

Foreign Affairs Committee

Oral evidence: [Implications of leaving the EU for the UK's role in the world, HC 431](#)

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Members present: Crispin Blunt (Chair); Ann Clwyd; Mike Gapes; Mr Adam Holloway; Daniel Kawczynski; Yasmin Qureshi; Nadhim Zahawi.

Questions 1-57

Witnesses

Professor Malcolm Chalmers, Deputy Director-General, Royal United Services Institute, **Sir Simon Fraser GCMG**, former Permanent Under-Secretary and Head of the Diplomatic Service, and **Sir Christopher Meyer KCMG**, former British Ambassador to the United States, Foreign and Commonwealth Office.

Examination of witnesses

Witnesses: Professor Malcolm Chalmers, Sir Simon Fraser and Sir Christopher Meyer

Q1 Chair: Welcome to this morning's session of the Foreign Affairs Committee on the implications of the European Union referendum for Britain's role in the world. I am very grateful to our extremely distinguished witnesses for coming at relatively short notice. I would be grateful, gentlemen, if you could introduce yourselves for the record.

Sir Simon Fraser: I am Sir Simon Fraser. I used to be permanent secretary at the Foreign Office, between 2010 and 2015.

Professor Chalmers: I am Malcolm Chalmers. I am the deputy director general at the Royal United Services Institute.

Sir Christopher Meyer: I am Sir Christopher Meyer. I was a diplomat for 37 years and retired in 2003 as the ambassador to Washington.

Q2 Chair: Thank you very much. This question is for each of you. How significant, in your view, is this decision for Britain's global role and strategic orientation?

Sir Simon Fraser: Briefly, the first thing to say is that this decision has been taken. We must all accept the decision and make the most of it. I am sure that British civil servants and diplomats will do exactly that, because they are highly loyal, professional people who will no doubt seize the opportunities and challenges that lie before them. Having said that, my personal view is that this decision is an uncharacteristic one—an act of withdrawal by the United Kingdom—that I think will have potentially damaging consequences for our position in the world. We don't know what the consequences will be yet, and of course there are many uncertainties ahead.

The United Kingdom will remain a significant player in the world, but in my view this decision is certain to weaken our most important international relationships and diminish our standing in the world. There will be challenges for us to address that. I think that on the whole it will make it more difficult for us to protect our security, promote our prosperity and spread our ideas in the world.

Professor Chalmers: It is difficult to answer the question because we don't yet know what the future nature of our relationship as a country with the European Union will be. The answer depends very much on what that relationship is. I think what is clear, first of all, is that the UK will need to give redefining that relationship and supporting a future relationship that is in our interests a very high priority in every aspect of what we do as a country. Our interest in getting that right is so great that it inevitably means that our other priorities will have to be subordinated to that key



priority. When we look at how we are dealing with Russia or Islamic State or global trade—whatever the issue might be—how that impacts on our relationships with the countries we need more than ever, because we no longer have a vote on the other side of the table in terms of getting a good deal for Britain, is absolutely critical.

The other area of significant uncertainty that I will draw attention to is the economic one, in so far as, at least in the short term—medium to long term is much more uncertain—the uncertainty generated by the prolonged period of negotiation that it looks like we are entering into is taking an economic hit. The spending review at the end of last year assumed that GDP was going to grow at around 2.5% in real terms every year from now until the end of the decade. That doesn't seem in any way realistic—it probably wasn't realistic before the referendum—and therefore that is going to impact on the capabilities that we are able to devote to foreign policy, but also to every aspect of Government. On the size of that shock, it's too early to say.

Sir Christopher Meyer: This is the most radical thing that has happened in our foreign relations in my lifetime, and maybe for the last 100 years, if not longer. I think it will require a fundamental rebalancing and rebooting of our relations, particularly with those who are our traditional allies, because it is precisely they who warned us against doing this thing—notably Australia, New Zealand, Canada and the United States of America. Because this process of renegotiation of extraction looks like taking a very long time—three years minimum; maybe longer—the nation, to safeguard its interests, and by that I mean its security and prosperity, will have to do things in the interim to reassure those who have always considered that they enjoy a close relationship with the United Kingdom. We have to consider some quite radical stuff, particularly to counter the myth—if it is a myth—that we are shrinking, shrivelling and turning in on ourselves.

I think that some of the kinds of things that need to be considered in short order are, for example, a recommitment to the North Atlantic Treaty Organisation, which we could make material by agreeing to increase our defence budget, for example, by 0.5% or maybe even 1%, and to say that this will be ring-fenced for NATO operations. We should consider, even if this may be more rhetorical than substantive, asking the Secretary-General to call an extraordinary meeting of the Commonwealth Heads of Government at some point in the next few months to reach out to those 50 or so countries to show that this does not mean a reduced interest in them. I would give to my and Simon's old Department a dollop of cash, because in my view the Foreign Office budget has not only had the fat cut out of it; it is having bits of bone chopped off as well.

As an earnest, I think that our intention is still to be a global power, because we have global interests that we have to defend. I would be very keen on giving the Foreign Office more money to strengthen posts all around the world, but particularly in those countries where the security and economic interests are very high.

Q3 **Chair:** While we are on the issue of resources—we were going to come to



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that towards the end of our session— when we produced our report on the implications, it was the view of this Committee that one might have to double the Foreign Office budget in these circumstances, or indeed treble it. That is where this Committee was at. Where would you be at in terms of scale and speed of the build-up of resources for the Foreign Office? How fast is it possible for the Foreign Office, if it is going to get a serious amount of more resources—

Sir Christopher Meyer: I would welcome that. It was in your April report.

Q4 **Chair:** It was. That was our sense from the evidence we had taken. You are two extremely senior former diplomats. Obviously, Sir Simon, your view will be authoritative on this.

Sir Simon Fraser: Clearly, Christopher is right. We absolutely have to launch a major diplomatic set of initiatives in response to this action, first to explain what we have done, where we are going and the rationale behind it, and then to develop the relationships that we are going to need in future, both with our traditional partners and with new partners around the world. Those are obviously high priorities, and you cannot do that if you do not have an effectively resourced diplomatic service.

I agree with the view that the budget of the British diplomatic service has been reduced very dramatically in recent years. When I was permanent secretary, we cut the operating budget by 25% while expanding the diplomatic network. That means that the embassies were very thinly stretched, which obviously affected their operational capability. So I do think we have got to thicken it out. We have got to build up the capacity within our embassies. We have lots of embassies—I am not sure that we need more—but we need more people in them with the right skills, the right expertise and the right backing to do the job and project Britain in the world.

