



Oral evidence: [Costs and benefits of EU membership for the UK's role in the world](#),

HC 545

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Members present: Crispin Blunt (Chair); Mr John Baron; Stephen Gethins; Mr Mark Hendrick; Mr Adam Holloway; Andrew Rosindell; Nadhim Zahawi

Questions 1-48

Witnesses: **Charles Grant**, Director, Centre for European Reform, and **Stephen Booth**, Co-Director, Open Europe, gave evidence.

Q1 Chair: Welcome to the first public evidence-taking session in our inquiry into the costs and benefits of EU membership for the United Kingdom's role in the world. Welcome to our first two witnesses. I will shortly invite you to identify yourselves for the record, but before you do may I say that this, as our first session, is obviously an important scene-setter for us? Given your particular perspectives on our inquiry, we are very much looking forward to your getting us away to a good public start. We will have to finish by 11.25 am, because we have Foreign Affairs questions in the House at 11.30 am, but if we get through our questions before that, so much the better. Gentlemen, can I invite you both to identify yourselves for the record?

Stephen Booth: I am Stephen Booth, co-director of Open Europe.

Charles Grant: I am Charles Grant, director of the Centre for European Reform.

Chair: Thank you both very much for coming to give evidence to us. Can I begin with the “Balance of Competences” review? What is your view of that piece of work? How useful is it?

Stephen Booth: It is fair to say that Open Europe had some misgivings about the exercise, in the sense that it seemed to be designed to avoid coming to any conclusions that would prejudice any future negotiation either way, and most chapters did not actually end up concluding very much at all. It was very much a survey of views: rather than coming at the issue from first principles—what is the UK national interest and how does the EU map on to that—it was much more a survey of the EU as it stands, so it was possibly of limited value in

drawing firm conclusions for renegotiation. It was obviously a useful exercise in a survey of views and a survey of the state of current play.

Having said that, in the foreign policy chapter, what came through from the evidence was that in areas where the UK has a veto, such as CSDP and CFSP, the situation is much simpler—arguably, the UK has the best of both worlds, in the sense that we have a veto over what happens in the EU sphere and we maintain our own unilateral freedom of action. However, in areas where you have mixed competence or qualified majority voting, or where the Commission is heavily involved, it gets much more complicated, because you also have other institutional actors—the European Parliament or the European Court of Justice—which makes the environment much more unpredictable. That is what I drew from the evidence in the “Balance of Competences” review.

Charles Grant: I have a rather more positive take on the “Balance of Competences” review. I thought it was a pretty useful exercise and I praise the organisers for making every effort to involve civil society in their exercise. Open Europe and my own institution both contributed a lot to several of the chapters and papers.

I was one of the internal critics who looked at drafts of the foreign policy chapter, which I thought was a pretty good, serious piece of analysis on how the EU can amplify British interests in projecting our interests overseas and looking at the pros and cons. Of course, the conclusion was that most of what the EU does in foreign policy more or less serves the national interest—with some exceptions, probably.

I regret that, given all the work done on the review—all 32 chapters of it—it was kind of buried, rather than publicised. I thought it was a useful exercise and I regret that the Government decided to keep it hidden and not to tell the British public about it when it was finished.

Q2 Chair: Do you then have differing perspectives on its overall conclusion that it is generally beneficial for the UK to work through the EU to achieve its foreign policy objectives? Do you come to slightly different conclusions on that?

Stephen Booth: I am not sure that is true, necessarily. Open Europe’s perspective, particularly on the economics of our EU membership, is that it is very finely balanced and there is no reason why the UK could not exist, or even prosper, outside the EU, depending on the policies it puts in place outside and the deal it gets with the EU outside. However, I do think that, when it comes to foreign policy, because we retain a veto over the significant, hard power areas, the UK can have the best of both worlds in the sense that it does not impinge so much on our freedom of manoeuvre in other avenues, such as NATO. In foreign policy, the UK clearly does have influence. Being one of the only two major military powers in Europe probably gives us more influence than we might imagine over foreign policy in Europe. We have to judge the value of that before the electorate decides to leave. That is something we would miss.

Charles Grant: I agree with Stephen. Just on foreign policy, I think Britain values and benefits enormously from being part of an influential block of countries, who, when they agree with us, add to our weight. If we don’t agree with them, we can act on our own and we don’t have to follow them if we do not wish to. I think we have the best of the both worlds.

Q3 Chair: If we left the European Union, would we be able to achieve the same level of added value by using our other networks? If that was technically possible, how much effort would we have to invest, using those other networks and acting bilaterally, to achieve the same weight that we do through our EU membership?

Charles Grant: I think we would struggle to achieve a similar amount of influence. The Commonwealth is a fairly important network but is not really a significant player in international diplomacy per se. NATO is important and does its own work, often in collaboration with the EU. Look at the way that the West is coping or has coped with the Russian incursions into Ukraine in the last few years: part of its response has been through US and EU sanctions and part has been through NATO taking military steps by sending and rotating troops and equipment through the Baltic countries and so on. So I think that NATO is not a substitute for the EU, but it is complementary to the EU because they do different things.

Without the EU, we would have less influence on many global issues. As we have seen in relation to Ukraine and Iran and with other less well known conflicts such as Somalia, the EU is a significant player—a rather dull, slow moving, inept player at times, but it matters in some conflicts. You could say that in the Middle East peace process it does not do very much that is useful, but in other areas such as Iran and Ukraine I think it has made a difference. Britain benefits from being one of—frankly, on foreign policy, it is the British, the French and the Germans who steer and shape a lot of what the EU does.

Q4 Mr Baron: We hear what you say but as a permanent member of the United Nations Security Council, presumably you put that up there ahead of the EU with regards to influence and seeking influence on key decisions?

Charles Grant: Yes, that is very correct, but it is also true that the EU countries nearly always—not always, but nearly always—vote the same way at the United Nations and therefore they amplify each other's voices at the United Nations. Being one of the P5 is certainly a very useful and important attribute for British foreign policy.

Mr Baron: Would you agree, Mr Booth?

Stephen Booth: Yes. I would turn the question around slightly in the sense that I think it is hard to argue that the UK would be more influential having left the EU. The question is how much less influential it would be. As you say, on the top level issues in terms of the UN and the fact that we will remain—. It kind of depends on the UK's policies: if the UK maintains its aid spending commitment and its 2% defence commitment, then we will remain a global citizen. It depends on how a future Government would continue to meet those objectives.

Q5 Mr Baron: I just struggle with this notion that outside the EU we would somehow be less influential and it would require an enormous effort compared with being inside the EU when we look at how the EU has progressed on some key decisions. Can you expand on this a bit? If you are one of the P5 and you are a member of all the key clubs around the world—NATO, the UN, the Commonwealth, the WTO and so on—some of us struggle to see why leaving the EU would be such a significant loss. I hear very few concrete examples of where it would be.

