is right that we press on that point.

I think it is also worth highlighting that the European Court of Auditors has raised questions about the consistency of treatment. After all, the issue we have here is as a consequence of revisions that we have made to our GNI as a consequence of reservations that the European Commission has raised. It is right that this is done—that as far as possible there is a consistent approach across member states. I am not saying there is an easy way in which we can do that. Again, I think it is a point that we can and should make: that we want to ensure that what I believe is a pretty rigorous and robust system assessing the hidden economy in the UK is matched by other countries.

Q7 Chair: Of course, in relation to the court of auditors, I cannot remember exactly how many years it is since they last signed off the accounts, but it is something like 17 to 20—whatever the figure is.

Kelvin Hopkins: Nineteen.

Chair: Nineteen, is it? Thank you, Kelvin. There are many people who have put a great deal of trust in what the Court of Auditors comes up with. If they themselves, as you have pointed out, have raised questions about the efficacy of the statistical base, then on 7 November we assume that the Chancellor will be raising these matters. It seems to many of us that the way in which all this is being put together with such an enormous bill at the end of it for the United Kingdom is actually based on a very dodgy dossier, if I can use that expression. Would you comment on that?

Mr Gauke: Again, I would make the point that we need to understand these numbers as far as possible. We need to ensure that the numbers are as robust and consistent across member states as far as possible, and that we work with other member states to ensure that we have got a payment system that is as fair, transparent and consistent as possible. You raise, I think, important concerns, and we want to analyse the numbers as closely as possible. We are not going to be rushed into something that is not in the interests of our taxpayers.

Q8 Chair: So, what are the steps involved in making these provisional figures final? We are told they are not final; we are told they are provisional; we are told that they have reservations attached to them. What will be the involvement of the UK officials and Ministers in this process step by step, and why is payment required before that complex process is completed? Furthermore, astonishingly, we are supposed to be subjected, from 1 December, to punitive rates of interest that are quite out of all proportion if the payment is not made by then. What do you make of that?

Mr Gauke: I think the first point to make is: it is clear that there is a longstanding system within the European Union that adjustments are made as a consequence of changes in GNI, and there have been changes in every year that the system has been in place. Sometimes countries find themselves paying a little more; sometimes countries find themselves paying a little less. That is how the process works. Where this year is different is that this is of a different order of magnitude. If one looks not just at the UK position but at the gross payments that are going to be made, we are up in the region of around €10 billion. If you go through the recent years, the numbers have been substantially lower than that. I think the highest number that I can find is back in 2007, when I think it was something in the region of €3.8 billion, as a gross number—2008 was €2.5 billion. Since then, they have all been below €2 billion, so this is a substantially higher number. Therefore, a process that says in relatively short order, "You need to make a further contribution for a small sum of money," is of a very different nature from requesting that a country like the UK makes a payment of €1.7 billion. However, it is not just the UK. One could look at the Dutch, the Italians, the Greeks, the Maltese, the Cypriots and so on. I think that is why there has been a similar reaction in countries like the Netherlands and Italy—that this is not a process that is acceptable. That is why we are challenging this, and why the Prime Minister has said that we will not be making a payment of €1.7 billion or anything like that amount on 1 December.

Q9 Mr Clappison: You mentioned the rebate a moment ago. Can I take it that we will be resisting any questioning of our rebate as a result of this process?

Mr Gauke: Yes, absolutely. The rebate in terms of the wider position and the continuation of the rebate is one that is not up for grabs. I appreciate that the previous Government renegotiated an element of the rebate that has had a significant cost to us every year since. That is not up there for renegotiation. Yes, I see no reason why we would renegotiate that.

Q10 Mr Clappison: Any change in the rebate—any reduction in the amount of rebate we receive back—does have very serious consequences for us. You mentioned the cost. I have been given a figure of £9 billion for the cost of the rebate between 2008 and 2013. That is the cost of the reduction that the previous Government allowed to take place under its authority.

Mr Gauke: Yes, that is absolutely right. It is worth bearing in mind that the cost of the rebate renegotiation that was undertaken by the previous Government is greater in every year than the proposed surcharge for the UK is for this year. That gives an indication of the scale of the issue.

Q11 Mr Clappison: In part, as a result of that change in the rebate, the UK's net contribution—I emphasise net contribution—to the European Union has gone up in a way that many members of the public might find substantial. The figures we have got here show that in 2005 our net contribution was just short of £3 billion, and it has gone up to over £11 billion in 2013. Members of the public might think that is a very substantial net contribution for this country to make to the European Union, which could be spent in this country in other ways.