I would not put a precise figure on what the figure would be for that budgetary increase. Obviously, you need to spend the money as you can spend it. You have got to get the right people with the right training into the jobs. You can't just do it overnight. But a very considerable uplift in the Foreign Office budget would be appropriate. When you think of the figure that I often like to quote—at the moment this country spends only twice as much per year on the operating budget of the Foreign Office as it does on aid to Ethiopia alone—you see the sort of disproportion that has crept into international spending in recent years, and I think that this is an important opportunity to redress that.

Q5 **Chair:** Sir Christopher, on the scale of the increase, are you in the same place as Sir Simon?

Sir Christopher Meyer: I am. He is better equipped to put a figure on it because he has been more recently in the Foreign Office, and was permanent under-secretary. Even if we took the maximum figure that you put in your April report and tripled it, it would still be, if my maths serves me well, somewhere around just under a quarter of what we spend on the

aid budget. So something has gone seriously wrong and become unbalanced, and this is an opportunity to right that imbalance.

Professor Chalmers: I have just a couple of things to add. First, I think that there will have to be a consideration of prioritisation within the Foreign Office; whether more or less needs to be done in terms of the balance between Foreign Office activity in Europe and the rest of the world. If what I am saying is right—and getting the relationship with Europe right is going to be absolutely critical in the years ahead—there may well be a case for doing more in Europe as a proportion of the total.

It would be great if the Foreign Office got a big budget increase at a time when everybody else is being cut. However, whatever the level of budget award the Foreign Office gets in the next spending review, it will be important, because some of the opportunities that we currently have within the European Union for relating to people in a multilateral setting may no longer be available.

We will be more vulnerable until we have a clear set of new rules to those countries. We need to be able to engage with them bilaterally in a way that perhaps we have not done in the past, where the shift of diplomatic effort has tended to be away from Europe, because we have been able to deal with other European Union countries through the EU, and towards engagement in a very stretched budget in other ways.

The second point I would make is that in the latest spending review there was a reduction in non-ODA core FCO spending by around 10% in real terms, but alongside that there were very significant increases in planned spending on the British Council and a whole number of other ODA-able aspects of the budget. The balance between ODA and non-ODA within Foreign Office spending would also have to be addressed.

Chair: I am going to invite my colleagues to address the issue of budget, which we were going to come to at the end of the session, but let's do it now. Daniel Kawczynski.

Daniel Kawczynski: I wanted to come back to Sir Christopher on the point he made earlier. You say that countries urged us not to do this, and you referred to Australia. I am rather concerned and despondent—

Chair: Could we deal with budget now? I am going to come back to all this later. For the moment I want to deal with resources and the budget for the Foreign Office.

Daniel Kawczynski: Right. I will ask that later.

Q6 **Ann Clwyd:** May I ask you what specific policy areas or initiatives we should be concentrating on? Where should the budget go?

Sir Simon Fraser: The issue with the Foreign Office budget is that what it is essentially doing is funding our network of posts around the world, so it is spent on people and the infrastructure that we have. The Foreign Office has not traditionally been a big spender of programme budgets; it is a



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network of people. The first priority in my view is to have the right number of people with the right skills and capabilities around that network and to boost that so that we can be effective in other countries.

We will be competing in other countries for attention in future, if and when we leave the European Union, with the United States and with the European Union countries, and we are going to have to work much harder to make our voice heard. That means more people being very active around the world. So that is what it is about for me primarily; it is about the people.

Then, of course, we have to decide the prioritisation of the relationships and the issues that we want to work on. Some of them we will continue to do, of course, through multilateral bodies, through the United Nations, NATO, international talks on climate change and the World Trade Organisation, although of course we will have to have our own individual representation in the WTO.

Malcolm was also absolutely right that we will need to boost the bilateral engagement. For example, I hope that we would see a very big effort to increase our bilateral co-operation with France in areas of military and foreign policy activity in the time ahead, because we have a natural capacity for partnership with them, which we need to exploit.

Sir Christopher Meyer: I want to be slightly more specific on people than Sir Simon has been. My experience at my final post in Washington was that we were increasingly staffing the post with so-called locally engaged people; that is to say, expatriates living in the United States or American citizens themselves, because that was significantly cheaper than bringing out UK-based staff. I believe—Sir Simon will correct me if I have got this wrong—that that process has gathered pace over the last decade or so.

I remember Douglas Hurd making a speech in 2005 in which he said that the Foreign Office was being hollowed out because that essential core of expertise in countries and in languages was being diluted by the recruitment of locally engaged staff. If that is the case—and I have heard it again indirectly from the current Foreign Secretary—it is something that needs to be reversed. It is not something that we can do overnight, but I think we need to rebuild the key cadres of language skills and country skills that we seem to have lost over the last 10 years or so.

Sir Simon Fraser: May I just comment on that? I recognise the point, but I do not fully agree with it, in the sense that the locally engaged staff we have in the Foreign Office make a fantastic contribution that should be acknowledged. Actually, when you talk about country skills and language skills, they have them, because they are natives of that country. I think it would be a mistake to underplay their contribution, but the important thing is that we have to have the right mass of British diplomats leading those missions and drawing on those skills to be able to represent this country. In the end, other countries and other Governments expect to see British diplomats representing Britain and making the case for Britain around the world, so we need both.

Q7 Ann Clwyd: So where is the money going to come from? Will there have to be another spending round?

Sir Simon Fraser: If I may pick that up—it is a very good question—it would be a mistake for us to let this session become a mutual rallying session for money for the Foreign Office. We have to be realistic about this: it does not look as if public finances are going to be in a particularly healthy state. In the short term, I believe the economy is going to be weaker than it would have been if we had stayed in the European Union, and that will have a knock-on effect, so we have to be realistic.

My argument would be that we need to look across Government and, within the amounts of money that are being spent, make sure that the appropriate amount of money is being given to the Foreign Office compared with other budgets. I do not believe that that is currently the case. Actually, diplomacy is incredibly cheap but can be incredibly effective, so it is a good investment to translate more of that money into the Foreign Office.

Malcolm is right to say that if it is all labelled as development-related spending—ODA money—because essentially what is actually happening is that it is coming via DFID into the Foreign Office, that is welcome in one sense but unwelcome in that it naturally distorts and pre-ordains the things that the Foreign Office can spend the money on. We have to liberate the Foreign Office to focus on the core priorities of foreign policy.