Stephen Booth: You just mentioned being members of key clubs and I guess the issue would be that you would have left one of the key clubs and you would lose your influence within that key club. One example that comes to mind is the prospect of an EU army with military HQ in the EU. The UK maintains a veto over that, but if we were to leave, you can bet that that idea would come back with a vengeance. Is that really in the UK's national interest, given our concern that it is a diversion away from the European arm of NATO? I think that is an area where you can argue that the UK's loss of stock in the EU doing things that are against our interests would be negative.

Q6 Chair: Can I follow up on the issue of the European army? Isn't the frustration that our European partners are extremely ineffective in terms of their military weight, and some form of greater co-ordination and effectiveness through some kind of European army would give the European Union rather greater weight in world affairs, and that is something that we actively prevent?

Charles Grant: It is true that some of our partners occasionally talk about a European army, particularly Germany, but to be honest—I used to be a defence correspondent and followed this for a while—it is not serious. It is what they call in Germany “Sunday speeches”. It is just motherhood and apple pie: “We believe in a European army. We believe in peace, democracy and the universal brotherhood.” If you talk to serious Germans working on defence policy, nobody is thinking about it or planning it. It would of course require unanimity, and in practice very few countries—possibly one, two or three—might support it, but the French and the British would not, and indeed German military establishment would not either. We do not have to veto a European army because it is not serious.

What we have vetoed, which Stephen referred to, is the so-called operational headquarters. It is a long-running theological point for both federalists and anti-federalists in Britain that there is a view in Brussels that when the EU conducts the modest, moderate military missions which it does conduct, every time it does so it has to put together an ad hoc headquarters using one of the national headquarters to manage the mission, and if there was a permanent military headquarters in Brussels, the argument goes, it would be easier, quicker and a bit cheaper. The British have vetoed this because they just hate any idea of EU involvement in building institutions in the military sphere in Brussels, and some of the other countries are fed up with us, but the British go on vetoing it again and again. Of course, if we left it would probably happen without us.

Q7 Andrew Rosindell: You mentioned a moment ago the Commonwealth not being as influential as perhaps the EU would be. Isn't it the truth that, because we have spent several decades putting our efforts into building influence within the EU, because we thought that was our destiny then, we have neglected the Commonwealth, and if we refocused and re-energised the Commonwealth and gave it purpose—for instance, a smaller version of that could possibly be the “Five Eyes” where we have enormous influence on certain issues—it could be an option for us? Is that a fair point?

Stephen Booth: When it comes to the Commonwealth, one of the issues is that it is a disparate group of nations and it is questionable how well it can act together, but I take your point. One concern is the extent to which the EU might prevent us maintaining and building those relationships, particularly when it comes to things like data and security. You have seen

the ECJ judgment on safe harbour; we do not quite know the implications of that in terms of security and sharing intelligence with the US and so on. Those are the areas where the UK has to have a real concern about making sure that our long-standing relationships—some of these spheres are much closer with non-EU partners—are not hampered by anything that the EU might do. That is something that the UK has to be very careful about.

Charles Grant: I would add that I don't think it is either/or. Britain gets enormous value from the Commonwealth and from the EU. They are not against each other; they are not competing; they do entirely different things. The Commonwealth is not a trade block with a common commercial policy, for example. The Commonwealth does not have any unified foreign policy on anything.

Q8 Stephen Gethins: Earlier, you talked about the EU being slow and cumbersome in its response to foreign and security policy challenges. I am not sure that many people would argue with that. Obviously, we are going through a renegotiation and in a renegotiation powers can go both ways. Are there any areas that we should be looking at strengthening our cooperation or any areas where we are holding back the European Union in dealing with security challenges, notwithstanding what you have already said about the European army?

Charles Grant: I think we need to look at the External Action Service. It is a product of the Lisbon treaty and merges together bits of what were in the Commission and the Council of Ministers secretariat plus seconded national diplomats. It is potentially a very useful tool for the European Union and I am not happy with the way that Britain is dealing with it. We do not take it very seriously; we do not supply people there. We should have roughly 13% of the staff according to our population, but we have less than half that. The Foreign Office finds it very hard to get people to go and work in it. It is a potentially important body, and not because it takes decisions away from member states—it does not. It is there to serve member states. The point is that it collaborates, co-ordinates and produces common research analysis to help the member states work out a common approach and, in the long run perhaps, agree on common policies. It is potentially a very useful and important organisation and I am not happy that there are very few senior Brits in it. The British Government and all parties need to think about how they can improve British influence in the External Action Service.

Stephen Booth: Where the EU has worked well in some instances is in humanitarian crises, where collective weight and ability to co-ordinate action are useful, but on the much longer term and strategic issues, you do see the EU really struggling, because some of the member states have different interests or because there is such a conflation of different issues—trade, climate change, aid—that you get into a lowest common denominator scenario. The policy in North Africa before the Arab spring is evidence of that. Therefore, in the spheres of foreign policy and defence the EU is best used either where there is a clear need for collective, swift action, where you do not want to get stuck on each other's toes, such as in humanitarian crises, or as a forum for discussing issues. With things like defence, what tends to work best are coalitions of the willing on a voluntary basis rather than anything top-down, institution building at the European level.

Q9 Stephen Gethins: May I ask an additional question on that? Where it needs to take swift action, are you confident that it is in a position to do so?

Stephen Booth: On some specific things it can, but those are quite a small number. On the big issues—Russia, the Middle East, North Africa—it is very difficult.

Charles Grant: When it comes to dispatching humanitarian aid, the EU has improved its procedures and can move quite quickly. It is far too slow sometimes with the more complex so-called CSDP as defence or defence-linked missions. Trying to get all the elements lined up and the budget approved for this bit of it and that bit of it— it is incredibly cumbersome. One of the problems is that the External Action Service does not have a budget of its own and has to beg money from the Commission for whatever it does and the Commission does not always move quickly, and member states do not always move quickly. There is a need to streamline procedures for some of these CSDP missions.

Where the EU really does make a lot of difference in the world is with sanctions. That is something we might come on to. I would certainly argue that the sanctions on Iran turned out to be very powerful and strong. When the EU countries, including Greece, stopped buying oil from Iran, that was one of the reasons that the Iranians sued for a deal on their nuclear programme. My own view, as someone who follows Russia and Ukraine quite closely, is that the sanctions on Russia are probably having quite a powerful effect and may—I say tentatively, may—be one reason why the fighting has died down recently in the Donbass area. If Britain leaves the EU, it is not going to be part of this very important sanctions-making regime that has real clout in international affairs.

Q10 Chair: I wonder if we can proceed by a couple of case studies or illustrations, because they help to illustrate the point. Give an example of a diplomatic or Foreign Office accomplishment that could only have been achieved through working with the European Union, then conversely any for the United Kingdom that has been prevented from being achieved because we are in the European Union. Can you cast your minds over the array of case studies? If it is impossible to give an answer now we will be very happy to hear from you later.