Mr Gauke: Yes, I suspect very many members of the public would take that view. What I can say is, first, as a consequence of the rebate negotiation there was an inevitability that we were going to find ourselves paying more, regrettably. Secondly, it is worth pointing out that, as a consequence of the Prime Minister's negotiation of the multi-annual financial framework in February 2013—and, for the first time, a real terms cut in the EU budget over that seven-year period—the increase in the EU contribution is not going up by as much as it was going to do had we continued with the way that the European Union had progressed up until then.

Q12 Chris Heaton-Harris: Apologies for not being here at the beginning of the session, Minister. Firstly, I am sure that you do understand that this is a formula—you mentioned it just now—that has long been written down and kind of understood by finance ministries across Europe. This new bill is an element—a cost—of our success in turning the economy around in this country. In a way, you should be congratulated for getting us this big bill in the first place. You mentioned challenging this, and I wondered if we could unpick that statement a tiny bit. What does that actually mean? I would like it to mean that by challenging this formula that has been set in stone pretty much for a number of years we are going to at last take a fundamental look at the EU budget process. Are we going to start challenging and looking at draft amending budgets in general terms, or are we just going to look at this one particular calculation and draw concerns around that?

Mr Gauke: Let's be clear: the position is that the ESA 1995 has been in place for a long time. As you say, an economy might grow faster than expected and faster than other economies elsewhere in the European Union. In most years, there would be an adjustment as a consequence of GNI. Because the UK is very much leading the way in growth—the UK has become relatively a bigger economy within the European Union—one might expect there would be an impact to that and that the UK would pay more. However, what we have got here is a change which is of a different scale to anything the UK has experienced before and a change that does go back to 2002. Therefore, it is a more complicated calculation than anything we have faced before.

In terms of what the Prime Minister has said, we need to understand how the calculations were made, the basis of the numbers and the methodology that was reached, within the rules that we have. We need to have that understanding before we can start accepting the numbers that have been put before us. Given the scale of what we are talking about, the idea that one can simply present a bill in the middle of October and expect it to be paid at the beginning of December without that scrutiny or challenge is no way to run a large organisation.

I think the outgoing Commission did not handle this well, and we are, as I say, scrutinising and challenging those numbers and working with other member states who find themselves in similar positions. We are also working with other member states who are not in the same position and who may be our net beneficiaries, but who we believe can be persuaded to view the way in which this has been undertaken as not right. Although, this year we are one of the member states losing out, if you have this approach, where very vast adjustments—to use the Commission's word—are sprung on member states without due warning, other countries may be the victims of this in the future. We need to look at what happens in circumstances where there is a very big surcharge levelled on a member state. I think the current regime is not one that works in a satisfactory way, to put it mildly.

Q13 Chris Heaton-Harris: Could we not have a more fundamental look at the budget process through the microscope of what this calculation has come across? If you go back to 2002, the European Commission were running multibillion-euro budget surpluses. I am sure you can challenge all sorts of figures, and even though there is a huge amount of detail that is published, it is almost opaque because of the volume, let alone the negotiations behind it. There is an opportunity here to unpick for future renegotiation purposes, if nothing else, parts of the European budget that until this point no one has really paid any attention to.

Mr Gauke: There is certainly a wider point about EU spending, and that is why the achievement of reducing the MFF was so significant, but I suspect there will be no difference between us in terms of saying that there is more that can be done to reduce spending by the European Commission and to spend money more effectively and efficiently than it does.

I suppose it leads us to the question of what the priority is for the UK Government in the next few days and weeks. It is, of course, to ensure that we protect the position of the UK taxpayer, given the £1.7 billion surcharge that has been landed upon us. There are various ways in which we can seek to do that, but our first challenge, if you like, is to deal with the problem that is in front of us, which is that surcharge, and that means questioning the way in which that has been calculated—ensuring that there is proper scrutiny on that front—and ensuring that we work with member states to ensure that countries that have been landed with a very substantial surcharge are treated fairly and reasonably. As I say, the idea of a surcharge arriving on 17 December that is quite substantial being paid six or seven weeks later is not a fair or reasonable way to go about this process.

Q14 Chair: In relation to the broader perspective, you mentioned the priority of the UK Government, but of course there are also certain difficulties that have arisen in the last few days with Angela Merkel and the German Government with regard to other matters, including in particular the immigration question. However, if we look at the broader perspective in which this is to be placed, the Germans refused to subscribe to the Stability and Growth Pact in 2003. There were no infraction proceedings brought against them, as far as I am aware. The French have just recently said that they will not comply with the Stability and Growth Pact. I mean, this so-called rule of law which imposed upon us in this rather draconian fashion does not sit very well with that.