Professor Chalmers: Two points, if I may, Chair. At present, about 50% of Foreign Office is spending is ODA-able, primarily in programmes—there is a little bit of it in other things, but most of it is in programmes. The current spending review suggests that the proportion of the Foreign Office budget that will be ODA-able—primarily in programmes like British Council development assistance—will increase to about 73% by the end of the decade. The Foreign Office is increasingly becoming, in spending terms at least, in large measure a programme delivery activity. I do not think we should set up too rigid a bifurcation between diplomacy on the one hand and programming on the other, because the purpose of programming is, in part, to support diplomacy. It is just like how the deployment of people from the Ministry of Defence or the Home Office often supports diplomacy—if you want to be taken seriously in a country, it is not only good talk that makes a difference, it is actually putting some resources on the table to influence people. That is a difficult balance that we will have to re-address.

The second answer, looking at the budgetary implications of Brexit, is that in the foreign policy space we need to look broader than at the Foreign Office itself, which in the end is a very small part of total Government spending. One of the most obvious examples of that is EU structural funding. If you look at the table of net contributors and net beneficiaries from the EU budget, we are one of the larger net contributors, but not the biggest by any means in per capita terms. The major net beneficiaries are

countries such as Poland, Romania and Greece. In terms of our bilateral relationships with those countries and commitment to having some influence in eastern or southern Europe, if we walk away from those commitments and there have to be major cuts in EU spending in Poland, Romania or Greece as a result of our decision, I suspect that will not help our bargaining position in terms of access to EU markets. So there are a lot of structural and spending issues that, in terms of magnitude, are significantly larger than the Foreign Office budget.

- Q8 **Chair:** Should that expenditure come from the Department for International Development? You are suggesting that those countries are getting it because their infrastructure is so poor and they are so challenged that, in effect, it is development expenditure.

Professor Chalmers: In terms of the ODA budget—the ODA element of the Foreign Office budget?

- Q9 **Chair:** Yes, but I do not think those countries are ODA-able, are they?

Professor Chalmers: No, they are not. In terms of the ODA money that—

- Q10 **Chair:** So in these straitened times would it be an appropriate policy decision, in your judgment, to take money that is meeting—obviously a substantial slice of our public budget goes on development. Would you double up our development objectives with our political objectives in maintaining good relations with our current European Union partners?

Professor Chalmers: One of the questions, undoubtedly, in the negotiations will be whether the UK continues to contribute to EU development assistance programmes or makes the development assistance a higher proportion bilaterally. Presumably, we will still contribute to the United Nations or the World Bank or whatever, but we may or may not contribute to EU programmes. Again, one of the considerations in that discussion, and even more so in relation to structural funds, will be that this will be part of a wider negotiation, quite a transactional negotiation in many ways, in which other EU countries will say, “Well if you want to have access to the single market or do other things or want to have some role in a common foreign security policy, you have to listen to our concerns—the concerns of other European Union countries.” That is the main point I was making.

Of course, one of the outcomes of the last spending review—it can be revisited in the next one—was that it was decided that DFID would get no more real-terms increase in its own ODA budget, and all the increment in ODA spending as a result of the projection of GDP growth would go through other Government Departments such as the Foreign Office. That is why the Foreign Office is getting this massive increase in ODA—at least it was in last year’s spending review, but if the rate of economic growth between now and 2020 is going to be much less than anticipated, we will need to spend much less in order to meet 0.7%, or indeed 2%.

- Q11 **Mike Gapes:** On that point about contributions into the European Union’s



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development spending, I assume you are referring to the kind of thing that Norway currently does—making contributions that are then spent in the poorer European Union countries—as a price that Norway has to pay for access to the single market.

Professor Chalmers: There are two components. One is contributions to the European development fund and other EU instruments for development assistance outside the EU, including countries currently outside the European Union but in Europe, and also programmes in Africa and elsewhere—

Q12 **Mike Gapes:** Is Norway paying for countries outside the EU as well as inside the EU?

Professor Chalmers: I think so. The second point is in relation to structural funds, which Norway is contributing. Those are basically funds—they are actually structural and agricultural, but structural is the most obvious one. Poland, for example, is a very large net beneficiary from European Union funds; it gets out a lot more than it pays in, and that net money is coming from net contributors to pay for infrastructure in the country.

Q13 **Mike Gapes:** I just need to be clear: Norway is outside the CAP and it is outside the common fisheries policy, yet it is still making payments in that will assist agricultural development.

Professor Chalmers: No, non-agricultural.

Mike Gapes: Non-agricultural. Okay—sorry, you referred to Poland. Thank you.

Q14 **Chair:** Can I now return to the broader theme, having dealt with resources? What are the main opportunities for the United Kingdom to now consider, with respect to its foreign policy, given this change of direction and our role in the world?

Sir Christopher Meyer: I would like to develop two points I made in my introductory remarks. Part and parcel of the opportunity is the need to reassure friends and allies that we are fully engaged around world. This is why it is extremely important to put one emphasis on NATO. A lot of the members of the European Union are also members of NATO, and if this process of divorce leads to bad feeling, there is no way we cannot stop that spilling over into NATO because the same countries are there by and large. So we need in a sense to be making a compensating gesture towards NATO, which is good in its own right, which is to increase the resources that we are prepared to contribute to NATO, and make that clearly ring-fenced as part of the defence budget. That has a purpose in Europe; it also has a purpose with the United States of America, which in my view remains our single most important partner and ally, irrespective of who becomes President and occupies the Oval Office from January next year.

I think the Americans are extremely concerned about the path we have now embarked on. When Obama came over here he put in his plea for us

to stay inside the European Union with his rather unfortunate but accurate phrase about our being at the back of queue for a trade agreement. I think there is stuff that we can do to reassure the United States, which will be to our own benefit. We have this intelligence relationship; we have this defence relationship—we want that to stay as it is because it serves our interests as well. So NATO would be one focus where I would do stuff, positively.

The other area in which I would do stuff, although the tangible results would not be obvious and certainly would not be immediate, is with the Commonwealth. I would send a shot of adrenalin to our relationships with the Commonwealth, both collectively and individually. Were we to host—sometime next year, shall we say?—an extraordinary meeting at the level of Heads of State and Government of the Commonwealth, here in London, I think that would be a good way to start. There would be opportunities there.

On the commercial front—trade agreements and so forth—it is each case on its merits: horses for courses. By the time we have finished this negotiating process with the European Union, we may be able to release sufficient numbers of civil servants, diplomats and negotiators to start looking at trade agreements that we have at present through the European Union and that we might wish to renew on a bilateral basis. There would be opportunities there but I cannot specify right now which country it would be, or what the timescale would be.

- Q15 **Chair:** I think there was a statement yesterday from Malcolm Turnbull about the potential opportunities between the United Kingdom and Australia and New Zealand. There have certainly been informal approaches of one sort or another—of which I have been on the receiving end—from India. Should we be doing these things in parallel? Shouldn't we be creating the capacity to do the groundwork on what might then be available once we have formally left the European Union, in parallel with the negotiations to leave the European Union?