Stephen Booth: The sanctions point is important, because that is an example of where being a member of a club that has that collective economic weight has real impact. I would echo Charles's point on that.

As for examples of where the UK has not been able to achieve its objectives, the one I can think of that has not happened but is looking to the future somewhat is in the area of trade, which is hugely important, if you include that as a foreign policy issue. We are completely reliant now on the EU to conclude and negotiate our free trade agreements. If, for example, the agreement with the US is held up and not concluded, that would be the kind of area where the UK would clearly have a strong case for saying that is something we could have achieved outside of the customs union and the European Union. If the EU is unable to conclude a trade agreement with one of the UK's most important trade partners outside of the EU, that would be a huge argument for those who would like to see the UK leave.

Q11 Chair: Right. How would that apply if we left but felt it necessary then to re-enter the single market on the same basis as the Norwegians and the Swiss, for example? Where does that put our trade negotiations?

Charles Grant: Switzerland and Norway, although they are part of the single market in some respects, do not take part in the FTAs that the EU has with other parts of the world. That is one of the big downsides of the Swiss or Norwegian options for Britain if it chooses to leave the EU.

Chair: Or upsides.

Stephen Booth: But conversely, you also do have the power to negotiate them, which is the benefit.

Charles Grant: Yes. The footnote to what Stephen says is that trade negotiations work through marchandage or bargaining—"I will open up some of my markets if you open up some of yours." Eurosceptics like to quote the example of the Swiss-Chinese FTA. What they do not tell you is what is in it, which is that Switzerland opens its markets to China but China doesn't open its markets to Switzerland because China is a much bigger, more powerful player than Switzerland. One of the problems for Britain if it chooses to go it alone and negotiate its own bilateral trade agreements is that Britain has very open markets already. We do not have a lot of concessions to trade off against others to persuade them to open their markets. That is a fact that is often overlooked.

Q12 Nadhim Zahawi: I sort of get the point on trade agreements if Europe fails, but with the caveat that we are still a big country and the sixth largest economy in the world. On the other side of that, I do not quite understand your point about sanctions. Even if we were outside the EU, we could co-ordinate on sanctions against pariah states such as Iran and others, as we have done historically. I do not see why that example applies to the answer to the question you gave to the Chairman.

Stephen Booth: You can co-ordinate but you can't—

Nadhim Zahawi: By co-ordinating, we are effective.

Stephen Booth: Yes, but the other issue is that countries outside—again, this is getting a bit hypothetical, but, for example, if you did somehow choose the Norway option and became a member of the single market and you disagreed with the EU imposing sanctions on a certain country, that would obviously affect the kind of business that your businesses would be doing in the single market. Given that the leverage the EU has when imposing sanctions is the fact that it has a huge market behind it, if the UK were outside the EU but somehow part of the single market—which tends to be what most Eurosceptics would like to see—there is an issue about how that overlaps in terms of the impact of sanctions imposed by the EU in which we did not take part for whatever reason. By and large, I take your point. The UK and France could continue to co-ordinate on defence. It is not the case that we would lose it all. It is the same as the economics; the UK would not suddenly drop off a cliff. The question is on the shades of grey and the margins and details of what the impact would be. That is the issue.

Charles Grant: It is about whether you are in the driving seat or not. On the Ukraine sanctions, the British have been absolutely in the lead. I personally am critical of Britain for not being more involved in diplomacy over Ukraine and for not being involved in Normandy format negotiations. However, on the sanctions, the Americans have been pushing the

Europeans, the British have been America's agents in pushing the Europeans, the Germans have been extremely good in corralling the reluctant people to follow the sanctions, and we have designed the sanctions. Britain has been deciding what the sanctions are. Norway has chosen to come in on the outside and has said, "We will follow you". If you are in the EU designing the sanctions, you are leading and driving what happens, not following later.

Q13 Stephen Gethins: I would be interested in your thoughts on a slightly different tack. We have talked a little bit about the principal benefits to the UK. You may or may not be in a position to answer this. Do you think that the devolved Administrations could benefit more from interacting through the EU? Would that take reform at EU level or at UK level, given that decisions that are made in Europe and further afield have a big impact on the devolved Administrations around these islands?

Stephen Booth: To be honest, I don't really feel qualified to answer that.

Charles Grant: I don't think I am particularly qualified to answer, except that I know that on many occasions when I was in Brussels—I am sure it is still the case—when a matter of great importance to, say, Scotland is being discussed in the Council of Ministers, Scottish officials are present around the table and listen in and take notes. They may not be able to speak, because they are not officially representatives of Britain. On foreign policy, if that does not happen, it should happen when matters are discussed with particular relevance for Scotland. But I do not know to what extent that does happen.

Q14 Stephen Gethins: Okay, I was just interested in whether you knew of examples elsewhere, because I know they are allowed to listen in at the moment but not make any meaningful comments.

Charles Grant: In Brussels, the German Länder all have their own offices and I think they are allowed to listen in too, but they are not allowed to speak, as far as I know. Presumably it is the same for various Spanish devolved administrations that have their representations in Brussels on a similar basis.

Q15 Mr Baron: May I quiz you a bit further on the UK's influence in driving EU trade and foreign policy? Very briefly on trade—I am being devil's advocate here—are you suggesting that we are so defeated in this country that we could not do what countries as diverse as Switzerland, Tunisia, Canada and many others have done, which is to negotiate their own trade deals, if the UK were to leave the EU? Those countries prosper. I am being devil's advocate, because I am trying to test the parameters of this argument a little bit. Those countries prosper, and we can consider that tariffs have been falling very steadily over recent decades; for example, the EU's tariff with the States is low single figures—I think we are talking about 3%, and you can lose that in a currency swing in a week. It sounds to me as if there is an element of defeatism here, that Britain would somehow be materially worse off if it left the EU and we could not do what many other countries outside the EU do and negotiate trade deals.

Stephen Booth: No, I agree the UK could survive and do well outside. We published our research which suggested that the worst-case scenario outside the EU would be 2% GDP worse off and 1.6% better off, depending on the policies of the UK Government and the

successor deal with the EU. That would also be important in the trading relationship with the EU, because it remains our biggest trade partner.

But I think the fact is that if the UK were outside, it would become more of a niche player and would have to trade on its strengths. That means that on trade agreements, we would be focused on a narrower set of issues than the EU would as a whole, which gives a greater nimbleness and flexibility, perhaps, but you would lose the collective weight. That is the trade-off that the UK would have to judge, and that has to be part of the equation. That is not to say that the UK could not be make a success of it, because I think it could.