Then there is the broader question of the fact that only on 1 November the voting system was changed, and Germany now take 16% of the whole of the voting system. Together with France, with one or two smaller member states, Germany can effectively dictate policy, both with respect to blocking minorities and changes in the Council of Ministers across the entire board. So, isn't there something rather peculiar about the fact that we are being treated in this manner when there is a broader perspective, including the fact that in terms of our trading relationships with the other 27, we run a deficit of over 50 billion a year and the Germans actually make a surplus with the same 27 member states in the trading relations within the single market? Isn't there a real, quick question, coming back to what Chris Heaton-Harris said earlier, about regarding this as a matter for reshaping our fundamental relationship with the European Union, of which this is a particularly stark and clear example now, but set in the broader perspective of a real renegotiation of our relationship and not just nibbling at the treaties?

Mr Gauke: Mr Chairman, you lead me to deeper waters and bigger questions. I would make the point there is a very strong case for addressing those broader issues as part of a wider renegotiation of the UK's relationship with the European Union, and one where at the end of that process the British people can take a view as to whether they are satisfied with the relationship that is on offer to them. I very much share that view.

We are, of course, also faced with an issue that is urgent, and there is a bill that is due on 1 December. Now, the Prime Minister has made it very clear we are not paying that £1.7 billion on 1 December, but it is in the interests of UK taxpayers that we resolve this matter as quickly as possible. I am not going to claim that is an easy thing to do, but the focus for the next few days is to try to resolve that matter in the least detrimental way possible for the UK taxpayer.

Q15 Chris Heaton-Harris: Just on the detail, then, of the next few days, what is the British Government's view on the Draft Amending Budget No. 6?

Mr Gauke: I briefly touched upon that in a question from Mr Rees-Mogg. Clearly, DAB 6 is consequential to the surcharge that has been levied on a number of member states. The effect of DAB 6 for the UK is it reduces a liability of £2.9 billion to £1.7 billion. We need to go into the negotiations over the next few days, in my view, with the flexibility to achieve the best deal for the UK taxpayer. There is a case for saying we will block DAB 6. That case is one that says that will focus the minds of other member states who will not be receiving sums that they would otherwise, but there is also a case for saying that increases the potential liability of the UK taxpayer by £1.2 billion. The point I would make to the Committee—and I am trying to be as open and transparent as possible—is that there are arguments on different sides here, and as part of an attempt to ensure that we get the best arrangement possible for the UK taxpayer, I would argue to you that we need to maintain flexibility and not take a position as yet on DAB 6.

Q16 Chris Heaton-Harris: I quite agree with what the Minister is saying, but if you were to wake up in a particularly bad mood that day and really not enjoy the conversations you are having, could you just outline for the Committee the worst thing you could do, apart from being rude to all our international partners round the table? What is the worst penalty that you could lay on the table at those negotiations?

Mr Gauke: A draft amending budget is determined by QMV. If there was a blocking minority, then DAB 6 could be blocked in those circumstances. It would have the effect of increasing our liability, but it would have the effect of increasing the liability of other member states, which is why I am not dismissing that that is a card we could play. Equally, we have to recognise that what we are about is reducing the amount we have to pay, not increasing it.

Q17 Chair: I mentioned the new voting arrangements. Under those arrangements, of course, it will be very difficult for us to achieve our objective by qualified majority vote. However, there is a provision in there called the Ioannina compromise, whereby any member state for a transitional period can insist on the existing rules applying. So, could I invite you to consider using that to make sure that we do not get outflanked by other member states, including Germany, who are receiving money and not a surcharge out of the current budgetary arrangements?

Mr Gauke: I do not want to get too drawn into details, other than to assure you that we will of course do whatever we can and need to do to protect our interest. When it comes to the voting rights, it is quite a complicated matter, and one has to look at various formations of votes, as it were, to determine which regime works best for us. Again, it is probably best that I do not get drawn into too many details on that front.

Chair: Some would regard them as rather dysfunctional.

Q18 Henry Smith: Permanent Secretary, I am grateful for your appearing in front of us today, and apologies for my false promotion of you in the Chamber earlier on.

Mr Gauke: No need to apologise. I enjoyed it.

Henry Smith: It is an indication of greater things, perhaps, in the future. What is the Government's position on the interest payments that would become payable from 1 December and our payment or not of those whilst the questions over the total amount are being thrashed out?