Sir Christopher Meyer: Even if it would stretch our negotiating resources, if there were an opportunity to catch, if somebody is sending messages to us from a very senior level in those countries that you have just mentioned, I would go for it, I really would, even if it made the whole machine here in London creak and groan a bit because we had to find the manpower and womanpower to do it. Those are the countries that we have already identified as being possibilities for early negotiation as and when we finally come out from the European Union. I cannot see any procedural objection to preparing the ground with these countries.

- Q16 **Chair:** In building up the negotiating capacity of both the Foreign Office—

Sir Christopher Meyer: Yes, that is exactly right.

Chair: —and the Board of Trade, for example, presumably, we are going to need to effectively buy in talent from the City of London, of whatever appropriate professional type, whilst we grow the negotiating capability ourselves within the civil service. That would presumably suggest front-



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loading expenditure to buy in this capability to create the capacity to have these informal discussions, leading to formal negotiations when it is appropriate to do so. Would you support that kind of approach?

Sir Christopher Meyer: Yes, I would. I think that is a very interesting point because, traditionally, in the old days it was mainly Foreign Office diplomats who did this kind of negotiation, with the help of the old Department of Trade: the old DTI. When I was ambassador in Washington I ran a mission that was in effect a mini Whitehall, and what I noticed was that there were people from every Department you can think of. It was not just diplomats who could do negotiation. There was all kinds of talent scattered around Whitehall. So although you may have to call in people from the private sector: consultants, people from the City—

Chair: Lawyers?

Sir Christopher Meyer: Lawyers, or at least people with legal experience. You need to comb through the whole of Whitehall, because there is a lot of talent there. At least, that is what I have discovered. In the end, I found myself leading a mission where only 12% of the front-line staff were from the Foreign and Commonwealth Office. The rest of them were from all over Whitehall, and we had particularly effective people on air services, which is going to be a very important part of this new international life for Britain.

Sir Simon Fraser: If I could answer your original question first, I would just say that there will be opportunities, but in my view the disadvantages of the situation that we are entering into far outweigh the new opportunities that will become open to us. That is my personal view.

Q17 **Chair:** I understand that, but the decision having been taken by the British people—

Sir Simon Fraser: But the decision having been taken, we obviously have to seize the opportunities that we can, and I agree with Christopher: we need to do our utmost to reinforce our position with our key allies, the United States. The most important bilateral relationships that we have in the world of diplomacy are, in my view, the United States, Germany and France. I think we need to work to reinforce those relationships both bilaterally and in international organisations such as NATO and the UN. That is a high priority. I agree that we should do as much as we can with the Commonwealth, but to be frank the Commonwealth is not a substitute for the European Union in terms of being a vehicle and a multiplier for British influence in the world or a market for British goods. Let us not forget that half of our trade is with the European Union, and that will continue to be the case for the foreseeable future, even if it is reduced by less preferable access. So we can do these things, but they are not going to replace the other parts of our international relationship.

I also think that we are absolutely right to seek to develop new political and economic relationships with the emerging political and economic powers in the world, such as China and India. Brazil is not an economically growing power at the moment but there are many others: Indonesia, and



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other countries. We must focus on those. I would caution against thinking that the quality of those relationships is going to be an alternative to the quality and depth of the relationship that we have with our traditional partners, where we have very strong shared values, democratic countries, shared regional interests and so forth. These are new opportunities and different opportunities.

Chair: We will come on to that.

Sir Simon Fraser: On this point about trade, just to finish on that, I agree that we are going to have to ramp up our capacity to conduct trade negotiations, and clearly we are going to have to look across the whole of Whitehall. That is being done. The European Commission has 600 trade negotiators in the Directorate General for Trade. My understanding is that the initial review of Whitehall reveals about 20 people who have active hands-on experience of international trade negotiations.

Q18 **Chair:** How many of those 600 were British?

Sir Simon Fraser: A number of them are British. We can easily find out how many British people are in the Directorate General for Trade. A number of them are British.

Q19 **Chair:** So a number of those will come back?

Sir Simon Fraser: No, they are civil servants employed by the European Commission, they work for the European Commission. They are not seconded British people.

Q20 **Chair:** So it is their choice?

Sir Simon Fraser: So it is their choice, and one might ask whether having chosen to make a career in the European Union they would then choose to come back to devote their time to separating Britain from the European Union. I don't know, some of them may do so. But finding these capabilities across Whitehall is going to be a challenge. There are a lot of very able and gifted people in Whitehall who would be able to learn these skills. But trade negotiation is a highly technical set of skills. When you are negotiating a tariff you have to negotiate it tariff line by tariff line. It is very painstaking, detailed work and we will be negotiating with professionals in other Governments and international organisations who have spent most of their career doing this. It is quite a demanding challenge for these people to learn those skills and the techniques of negotiation. I think we will have to look outside to some extent to reinforce those skills, but this capacity issue is an important one that we are going to have to address.

Professor Chalmers: Rather than seeing this as a moment of opportunity, I would say this is a moment where our choices are much bigger than they were before the referendum. A decision has been made through the referendum; we must all respect it. What the decision means is much less clear and trade is just one example of that.



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We need the capacity at Whitehall to allow the new Government, when they take office, to make informed choices in the negotiations with the European Union. We need trade expertise in that, but it is not clear to me whether the best route is necessarily for the UK to become an independent member of the World Trade Organisation, with its own set of tariffs and controls on trade. Clearly it is one option, but there are a number of different options on which the Government will have to make their own political judgment and it may be that in that area, as in a number of others, we end up with a settlement that preserves some of the elements of the current regime with the European Union on trade and, indeed, on many other issues.

Whether any of those alternatives are better or worse, in many of these economic areas, it is in my view easier to give some sense of short-term impact than longer-term impact. The further you go into the future, the more uncertain is the extent to which more protectionism, for example, may have a dynamic effect in some sectors of the economy. The Government will have to make a judgment on those issues, as indeed will Parliament.

Sir Simon Fraser: None of the scenarios identified so far—the so-called Norway scenario or Switzerland scenario or Canada scenario—under none of those, as I understand it, would Britain remain covered by the EU's common external trade policy. We would have to negotiate something different from what has been negotiated in the past in order to achieve—

Chair: That was the view of this Committee when we looked at this in April and, indeed, the view of the previous Committee when it examined this in 2013.

- Q21 **Ann Clwyd:** The Prime Minister mentioned yesterday in his statement the setting up of a new unit. Have you any idea how this unit might work? Who might staff it? Do we have the personnel, given what you said, Sir Simon?