As you describe it, in a world with reduced tariffs, what is increasingly important is not necessarily tariffs, it is the regulation and the behind-the-border issues. That is where the UK would have less to trade away, as Charles said, because in dealing with huge economies such as the US and the EU itself, the question is how much we would be able to deviate from those kind of regulations and standards if that is what trade agreements are increasingly about—aligning those standards and regulations. If we were to be on our own, we would not have as much room for flexibility in those areas as we might imagine we would.

Q16 Mr Baron: Just coming back to you on regulations, I represent a seat in Essex where, broadly speaking, 95% of SMEs do not trade with Europe at all, but they are all governed by EU regulation. If they have a bugbear, it is EU regulation, but that is perhaps a separate issue.

Coming on to foreign policy, what influence does the UK have in driving foreign policy? The screens at the moment are dominated by the very sad situation of refugees from Syria and so forth. The UK and the US have more than done their fair share in trying to ensure that the refugee camps in Lebanon, Jordan etc. were properly funded. One of the reasons—not the only reason—why we have seen this migration is an underfunding of the refugee camps. Key European players—neighbours—have to a certain extent not done as much as they perhaps could have done regarding funding those refugee camps, despite the UN's begging. That is one negative example. I am sure we can count positive examples as well. How influential are we? We seem to have singularly failed to get our partners to properly fund the refugee camps, as a recent example.

Charles Grant: I think overall, in the past 20 years or so, Britain has been extremely influential in foreign policy, but rather less so in recent years. Let me mention one obvious example: enlargement. Even some of my very Eurosceptic friends have admitted to me that the best thing that the EU has done is enlarge, spreading democracy, stability, peace and security across most of the continent. That was driven not only by the British but largely by the British and the Germans. I guess not everybody is very happy with the result; it may have been enlarged a bit too quickly in some places. Essentially that was a foreign policy achievement of the British.

I have already mentioned Iran, but that is a very long-running piece of diplomacy that, touch wood, will have a fairly positive outcome of Iran dismantling parts of its nuclear programme. That has been led by Britain, France and Germany; initially just the Europeans. Initially it was Javier Solana, with the British, French and German Foreign Ministers. Much later the Americans came on board—and, of course, the Americans had to be on board for the

deal to be done—but the first moves for several years were made by the Europeans. That is an example of Britain being in the lead.

On the Ukraine point I mentioned earlier, I think the British Government decided they did not want to be involved in Ukraine diplomacy, which I regret, because my Ukrainian friends wish Britain was part of the Normandy group. Sometimes we might have had a little bit more spine than the French and the Germans on certain issues. Britain chose not to be part of it. The EU is also not part of it; the External Action Service and Mrs Mogherini are not part of that. That is a very much a German, French, Russian, Ukrainian thing.

Frankly, in the past five to 10 years or so, Britain has become more inward-looking and been less willing to engage and lead the EU and shape EU foreign policies. When I talk to people around the table in the European Council and the Foreign Affairs Council, they say that the British often do not say very much, are quieter than they used to be and seem quite happy for others to take the lead.

It used to be very much that the defence policy was a British and French invention of Jacques Chirac and Tony Blair in 1998 at St Malo, but the British have contributed very little to defence in recent years. They still run the naval mission off Somalia, but they have contributed much less and seem quite happy to contribute much less and have sort of vetoed any further talk of European co-operation. I think Britain has become much less influential, but that is partly a function of the rather toxic domestic debate in this country, which makes it difficult for British politicians to talk in a positive way about the European Union.

Q17 Mr Baron: Finally, you have rightly mentioned some positives, and we have mentioned some negatives, about being part of EU foreign policy or how influential we are. What do you think are the principal drawbacks of EU membership for UK foreign policy? What do you think they are?

Charles Grant: I don't see any significant drawbacks. As Stephen said at the beginning, we have a veto, so we don't have to sign up to policies we don't wish to be part of. Trade is a separate issue; I am talking about classical foreign policy now.

I don't see any significant drawbacks. I suppose there may be times when there is a lowest common denominator policy. Certainly, on the Middle East peace process, although the Europeans provide a huge amount of aid to the Palestinians and a huge amount of trade to the Israelis, we have not been influential. We are divided, and when the Middle East peace process comes up, often the Europeans divide three ways between pro-Israel, pro-Palestinian and those sitting in the middle. I do not think we have contributed very much there as the EU as such, but has that constrained Britain? Has Britain not come up with some wonderful peace plan for the Middle East because we felt the need to work through the Europeans? I don't think so.

You can divide European foreign policy into areas where we are being quite effective and successful, such as Iran and Ukraine, and areas where we are ineffective and do not achieve anything, such as the Middle East peace process. In neither of those categories of case do I see Britain's own interest being constrained or limited.

Stephen Booth: As I said at the outset, in areas where we do retain the veto and it is much more intergovernmental, it is difficult to see drawbacks for the UK. In areas such as trade and aid, which are now part of the UK's foreign policy, there are mixed competencies and there is the danger of the UK's priorities being watered down. For example, when it comes to the aid budgets of the EU, the UK's multilateral aid review has been quite critical of how that money is spent in terms of the right priorities.

Q18 Mr Baron: Very briefly, and again I am playing devil's advocate, is it not a disadvantage to not be able to negotiate our own trade deal with a country such as India—a country with which we have very close ties, both historical and present—but to have to route those trade negotiations through the EU? Surely it is an advantage to be able to negotiate directly?

Charles Grant: No, I would say not. If you talk to the Scottish Whisky Association, I think they might agree with me. A trade negotiation is all about how much clout you have and how much negotiating power you have behind you. The EU all together has a much greater ability to give things to India than Britain on its own. India wants a lot out of the EU, in particular the right to export labour to the EU, as well as some other things. We want some things from India, such as the right to establish law firms there. The EU has been negotiating with India on a trade agreement for a number of years, as I am sure you are aware. The fact that we haven't got very far is not the fault of the EU. India is a very protectionist country with a lot of vested interests, such as law firms that do not want to let Clifford Chance in. The Scottish Whisky Association will tell you that, thanks to deals they have done in the past with Japan and the south-east Asian countries, they feel that having the negotiating clout of the EU behind them gives them more purchase in negotiations than Britain on its own, because the EU can open a bigger market to the other party than the UK on its own. Often, being part of size in trade negotiations helps.

Stephen Booth: On that point, the biggest benefit to the UK of being outside a customs union would be our unilateral freedom of action—the ability to drop tariffs and protectionism where it exists at EU level. That is something that should not be overlooked, especially from a purely free trade perspective. Often, the biggest productivity gains come from you reducing your barriers and tariffs in areas such as agriculture—the UK would probably not have the European agricultural policy, were it outside. Conversely, that would obviously have an impact on our domestic industry somewhat. It is mainly in that sphere that the UK could see the biggest benefits, and that is what our research shows.