Mr Gauke: They are significant sums. They work on an escalating basis. One of the objectives we will have is to, in the circumstances that I have already described, set out why it is entirely reasonable that we take more time to analyse and assess this matter. We do believe that it would be wrong for a member state to find themselves being levied with significant interest payments as the current regulations suggest. Again, I do not think I can get into too many details at this stage, but I think it is part of the discussions that we will want to have and that we are already having with other member states. The issue of interest payments is an important and significant one.

Q19 Kelvin Hopkins: The UK has contributed significant funds to support those eurozone members badly affected by the economic and financial crisis, include in particular Cyprus and Greece. Is it not bizarre that those two countries are also being asked to pay revised GNI contributions, presumably to be funded from the support we and other member states have given them?

Mr Gauke: Mr Hopkins, you raise an interesting point. All I can say at this point is the calculations are based on the GNI of member states. These are calculations that in many cases go back all the way to 1995, in the case of the UK to 2002. It is based on the data that the European Commission have as to the relative size of those economies. Many of those countries have had a substantial hit. They have seen their economies reduce in size in recent years and, all other things being equal, that reduces the amount that they pay in terms of EU contributions. What the system is trying to do is ensure that it collects as accurately as possible the right sum of money from all member states. As data change, adjustments are made.

Nonetheless, a lot of those countries can make exactly the same points that I have been making today and the UK Government have been making over recent days: in proportionate terms, some of these countries face bigger surcharges than the UK does, and that it is not fair or reasonable for such countries to produce such sums with a short period of notice without the ability to check the details, check the analysis and check the statistics. In these circumstances there is a common cause for the UK with some of these other countries to ensure that we are all treated fairly.

Q20 Kelvin Hopkins: You have mentioned Holland and the reaction of the Dutch Finance Minister. Understandably, they feel quite strongly too. Have you had any communications at all with Cyprus and Greece? They are on their knees economically. Have they communicated with you and spoken to you at all?

Mr Gauke: We have communicated with all member states affected, including those countries. The Chancellor was in Berlin last week for a meeting predominately on tax, but that was the opportunity to discuss this matter with a number of finance ministers. There was a meeting in Venice at the end of the last week attended by senior officials. Again, this matter was discussed. I can assure you there is full and proper engagement with all member states on this issue. As I say, many of the points that I have made in respect of the UK's position apply equally, if not more so, to countries, such as Greece, that in proportionate terms have seen a bigger increase in their GNI contribution than the UK has.

Q21 Kelvin Hopkins: What of the reaction of Commission officials to the fact that there has been a reaction by Britain and others to these surcharges? Are they surprised that there has been this reaction, or did they not see it coming? It strikes me as obvious that, at this particular delicate moment, imposing these charges pushes euro-scepticism, giving it a boost.

Mr Gauke: I do not disagree with a word you say, Mr Hopkins, in terms of the outgoing Commission. It does seem to me that the reaction of member states was entirely predictable. This is no way in which to treat member states. We are engaging with the new Commission. We have to point out that there has been a change in the Commission since this happened. We are engaged with the new Commission and we are very keen to find a resolution to this matter. It is also worth pointing out that the Italian Presidency have been very clear. Of course, they are an affected country, but they are very clear that they are working very hard to try to reach something that is satisfactory to member states across the board.

We have got a long way to go on that. There are challenges there. I am not going to pretend to you that this is an easy situation, but the UK is very engaged with the Commission and other member states to find a resolution to this, given it has been something, I have to say, I think the outgoing Commission did not handle well, to put it mildly.

Q22 Chair: Finally, when the Chancellor goes on Friday, we would expect that there would be substantial progress made in terms of the question of whether any payment should be made at all in these circumstances. You heard the questions that have been put by the Committee respecting our feeling that there really should be a fundamental change in the manner in which the calculations are made and the basis of them, and the honesty and transparency of other member states as part of that mix. We would expect that, when the conclusions of that meeting have taken place, there will be a full and frank account given to the House of Commons in a written statement or some other method to ensure that we are properly informed as to what is happening and what the way forward is. However, in the meantime, I am hoping you will be successful, but with the determination that, on behalf of the British taxpayer, you will achieve the objectives that seem to be necessary. We thank you for coming today and look forward to pursuing the matter as it continues to evolve. Thank you very much.

Mr Gauke: I am very grateful to you and the Committee. I am sure this is not the last time that we will discuss these matters.

Chair: Thank you very much