Sir Simon Fraser: My understanding is that this unit is being set up and led from the Cabinet Office and my understanding also is that, within most Departments across Whitehall and certainly those where there are major EU-related policies, internal teams are being put in place—for example, in DEFRA, to deal with the issues around agriculture and fisheries. This is also happening within the Foreign Office and the Treasury, as I understand it.

This will have to be an exercise and a set of negotiations that involve people right across Whitehall—where the expertise lies—but co-ordinated very closely from the centre. My understanding at the moment is that the co-ordination will be done from the Cabinet Office through a boosted European secretariat. When the actual negotiations start, it will have to be very significantly boosted and I would have thought it would have to be headed by a dedicated senior ministerial leader to run the process.

- Q22 **Chair:** I understand it is being headed by Oliver Letwin. My colleagues do



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not know yet, but we are hoping to take evidence from him next Tuesday.

Sir Simon Fraser: Very good. There will have to be clear political leadership. The other thing is that we will probably have to boost the number of staff we have in Brussels in order to conduct the negotiations and the work on the ground in the interface with other European countries.

- Q23 **Daniel Kawczynski:** Before I come on to my question about article 50, I would like to go back to Sir Christopher and Australia. You said countries such as Australia had cautioned us against Brexit. Yet, as the Chairman has said, they are one of the first countries to now come to us calling for a trading agreement. Is it not the case that some of these countries' statements were in line with what our own Government, civil service and diplomats were urging them to say and the Realpolitik is that they have listened to what the British people want and are now very keen to engage with us?

Sir Christopher Meyer: In a word, yes. In these things, Realpolitik rules. That was then and this is now. Different situation, different set of circumstances, different challenges. The Australians, by these statements, clearly do not want to see a weakening of links. That would be a disadvantage to them as well as to us. Now that the referendum has been decided, they are looking for the best way to construct a relationship with the United Kingdom, and we should welcome this. But I think you are right. I think that a whole set of international leaders were effectively working for the Remain side—working is not the right word, but you know what I mean. This included President Obama, because he had a very specific American interest in ensuring—as he hoped—that we would not leave the European Union. So, yes, fundamentally I agree with you.

- Q24 **Daniel Kawczynski:** Thank you. Could you perhaps give us an indication of whether or not there should be a delay in invoking article 50? What are your recommendations for how Britain ought to start this process?

Sir Simon Fraser: If you are looking at me, then my view is that clearly the referendum result is known, and the consequence is that we will need to invoke article 50 to begin the process of negotiating the unravelling of the relationship with the EU. There are other negotiations that will need to be held in parallel on the nature of the future relationship; it is not just article 50. Personally, I think that it is sensible to pause it for a bit, until we have a little more clarity domestically about the nature of the future Government and their agenda.

Therefore my own position—this is entirely my personal view—is that if we could postpone formally launching this process until the beginning of the autumn, as the Prime Minister suggested, that would be sensible, all other things being equal. I believe that Chancellor Merkel, for example, is indicating that that would be an acceptable approach for her, but other European leaders are urging greater haste. That is not surprising, because they have their own domestic political interests and concerns to deal with, and they want clarity in order to have a clearer picture of the way ahead.

Personally, I think that the situation we are in at the moment is a sensible one. The question is whether pressure will mount for things to happen earlier. But of course, legally speaking, only the British Government can formally trigger that process.

Professor Chalmers: I think Sir Simon is right that before we trigger this process and trigger formal negotiations, we have to have a Government here with domestic legitimacy to put forward an initial bargaining position. Otherwise, the negotiations will not actually start in earnest in any case. If the current Prime Minister were to trigger today, then he couldn't say anything in concrete terms about what the Government's position would be, because he is not going to be in office for very much longer. Having said that, were there to be a significant further delay after a new Prime Minister takes office, I think that would generate significant economic uncertainty among investors and others, who will be pausing their activity until we know a little bit more about the economic aspect of the negotiations at least. They would want the UK Government to relatively rapidly come up with their initial position and what they are seeking from the UK's European partners. It will take a bit more time to find out whether they get it.

Getting the economic uncertainty dampened down should be one of the major priorities. I suspect that markets may give a little bit of time, because it is understandable that we have to wait for a new Prime Minister, but I know that there is a lot of talk about a much longer delay, and another referendum, a general election and all sorts of other processes coming into the mix. The more the timetable is delayed, and the more uncertainty there is on the big questions, such as the extent of access to the single market, freedom of movement, and so on, the more economic damage could be done.

Q25 **Chair:** So clarity that there will be no second referendum and no early general election—

Professor Chalmers: I think that the most important clarity is what the ask is from the UK. Once a new Prime Minister puts forward an ask in relation to the central questions such as the single market and freedom of movement, we will get a sense of whether or not those demands have some chance of being met by our major European partners. Negotiating all the details may take a long time. Whether you necessarily need a very long time to get the headlines of an agreement is less clear. I think what the market will want most of all is a sense of the headlines of the agreement.

Sir Christopher Meyer: Malcolm may well be right, but then he may well be wrong. I think this whole business about the informal period and when you formally trigger the article 50 procedure is absolutely fascinating from a negotiating point of view, and it has all kinds of variables swirling around. I certainly believe that nothing can happen until we have a new Prime Minister, a new Government in place, with a clear idea internally of what they want to do—negotiating positions, opening offer, fall-back positions, bottom line, all that stuff. We will have to prepare in depth



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across a whole series of dossiers, including, of course, the big one: the big trade, single market, movement of people thing.

I could well imagine none of this happening until 2017, and us not being ready until 2017. Then I could imagine the French and Germans coming along and saying, "Hey, we have our national elections. Can you just hold off a bit until we get these out of the way?" It is just a hypothesis. You suddenly find yourself in the autumn, or towards the end, of 2017.

Now, nature abhors a vacuum, so although we've been told by at least some of the member states, and of course by Juncker, that there is no question of informal contacts before article 50 is launched formally, I bet you there would be, and I bet you that officials would be in the undergrowth clearing away the weeds, getting things ready for engagement by their political masters. I would certainly argue for that if I was in the British Government at the time.

Sir Simon has mentioned maybe triggering in the autumn. That does seem premature to me. The other thing we have to get out of the way is the 2016 Italian constitutional election, which I think at the moment is scheduled for October. The Italian Prime Minister, Mr Renzi, is apparently extremely worried he is going to be beaten. If he is beaten then it's Five Star who beat him, and all bets are off on what is going to happen in Italy, because they are—I'm trying to work out what Italy exiters are—an Italexit party. In comes another complicating factor. I think this is a case where we hang loose, we trust in God, and we keep our powder dry, and we don't take the decision until very near the moment when we take the decision. I am trying to work out from here tactically—actually strategically, to be perfectly frank—when we do this thing. It is very difficult right now, but we should be very flexible and not attached right now to any particular timetable. That's what I would say.