When it comes to negotiating bilateral deals, I think Charles is right. In some ways, it is hard to argue that the UK would have greater leverage, but on some specific issues, such as financial services, we might be able to be much more forceful, while the EU as a whole might be less so.

Mr Baron: Thank you.

Q19 Mr Hendrick: I would like to focus on the notion that Britain will be less influential and less of a global player following a potential exit from the European Union. Couldn't leaving the European Union fuel a perception that the UK no longer sees itself as a global power?

Stephen Booth: As I said earlier, I think there would be a question of our reduced influence over the EU itself, but in other spheres there is no reason why that would be the case. If we maintain our defence spending and our seat in the UN and choose to be an active global citizen—that will be a case of the UK Government taking that decision and funding and resourcing it properly—I don’t think there is any reason why the UK could not still be a global player, albeit a more niche one.

Q20 Mr Hendrick: Would it not be seen as a retreat or smack of isolationism—that we do not take a very outward-looking view in terms of Europe and the wider world? What Mr Grant said earlier about loss of influence gives the impression that we are becoming more inward-looking, rather than outward-looking.

Stephen Booth: It would depend on our outlook, which is in our own hands. If we were to leave the EU, the UK could choose to have a global outlook on issues such as trade and foreign policy, or it could choose to have an isolationist outlook. One of the questions to put to the people who favour withdrawal is: what kind of vision for Britain do you have outside the European Union? We are not going to be entirely outside the EU. We will be a big economy, and if we maintain our defence spending we will retain military power. The question is, what kind of country would the UK seek to be outside the EU? That is the right question to ask those people who would like to leave, but you cannot prejudice it by saying, “If we leave the EU, it will be this way.”

Q21 Mr Hendrick: Don’t you think the fact that we have chosen not to co-operate with 27 other member states of the European Union sends a strong signal that Britain’s attitude to what should be our European partners has very much moved on from what it was some years back?

Stephen Booth: Obviously, leaving the EU would be a major change to our position. It would have geopolitical implications, and we should not take lightly the effects it will have on our partners in the EU. There will be an emotional response—it will not be, “Let’s get around the table and deal with this as a business transaction.” There will be an emotional response, because the UK leaving will have that impact, but ultimately, if the UK decides that its future is outside the European Union, I do not think that that necessarily means that the UK cannot have a global future outside the European Union.

Q22 Mr Hendrick: I think there will be more than an emotional response; there will be economic implications as well.

Charles Grant: I have a slightly different take from Stephen. I think it would appear to many other Governments in other parts of the world that it was symptomatic of Britain retreating from the world and adopting a more introverted attitude. As I travel around the world outside the EU, I do not find many people who take a different view from that, certainly in the United States apart from on the further right-wing extremes of the Republican party. All the mainstream foreign policy experts in the US are horrified at the thought of Brexit, because they rely on the British to keep the EU on the straight and narrow and to behave well, as they see it from the American point of view—to make it relatively economically liberal, relatively Atlanticist, relatively pro-NATO and relatively strategic in its thinking on foreign policy. What I hear when I go to Washington is people saying, “If you leave the EU, don’t expect us to take you very seriously any more, because although, yes, you

are a P5 country in the Commonwealth, you will not be part of the most influential, dominant power in Europe, which also is an influence in its neighbourhood.” I hear the same in China—the Chinese also like the UK to keep the EU economically liberal. The Chinese are rightly scared of European protectionism. They know that, in arguments on protectionism, the British are always at the extreme liberal end of things.

As for the so-called “white Commonwealth”, in 1975 they intervened in the referendum to urge us to stay in. I just met some Australian diplomats and I think they are going to do the same for the same reasons. The white Commonwealth depends on the British to keep the EU working in a way that suits the white Commonwealth.

Q23 Mr Hendrick: I was going to come on to Mr Obama’s comments and the transatlantic alliance. You mentioned that, Mr Grant. Mr Booth, what do you think the impact will be on the transatlantic alliance and, for that matter, as Mr Booth mentioned, our relationship with China?

Stephen Booth: I think it changes from issue to issue. On trade in particular, I think it would be quite difficult for the UK if, for example, we were to leave and then the EU were to conclude the transatlantic trade and investment partnership; we would then have to negotiate our access to it, which would be quite a bizarre situation for us to be in, having been lead proponents of the deal in the first place. In that case, you could definitely see a scenario that would be very complicated and difficult.

As I said, though, when it comes to foreign policy and defence, the UK could continue to co-ordinate, and the UK, by virtue of being one of Europe’s only two main players when it comes to defence and foreign policy hard power issues, would continue to be important. The US would have to deal with the new situation. It might not be what they wanted and it might not be what they would have had as their primary interests, from a US point of view, but to say that that would necessarily directly negatively impact the relationship is difficult to say.

Q24 Mr Hendrick: TTIP is a huge deal, already years in the making and probably another year or two or maybe more away from conclusion. Wouldn’t it be ridiculous for Britain to have to start again from scratch?

Stephen Booth: I just said that—I agree.

Q25 Mr Hendrick: The fact that we have already adopted hundreds of European Union directives means that we would have to start our own regulation system again, unless that we accepted that they were the best thing, and if they are the best thing, why would we leave the European Union?

Stephen Booth: On trade, that is an important point. The fact is that around 60% of our external exports are covered by both our EU membership and the trade agreements we have by virtue of our membership, and if things like TTIP and the other deals in the pipeline are completed, that could be upwards of 80%. So from a trade perspective, you can question the merits of leaving for that extra 10% or 15%. Obviously, you could argue that we might get better deals, but again that would take new negotiations and new diplomatic effort and it

would not come overnight. From a trade perspective, yes, as I said earlier, you might get more freedom for manoeuvre and you would become more of a niche player and have some benefits from the unilateral liberalisation that the UK could pursue, but we would have to look at our relationship with both the EU, which we had just left, and partners we had deals with by virtue of EU membership.

Charles Grant: To amplify that—this partly follows on from some of Mr Baron’s questions—what I think people do not always realise is that Britain is a very influential player in EU trade policy. Take the current focus on bilateral trade agreements: we have Japan being negotiated now; we have had South Korea agreed a few years ago; Vietnam just agreed; Canada is just about finished; Singapore is agreed; lots of Latin American deals are just about agreed; there are others in south-east Asia, and Australia is coming. It was Peter Mandelson, when he was the EU Trade Commissioner, who rightly worked out that not much was happening globally at the multilateral level and that the EU needed to open up markets bilaterally. The British Government has been right behind that push. The TTIP negotiations would not have started without support from David Cameron’s Government, really pushing it—the British and the Germans in particular. To a large extent, if not always, we are in the driving seat in EU trade policy, so leaving the EU is rather bizarre in that respect because we have a trade policy that rather suits British interests.

Q26 Mr Hendrick: Some people might argue that leaving the EU could open up new opportunities or initiatives to strengthen the UK’s political and economic engagement with the Commonwealth. In answer to Mr Rosindell’s question, you both said that it is not an either/or; you can have both. Do you think the big shock of leaving the EU would add new impetus to an enhanced Commonwealth relationship that went beyond just friendship and respect for the Queen, but formed a proper trade and economic union that could compensate for the huge losses I envisage if we left the European Union?

Stephen Booth: As I said earlier, because it is so vast and such a different relationship, it is quite difficult to see a comprehensive Commonwealth approach on some of these issues. Increasingly, issues like trade are linked to issues around migration and so on. One of the arguments made by those who would like to see the UK leave the EU is that the UK could have a more balanced migration policy and that by reducing EU free movement, you could be more open to Commonwealth countries, but there is reason to doubt that. First, any free trade agreement with the EU is likely to depend on continued free movement, which is the experience of the Swiss and the Norwegians. Secondly, non-EU migration is already 190,000-odd net; how much more scope is there for increased inward migration from those countries, given the current targets and political climate?

Charles Grant: I don’t have anything to add to that.

Q27 Mr Hendrick: Finally, could both of you give an example of where you feel the UK has leveraged its EU membership with other EU member states to achieve a foreign policy objective—at the United Nations, for example?

Charles Grant: Climate change. Certainly since about 2005, when the EU started to take climate change very seriously, the British have been very much leading the agenda on that and shaping the EU’s position on climate change in the various UN-led talks over the past 10 years, with more or less success. It is very hard to see how Britain can shape global

climate change rules when it is outside the EU, because the EU is just a much bigger player. So many of these rules of global governance—whether it is climate, trade or international financial regulation—are settled by the big beasts, and the EU is one of the big beasts. Norway can tag on and follow the EU on these issues, as often it does, but climate change is a good example of an area where Britain has succeeded in leveraging the EU for its own objectives.

Q28 Mr Hendrick: I remember that, because climate change was put on the UN Security Council's agenda for the first time when I was working with Mrs Beckett in the Foreign Office. She was Foreign Secretary at the time.

Stephen Booth: That example is one where the UK did move the agenda, but it also highlight the risks of using the EU to go it alone at a global level because it was not just the influence at the UN; it was also the fact that the EU implemented lots of climate change legislation and regulation. You could argue that the UK has contributed to the EU, actually making itself much more globally uncompetitive when it comes to energy issues and environmental issues compared with the rest of the world, because it was not able to get the rest of the world to come along with its agenda. That highlights some of the risks of pursuing global challenges through the EU.

Q29 Mr Hendrick: So you saw it as a negative?

Stephen Booth: Well, pursuing global challenges through an EU framework, which is then very difficult to adapt or undo, is a risk. The EU is now out on a limb on climate change; the rest of the world has not followed, and you could argue that that is having negative economic consequences.

Q30 Mr Hendrick: Well, would you not say that the fact that it has been put on the global agenda and for the first time is being discussed as a security issue shows how much influence the EU has? As a result, people are now recognising that it is not just a question of being green or an economic thing. It is about stopping wars, because migration and the policies on climate change are much more pervasive than we originally thought.

Stephen Booth: This is the grounding for a political discussion about the virtues of those policies. Look at the impact assessment that the UK conducted on the EU climate change agenda. The economic benefits only accrued if the EU deal drove a global deal, and the fact that that global deal has not happened means that the UK has not seen the economic benefits from an EU-wide climate change agenda. There is a risk of going down the EU road ahead of the rest of the world if it does not actually lead to the impact that you wanted.

Q31 Mr Hendrick: If nobody starts up ahead, nobody else will.

Stephen Booth: This is a philosophical debate but the policy issue is an example of where the stated objective was for the EU to go ahead and lead the rest of the world, but the fact is that the rest of the world did not follow.

Q32 Mr Hendrick: Not yet.

Stephen Booth: Not yet, no. It may take a long time. This was up to 2020. The rest of the world will not follow by 2020. If you look at the economic impact, the benefits were

dependent on the rest of the world following the EU. That has not happened yet. We can argue about the merits or otherwise of taking a moral stand but the fact is that—

Mr Hendrick: I think there is less carbon in the atmosphere as a result of that even though it could have been much better.

Q33 Andrew Rosindell: Listening to some of the evidence today, it is almost as if, since the EU was created, Britain had never had any influence ever before. We need a bolder British vision about what kind of Europe we want. Surely the real problem with all the different aspects of this discussion is that the EU wants everything to be under the EU. It is a centralised organisation. If it were flexible and really open, and allowed equality—for instance, allowing Norway and Switzerland to be equal in the decision making without having to be part of a political union because they are separated for trade—it would have trade and co-operation as a political union for those that want it. Surely a complete change of the whole purpose of the EU is what Britain is really trying to achieve. It is not just about pluses and minuses. Isn't it really about Britain trying to make the EU change and adapt to being properly part of a flexible, global community?

Stephen Booth: I very much agree with that. I have not been trying to give the impression that the UK would have no influence outside or never had any influence before.

Q34 Andrew Rosindell: I apologise; Mr Grant was giving me that impression.

Stephen Booth: Okay. I think that is precisely right and that is also an issue of UK influence. The EU is heading for quite a large era of change. It could change quite substantially in the next five to 10 years. The UK can have influence over that because we retain a veto over the EU treaties, if change is wanted. Both France and Germany have talked about changing the treaties in the future to foster greater eurozone integration.

The model we want to be looking at is very much along the lines of the ones you described—that is, where do we truly need to have common agreement and some degree of harmonisation of the rules of the market, and where does the EU have to be much more flexible and reflect the fact that member states have different interests and cultures when it comes to different issues? Defence is one topic that has to be very much more about coalitions of the willing rather than a top-down approach. That is the kind of thing that the UK has to look for. The fact is that we retain leverage over the future direction of the EU, especially on future treaty changes because we would retain a veto over that.

Charles Grant: I don't think I said that before we joined the EU we had no influence in the world.

Andrew Rosindell: I said that, from listening to you, one would get the impression that that was the case. I did not say that you said that.

Charles Grant: Okay. We haven't talked about British history before 1973 yet, but perhaps we can later. I do not wish to imply that. My difference with you is probably that I think that, on the foreign policy side, which is what we are supposed to be discussing today, because we have EU action on foreign and defence policy—as we have already discussed—it is flexible. We do not have to take part in common policies if we do not wish to. If the EU is

proposing to do something and we don't like it, we veto it and it doesn't do it, or at least we do not have to take part in it—others may wish to go ahead without us. So the EU is very flexible on the foreign policy side.

On the economic side, it is not so flexible, you're right; but if you want a single market, you have to have a common set of rules. The great insight that Margaret Thatcher had at the Luxembourg summit in 1985, when she was persuaded to sign the Single European Act, was that if you want to have a single market, you have to have majority voting. Otherwise, protectionist countries block the liberalisations that she rightly wanted. If you want a single market, you need a Court of Justice and a Commission to police it. That is less flexible, but if Britain chooses to leave the EU, it will have to accept some of the rules and disciplines of the market or face less access to the single market than it has today. That is the choice for Britain.