- Q26 **Daniel Kawczynski:** Thank you. One last supplementary for Sir Simon. I think you said earlier that one of our most important international relationships was with Germany. By the way, in my view Germany has already started to show real leadership in trying to engage with the United Kingdom constructively for a mutually beneficial and mutually respectful separation process. Would you agree with me that there is the possibility for a major renaissance in Anglo-German relations, as to how Germany could potentially show leadership in helping the European Union to negotiate a fair settlement with the United Kingdom?

Sir Simon Fraser: I agree with you that there are positive signals coming out of Germany, particularly with the Chancellor saying that we need to manage this in a constructive way; we need to make sure that we have a constructive, ongoing relationship with the United Kingdom. There are other voices in Germany, of course, from the SDP side and Herr Schäuble, who is saying, "Let's go very fast, please; we want a clear and rapid decision." There is a bit of internal difference in Germany.

I agree that the relationship with Germany is going to be absolutely crucial here. Is it an opportunity for a great renaissance in the relationship with



Germany? I think Germany would have preferred us to stay in the European Union—that's the context. We certainly have to work on that and use it as a pivotal relationship in establishing the future of our ties to Germany and to the rest of the European Union. Sir Christopher was an ambassador in Germany, so he may want to comment on that.

Could I add one point on the timing of article 50? I agree that we shouldn't prematurely pin ourselves to a timing, but I just feel that there is domestic public opinion here to be taken into account as well, and that people will expect, at some point, to see the outcome of the referendum put into practice through the formal procedures. That will be one of the factors that will obviously create pressure on the timing question.

Q27 Daniel Kawczynski: Could I ask Sir Christopher, with his knowledge on Germany, for his take on how this will play domestically in Germany?

Sir Christopher Meyer: I have to admit to not being a profound German expert. I was only ambassador there for seven months before they moved me to Washington, but in that time my strategic focus was trying to persuade Herr Kohl, who was then the Federal German Chancellor, and his staff that the natural German ally in Europe was the United Kingdom and not France. It wasn't exactly a zero-sum game, but I wanted to try to get over to them that they had underplayed the British relationship, for historical reasons, and now was the time to play it at the level it ought to be played. I have to say that I failed when it actually came to be put into practice in aerospace to try to balance the relationship that existed between Germany and France and to bring Britain in as an equal partner. In the end I would run up against an argument that said, "Look, we hear what you say and, actually, you are right, but the historic reconciliation between France and Germany is such that it overbears everything else. That is the answer we have to give you." That was 19 years ago; here we are in 2016.

It may well be that we have a generation of politicians in power in Germany who would be more receptive to the argument of a renaissance in Anglo-German relations, as we put it, to which we can play if we have clever, astute leadership in the British Government. If Merkel gets beat next year—I pray that she doesn't because we could not have a better German Chancellor to whom to put those kinds of arguments, but we have to play our hand very carefully in doing that. I have always thought, and Sir Simon will have a view on this, that when I was in Brussels—it was quite a long time ago; I went to every European Council that Geoffrey Howe and John Major went to—the traditional British way when the British didn't like something in Brussels was to say, "No, we can't do that for the following six reasons", whereas the French would come along and say, "That's a brilliant idea. It's a fantastic idea but we have just got one or two small amendments to make", and then shoot it down in a much more malleable and suave way, which I know the French can do. I would hope that we have a bit more "Yes, but" diplomacy and rather less "No,



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because”, because we can get the result we want in the same way without putting a lot of backs up along the line.

- Q28 **Daniel Kawczynski:** But not being in the European Union—we were always considered to be the bad child within the European Union classroom, weren’t we?

Sir Christopher Meyer: Yes we were.

- Q29 **Daniel Kawczynski:** Does not being inside—not being the bad child—give us the opportunity now, as equals and as European friends and partners with Germany, to work towards a more bilaterally constructive professional relationship?

Sir Christopher Meyer: Being in the European Union has never precluded good or bad bilateral relations with individual members; it doesn’t wipe out bilateral diplomacy. Bilateral diplomacy, again, is not a zero-sum game. There are bilateral links and there is what we do—all the transactions we do in Brussels in the institutions—so there has always been an opening for bilateral British-German relations, be it in the commercial, political or defence field. That has always been there. Sitting in Germany and looking at the United Kingdom 19 years ago, you realise what a prodigal—son is not the right word—brother we were, because we were out of Schengen and not in the euro. It hadn’t been launched then, but we wouldn’t be in the euro. We have always been regarded in continental Europe as semi-detached. We are the semi-detached member of the European Union; we already start from that position. So in deciding to withdraw, we are leaving from a totally different position compared with, say, for argument’s sake, that of Italy if they decided to leave under Beppe Grillo, which is not totally to be excluded. There has always been a bilateral opportunity and I believe, as you do, there is a bigger bilateral opportunity now if we play our hands right, and if they play their hands right.

- Q30 **Nadhim Zahawi:** Our report noted that existing models for single market access, including EEA membership and the Swiss model, would probably not be appropriate or advantageous for the UK. Do you agree?

Sir Simon Fraser: None of the options that are available when we leave the European Union will give us the same degree of access to, and influence within, the European single market that we had as a member. The various different models give us different degrees of either access or influence.

In terms of access to that market, if we decide that that is our priority, clearly the EEA so-called Norwegian model is the preferable model. Of course, that comes with obligations in terms of contributions and accepting other rules, such as the highly contentious issues around freedom of movement.

If you go to the free trade agreement model, which is the so-called Canada model, you actually have to negotiate with the European Union and its member states, sector by sector, the preferential trade access that



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you are going to have to the single market. You will have preferential access, as compared with any other country in the world, only in those areas that are covered by your preferential agreement. Traditionally, those agreements have not been very strong in coverage of services, including financial services.

In the end, I think the choice we are going to have to make is where we come down on the spectrum of trade-off between access to the European market and the concomitant rules and obligations that go with it. That is the dilemma that we are going to have to resolve.

Q31 Nadhim Zahawi: If we want to retain access to the single market, what alternative arrangements do you think there may be, beyond the ones that we have seen? Is there a British model that you could think of?

Sir Simon Fraser: I do not think that any of these models will translate directly necessarily on to the UK. I believe that we will seek the maximum possible ongoing access to the European Union single market, which we were instrumental in creating and has served our economy pretty well. But we will obviously also seek to limit the obligations that go with it, particularly in relation to the implementation or management of freedom of movement.