Q35 Andrew Rosindell: But if you want to talk about our history, surely we have always been a free-market, global, seafaring, trading nation. It is only in the past few decades that we have suddenly appeared to be giving up so much of those traditional ways of doing things in order to fit in with a mechanism that is not of our making. It is more of a German-French construction. It is not really something that Britain would have built had we been able to from the beginning. Surely we need to use this referendum to make a very clear statement that Europe has to change. This is a great opportunity for Britain to do what we have done throughout history and prevent Europe from going in a very bad direction.

Charles Grant: Before Stephen comes in, may I give one answer to that? If you go to Paris and ask people why they do not like the European Commission—they don't in Paris, I can assure you—it is because it is so bloody British these days. That is the French view, because ever since the 1980s the Commission has been liberalising and deregulating, driven by a philosophy of economic liberalism. The French have had enough of it. They really don't like these trade agreements, the efforts to deregulate the services markets and to free up the digital agenda, the energy market and so on. If we are talking about economic policy, the EU Commission is very much driven by British interests and philosophy—that is how it is perceived in many parts of the EU. You are complaining about something that perhaps used to exist in the past when we first joined the EU, but, thanks to British influence, in my view, in many ways it no longer exists.

Stephen Booth: I agree that the referendum should be used as not only a full stop to the current reform process, but if the UK does stay in, it should be a mandate for a new Europe based around different principles. That is what the referendum should be used for if it ends in an in vote. You are right that there have been issues with the UK agreeing to treaties and this notion that the UK could be at the heart of Europe when, quite clearly, because of how the eurozone is developing and the decision we have taken to remain outside of it, that is no longer the case. But that does not mean that we cannot continue to have some influence over how Europe develops in future if we stick to that position. We want to maintain access to the markets—we think the markets are good—but we are not keen to be involved in political union. In the areas where the UK has a veto, we still have strong leverage: those in foreign and defence policy and on the treaty architecture of the EU—

Charles Grant: And taxation.

Stephen Booth—and taxation. As I said, it is likely that for the next five or 10 years the EU is going to undergo a period of fundamental change. I think the UK will retain influence over that change.

Q36 Andrew Rosindell: One more question. Mr Grant mentioned the white Commonwealth—how so many countries cannot understand why we would want to leave the EU and that they are very concerned about it. Do you not accept that that is because there is a complete misunderstanding about what the EU really is? For example, you can talk to an Australian and explain that, actually, it is not only a trading arrangement but a political union; I do not think many Australians would be keen to join a political union with Indonesia. Equally, nor would the Canadians ever want a single currency with the United States. There is a misconception. They have NAFTA and they have also just signed up to the trans-Pacific partnership, but there is no political union in any of that. If you explain to our friends in the Commonwealth and to the Americans that, actually, it is a much more deeply ingrained system—a political union rather than a trading arrangement—would you not accept that they would see the EU a little differently?

Charles Grant: Political union is a very vague phrase. If by that you mean centralising policy making in supranational institutions in any way in places other than competition policy, trade policy, economic policy and business regulation, I disagree. I do not think that is a political union. As we have said several times on foreign policy, for example, everybody has a veto. It is a bit of a political union on some economic policy, but I think the economic benefits of being part of such a political union are worth the costs. I think Australians and Americans see that. The Americans certainly would like a European foreign policy and defence policy to be stronger, more effective and more influential—at least the Americans I have talked to would—and wish it was a bit more of a political union.

Q37 Nadhim Zahawi: If we were to leave the EU, would the UK come under additional pressure to relinquish the permanent seat and veto at the UN Security Council?

Charles Grant: I think it would. Of course, the rules on UN Security Council reform mean that all the existing members have a veto over reform, which means that if we really want to hang on to our seat for ever, we can, but certainly the moral pressure on Britain to give up its seat would rise. At the moment we can claim informally that Britain and France represent a continent, which is about 20% of the global economy. They are both nuclear powers as well, which wouldn't change if we leave the EU; nevertheless, the moral pressure on Britain to give up its seat—to, for example, Germany—would certainly grow. The trouble with UNSC reform is that the longer it is not reformed, the less credibility the United Nations has with the emerging powers. When I go to India and talk to people there, they are quite negative about the UN for the understandable reason that they do not have a seat on the UN Security Council. It is a great shame for all concerned that the nations of the world cannot agree on a sensible way to reform the UN Security Council. Every five years or so this comes back on the agenda, and next time it comes back on the agenda, if Britain is out of the EU, there will be pressure on the British to give up their seat, but I suspect that the British will not.

Stephen Booth: I would agree with that. It is largely independent of our membership of the EU and might be another argument, but I do not see why it would have any bearing.

Q38 Nadhim Zahawi: Do you think we can combat it?

Stephen Booth: Yes. It would depend on the post-Brexit UK Government's attitude to these issues. If the UK continued to be a military player and a major foreign policy player, albeit on its own rather than as part of the EU, there is no reason why the UK couldn't continue to punch above its weight.

Q39 Nadhim Zahawi: On major foreign policy, that leads me nicely into my question. We have had several written submissions saying that the UK could retain its current global standing after leaving the EU, but would need to invest far more in its diplomatic capacity in order to do so. Do you agree with that statement and, if so, how much more would we need to invest in the FCO?

Charles Grant: I'll start with that one. You've hit on a very serious problem. Frankly, whether we leave the EU or stay in it, the cuts imposed on the Foreign Office since about 2008 under successive British Governments have been very harmful to its expertise. In recent years, certainly the middle east and Russia are two areas where there has been a real lack of expertise and not enough people who are ambassadors speaking the language and not enough expertise in London. I think it is widely recognised within the Foreign Office that the cuts have gone a long way and damaged the expertise, and this matters if we leave the EU, but it also matters if we are in the EU. One of the reasons why, as I said before, we are less influential in the EU than we used to be is because the Foreign Office is a smaller organisation. Just one figure that is of some interest: I think the French spend 25% more than the British on their Foreign Ministry and the Germans about 75% more than the British on their Foreign Ministry, and now the Treasury is asking for further cuts to be prepared, of 25% to 40%, which I think is madness.

Stephen Booth: If we were outside the EU, one specific area where the UK would have to build up its expertise is trade policy and trade negotiations, because that is something that we have contracted out for the last 40 years. That is a key area where we would have to rebuild outside, especially if the strategy was to conclude bilateral trade agreements. That is what we would have to do.

Q40 Nadhim Zahawi: What would you estimate the increase of spending that would be required?

Charles Grant: I don't know. Stephen makes a good point on the trade agreements; we have lost our expertise in negotiating trade agreements. We have not done it for a long time. The Department for Business, Innovation and Skills would have to hire dozens and dozens of trade negotiators to try to get access to all the 200-odd EU trade agreements that we would be denied access to on the day that we left the EU.

Q41 Nadhim Zahawi: We have already mentioned the pressures of the spending review on the FCO. Is it realistic to expect such a boost to the UK's diplomatic resource in the event of the UK exiting the EU?

Charles Grant: I don't know. That is beyond my level of expertise, but I do think that the case for at least not cutting the FCO budget further is extremely strong, whether or not we

stay in the EU. We have the three Ds of diplomacy, defence and development. That is kind of a mantra—it is quite a good one—but the point is that they all need each other and depend on each other to be effective. It is fine that the Government are protecting the aid budget and the defence budget. I am not against that at all, but if you protect those budgets and cut diplomacy to the bone, such that people in London and the various representations do not know what is going on in the world, that is not in Britain's interests and does not help the defence or development people either.

Q42 Nadhim Zahawi: So, maybe if we did leave the EU, the resources freed up from the current net funding that we deliver to the EU could be spent on diplomacy.

Charles Grant: The entire net cost of £10 billion of spending could be given to the Foreign Office if we left the EU, but I wonder whether other politicians would agree with that.

Stephen Booth: That is the issue. As I said earlier, there is no reason why the UK could not prosper outside of the EU, but it would probably mean quite fundamental changes to lots of things—not just foreign policy, but trade. As I said, if the UK were being very aggressive on liberalising its own markets and on deregulation in areas that would probably include social policy and environmental policy, the question would be political: would the Government have the mandate to do that?

Q43 Chair: Just on the spending—before coming to Mr Holloway to finish our session—Mr Grant, you used the term “madness”. I take it you used it advisedly; it would just be completely irrational.

Charles Grant: Whether or not we are in the EU, we have to recognise that the Foreign Office is a Rolls-Royce machine. It is extremely professional—for example, the way it has handled nuclear diplomacy with Iran. We should value, respect and cherish the institutions that enhance our reputation around the world, such as our armed forces, the BBC and the Foreign Office. I am sad to see the damage done to the Foreign Office by cuts made by successive Governments—not just the current Government—in recent years. To cut it significantly further would in my view be madness.

Chair: I am very grateful.

Q44 Mr Holloway: First, I am sorry I was a bit late, but I was talking somewhere else and it started 45 minutes late. To what extent do you think the EU would be diminished in terms of its standing overseas if Britain were to leave?

Stephen Booth: It would be greatly diminished in the sense that it would lose around a sixth of its budget revenue. It would lose one of its two major military powers and its chief champion of open, liberal markets. It would do huge damage to the EU on that practical level, but it would also do huge damage to the EU's prestige, in the sense that the UK is one of Europe's success stories. It has a growing population and a growing economy and, for external observers, seeing the UK leave the EU would be a huge vote of no confidence in the EU.

Charles Grant: I would agree with everything that Stephen has said. Not only would the EU's economic philosophy be less liberal; its defence policy would become a joke without the British and its foreign policy would be weaker. Even in justice and home affairs, where Britain opts out of a lot of things, we are very influential. It is not a coincidence that the head of Europol is British and that the former head of Eurojust is British. The transatlantic relationship would be weaker, because we help the Americans and the Europeans understand each other. Finally, the German problem would become a real problem. Germany's power in the EU is very preponderant at the moment. If the British leave the club, the issue of Germany's preponderance becomes even more difficult for Germany and other countries to deal with, so I think it would be disastrous for the EU if Britain leaves.

Q45 Mr Holloway: But notwithstanding possible German preponderance, to what extent might the new, Britain-less EU be more coherent and united in terms of its foreign policy without the pesky Brits?

Stephen Booth: On foreign policy, we would be very concerned about the EU being much more coherent. You would possibly see the EU, being more German dominated, looking more eastwards, and Germany looks much more to the east and to Russia in a different way than the UK would, notwithstanding the current crises. Losing the major Atlanticist member states would see the EU drift towards—it is difficult to know exactly how that would play out, but I think it would have unpredictable consequences on the way the EU sees the rest of the world.

Q46 Mr Holloway: That is really interesting. Forgive my ignorance, but why might it drift more towards Russia?

Stephen Booth: I think people forget that the EU was built at a time when it was West Germany, not a reunified Germany, and Germany in its totality has always been a central European country, not a West European country in that sense. It has to look east as well as west, purely by geography and everything else. You saw it when we had the issue with the Iraq war—that Chirac and Schröder were standing with Putin while we and Eastern Europeans stood with Washington. I am not saying that is necessarily a template for what would happen in the future, but I think it illustrates that the rest of the EU, without the big Atlanticist states, might have a different view on some of these geopolitical issues.

Q47 Mr Holloway: Given the example you have just given, it might not be a bad thing.

Stephen Booth: It depends on your view.

Charles Grant: Stephen may be right. The risk of the EU drifting eastward would rise, but at the moment I do not see it happening. I think Russia's own behaviour is preventing that from happening. The Germans, as you are aware, have shifted quite strongly their view on Russia in the last few years from being rather—sycophantic is too strong—sympathetic to Russia to being quite a lot less sympathetic.

There is a danger that European defence cooperation could evolve in a more centralised way, incompatible with NATO. There is a risk of that; it probably wouldn't happen, but the risk would be higher than it is with the British there to win the veto all the time as they do.

Q48 Mr Holloway: Finally, and very briefly, what effect would an EU without Britain have on relations with China?

Charles Grant: The EU has been trying to open up Chinese markets in various trade and investment negotiations for the last 15 years—without much success, because the Chinese have not proved willing to open up their markets. In particular, on services, it is in the British national interests that China opens its markets to our banks, our law firms and so on. I would argue that the chances of them doing so are greater if we have the weight of the EU behind us, but if the British were to leave the EU, then the EU would certainly be less focused on that particular aspect of its relationship with China. With or without the British, there will probably be a bilateral investment treaty between China and the EU. It has been in the works for a while and I think it is going to come up. I don't think the British departure would have a huge impact on EU-China relations, but the Chinese fear that the EU would be more protectionist without the British to keep the markets open.

Stephen Booth: Yes, and I would add that the EU's standing would naturally fall with China with the UK out. I think that would be an issue—the fact that the EU's prestige and standing would be much diminished by the UK leaving.

Chair: Gentlemen, thank you both very much indeed. That was a very good session to get us away with this inquiry. Thank you for all the work you have done in this sphere over decades. It has been very helpful to the country.

Charles Grant: When is the report due out?

Chair: It may depend on the date of the referendum, which is still unknown.

Charles Grant: But before the referendum?

Chair: Yes, the intention is to do this before the referendum. The objective is to help inform the public of the work of this Committee and other Committees that are conducting similar inquiries.