We may seek some new position, which may be relevant to the United Kingdom alone or, indeed, across the whole European Union. The one thing we mustn't forget is that this is not just about the UK. The consequences of this decision will not simply affect the UK. Although it has come to a head here, similar considerations apply across the rest of the European Union about the shortcomings of some of the existing policies: concerns about movement of people and the unemployment of young people.

There will, I believe, be a shock across the European Union and there will be reactions to this. It may be in that context that new opportunities arise for us to negotiate a different type of arrangement with the rest of the European Union that is in the interests of both sides.

Sir Christopher Meyer: You said, Mr Zahawi, a British model. I think intellectually that is where we should start. We have these precedents but none of them really fits. They all have very serious disadvantages for the United Kingdom. By the time we have ended this process, whenever that may be—a statutory first period of two years is laid down by article 50 of the Lisbon treaty or may be extended for further negotiation—we will have something that is bespoke, unique to the United Kingdom, and which will become another precedent, if anybody else ever needs one.

I hesitate, because I don't have a crystal ball, to say how it will turn out. Right now, if you look at it from a political point of view, I would have thought that the key trick that has to be turned—and I don't know how you do it at the moment—is how to get the continuing benefits of membership of the single market, being inside the customs union, without having freedom of movement of workers. How the hell do you do it? Every

single European leader has said to us, "You can't have that. It's not on the table. It's impossible. It violates all the rules of the European Union." But who knows, down the line?

- Q32 **Chair:** Could we explore the bottom line here, in terms of our relationship? If freedom of movement is politically not accepted in the United Kingdom—as I believe, given the message we received from that part of the electorate who need protection from freedom of movement—and we are unwilling to pay the price of not sitting at the table and being on the receiving end of the regulations of the single market, being excluded from the single market does not mean that we cannot sell into the single market. It simply means that we will be subject in the worst case to normal World Trade Organisation terms, the tariffs that might apply and the regulations that are made in order to sell into that market. Our former partners who are selling to us would then of course be subject to whatever tariffs were appropriate, if we chose to place them, and the regulations appropriate to the United Kingdom market. The balance of trade is very significantly in favour of our partners. Even if there is no agreement at the end of the two-year process, which is probably a reasonable assumption, the bottom-line position for the United Kingdom is not actually that bad, is it?

Sir Christopher Meyer: The argument, as you say, Chairman, is not "trade or no trade"; it is the terms of trade. That is what we are arguing about.

- Q33 **Chair:** Yes, but tariffs are now quite low, historically. All our businesses are already selling into this market on terms that are suitable for the single market, because that is what they have been doing.

Sir Simon Fraser: There is a wider set of issues, but one thing you did not mention was the risk of non-tariff barriers being put in place if we are outside the single market. That is a potential risk for us.

It is not really just a question of tariffs and trade; it is about investment decisions, supply chains and the ease of distribution across the European market. For example, if a car manufacturer that invests in Britain is going to face even a relatively small additional cost to distribute cars or engines across the European Union, they are likely to reconsider the original investment choice and the location of that plant, given that there are some very effective low-cost destinations elsewhere in the European Union. So it is a slightly more complicated set of questions that one has to think through in detail.

On the point about the balance of trade, it is true that the rest of the European Union sells more to the UK than the UK sells back but, in terms of the percentage of our economy that is engaged in that trade, it is much more important for us than it is for other European countries. There is a balancing argument there that we need to think through as well.

- Q34 **Nadhim Zahawi:** My final question is whether the upcoming Warsaw summit can provide an opportunity for the UK to reconfirm its commitment to the European security architecture.



Professor Chalmers: I think it can. Clearly there will be a lot of discussion in the margins about what we have been discussing so far, but it will also be important for the UK to demonstrate that it is strongly committed to providing the capabilities that NATO as an organisation is asking for. I think there is a case for actually doing a bit more than people were expecting, if we can, precisely to show that European security is a priority for us. There are a number of things that could come up: in coming years we will be faced with some choices about the balance in the UK military security effort between things that are more in the European neighbourhood and things that are more elsewhere. For example, if there were more of a flare-up in the western Balkans, would the UK give that a relatively low priority or a relatively high priority compared with other things? Clearly, one of the UK's potential bargaining chips in the very difficult negotiations that we will be going into with our EU partners is that we are one of the most capable security providers. We are valued throughout the European Union, not least by those who feel most exposed in eastern Europe. If we are moving into a situation in which we are cutting our contributions to structural funds in east European member states and no longer allowing so many of their workers to come here, the fact that we are also making a significant contribution to their security requirements may at least provide us with something of a card in those negotiations.

Q35 **Mr Holloway:** How do you think the EU is going to change now? Do you think there will be a wider change in the direction of travel because of this?

Sir Christopher Meyer: The shock of the referendum result might for the first time lead to a process of really serious reform inside the European Union, so that no member state will have to suffer politically as we have, particularly this year. That may happen, but that shock of adrenaline, which rushes through all the political systems of the other 27, runs into something else, because if the eurozone is to be a success and not suffer from recurrent crises, it has to do things that run absolutely counter to, as far as we can tell, the wishes of roughly 50% of all populations in all member states that are part of the eurozone—namely, greater economic and political union to make a single currency work.

If the single currency has one fundamental, structural policy, it is that it was launched without anything serious being done on economic and political union that was acceptable to the generality of member states. You may get a terrific hoo-ha, with people saying, "We have to make the Union more relevant to ordinary people in their everyday lives", and then along will come another bunch of EU experts saying, "Hang on a minute, we've got to make the single currency work." That will involve political changes and yielding chunks of sovereignty that may be highly objectionable to the very people with whom they are trying to reconnect. There is a massive structural, strategic challenge for the other 27, and I really don't see how it is going to be resolved.

Professor Chalmers: European Union countries were in a period of growing political and social crisis before the referendum, and that is also reflected on the other side of the Atlantic, so Europeans are not unique in facing these challenges.

One of the key issues in the negotiations will be whether the UK is putting forward a general model for how countries should relate to the European Union or making a very special case. Many of our European Union partners will be worried about the knock-on effect. If they give a deal that works for the UK's interests, some political parties in other European countries, particularly in northern Europe, might say, "Well, that seems to be a better deal for us," and then the whole edifice begins to disintegrate. Quite a lot of our debate over the past few months saw a number of people arguing that that would be a good thing—that the European Union as an institution is no longer working for Europe and we need to replace it with something quite different and rather looser in terms of national obligations. That is a perfectly respectable argument.

When they are talking to the European Union about negotiating, our Government have to be clear about whether what they are suggesting is something unique for the UK—something not to be replicated, a continuation of what Sir Simon called our semi-detached status—so should not be seen as something for others, or whether they are seeking to put forward a new set of arrangements in some areas and perhaps not in others. I suspect that those in Europe who defend the status quo would be alarmed if they felt that this would create a precedent.

We remember the very difficult negotiations about the financial bail-out for Greece. One of the driving forces among a number of Greece's EU partners was a fear that too good a deal for Greece would be something that could be used politically in Spain or elsewhere to get a better deal there. The public unease about the European Union is not something that is unique to the UK. If it were only a British phenomenon, it would be rather easier to get a deal, but I think the fact that it is a Europe-wide phenomenon makes the negotiation harder.

Q36 **Mr Holloway:** Sir Simon, given what Professor Chalmers says about a framework for replication, wouldn't that be quite a smart way for us to approach it?

Sir Simon Fraser: To approach the negotiation to leave?

Q37 **Mr Holloway:** Yes—to do something that doesn't look as though we are just trying to do it in our own interest, but as a wider thing?

Sir Simon Fraser: The fact is that we have taken a decision to leave. We will be negotiating the terms of leaving and we will be doing that in our own interest. We will no longer be in a position intrinsically within the EU where we are negotiating for collective positions, so I am not sure—the moment may have passed.

Q38 **Mr Holloway:** He said a framework for replication. He didn't say—



Sir Simon Fraser: Yes. Well, the other countries—may I just finish my point? I do think that if we had cast our position a bit more like that over the last 18 months or two years, we might have got to a position where we were not necessarily forced into the decision that we have taken.

Looking forward, one of the things that the other countries will be determined to ensure in the negotiation is that it is not a framework for replication for other member states. Chris was absolutely right and so is Malcolm: there are big tensions socially within the European Union, and of course the Eurozone has big structural unresolved issues, so those are going to have to be addressed.

The point that I would underline is that for the great majority of Governments within the European Union—there are one or two exceptions—the way that they will look to resolve those problems will be through the European Union, not through withdrawal from the European Union. Unless there is a political shift in those countries and some of the anti-European forces really come to the fore—for example, the Front National in France—we will still see the centre of gravity in Europe as very much pro-European Union and continuing the model.

Q39 **Mr Holloway:** Would you describe the pretty clear message from voters that they do not like freedom of movement as an extreme force?

Sir Simon Fraser: In this country or—

Mr Holloway: In this country, yes.

Sir Simon Fraser: No I would not say it was an extreme force. I would say that it is a very important issue, which was probably not given due recognition and is a consequence of the unilateral decision that the British Government took after enlargement in 2004-05 to open the borders. I think one of the lessons that we learned from the campaign is that the political classes failed to understand, across the parties, exactly how important this was as a factor. If we had understood that, I think this could have been approached in a different way and possibly handled in a way that might have led to a different outcome. I would not say it was an extreme force. I think that people were voting out of very legitimate concerns about the impact in their communities of the consequences of freedom of movement.

Going back to an earlier point, my view is that it is perfectly legitimate to put on the table a discussion about the management of the principle of freedom of movement. If we accept that the principle of freedom of movement is inherent in the single market—it is one of the enshrined freedoms—it is nevertheless also true that in the case of enlargements, we have in the past agreed to manage that principle by placing transitional measures to ensure that it did not have disproportionate impact. As that has been done in the past, I would have asked whether it would not have been possible to find some agreement across the European Union to help us to manage the consequences of that policy today. I suspect that, as Christopher says, that is going to come back on to the table.



Sir Christopher Meyer: I absolutely agree with Simon on that. Without ever impugning publicly the principle of freedom of movement, there does seem to me to be a tide to be caught across the European Union that responds to the question. We have a problem with freedom of movement inside the Schengen area. We need to tackle this—all of us—together. I sometimes, in my fantasies, have a vision of our coming along with our concerns about freedom of movement and immigration—that is the clear message we have had from the referendum—and somehow or other getting what we want or something we can put back to the British people and say, “Is this good enough? Tell me if this is good enough.” That is itself, inside the European Union, wrapped in the general decision that, while the principle is up there in lights, we have taken the following sets of decisions because it is clear that we need to manage this in a better way than we have. Then we could wrap that into a general EU position. Bingo!

Chair: I think, Sir Christopher, you described that properly at the beginning.

- Q40 **Mr Holloway:** Without taking a lot of time, very briefly, Professor Chalmers, what difference, if any, do you think this will make to EU so-called defence and also in terms of sanctions with Russia? Will our withdrawal make any difference to those things?

Professor Chalmers: That will depend in large measure on whether we find a new way for us to co-operate with other European Union countries in some mechanism that resembles, or indeed is, the common foreign and security policy. Because of our weight, because of the assets we bring—diplomatic, defence and so on—it will be a significant loss to our partners if we are not involved in those discussions. It may well be that some mechanism can be found for us to be at the table, even if we do not have a vote—or maybe even to have a vote, but certainly be represented in CFSP mechanisms, which is not what this referendum was about.

Chair: Perhaps we could come to the issue that Mike Gapes was going to raise, and now Ann Clwyd, on CFSP.

- Q41 **Ann Clwyd:** Do you think that the UK should continue to participate in aspects of common foreign and security policy?

Professor Chalmers: If a means can be found for us to do that within the context of our leaving the European Union, that would be in our interest and in the interest of our EU partners. The nature of the security problems we face today requires a wide range of mechanisms to be co-ordinated on a multilateral basis. NATO is the body for defence primarily, but lots of other things have to be done—sanctions is just one example of that, but there is also intelligence-sharing. Lots of things involve multilateral as well as bilateral co-operation, so if a means can be found for us to co-operate in that, yes, of course.

It will be up to other European Union members to decide whether that is acceptable to them. Again, it will come back, as many of these things do, to not wanting to make it too easy for others to leave the European Union, because if other countries that have Eurosceptic publics believe that they



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can get all the advantages of EU membership while giving up the things like freedom of movement that they find uncomfortable, it would be difficult. On the specific issue of CFSP, the UK has perhaps disproportionate weight compared with some other areas, and therefore our bargaining position for arguing for a continuing role there will be greater.

Sir Simon Fraser: I think we should be driven by the real world here. The European Union faces a lot of very serious problems around its borders—east and south. We live in the same geography—we are geographically part of Europe, even if we are leaving the European Union—and we share security interests with those countries. It must clearly be an objective of our negotiating position to ensure that we are best placed to continue to co-operate with them in dealing with those problems together, in our own interest, for our own security, and for the region as a whole.

The problem with CFSP is that you get into the institutional discussions, and it would probably be difficult for us to be fully engaged in those institutional arrangements—though I think we ought to try to preserve as much involvement as we can. I hope that this referendum and decision will free us to feel more able to work militarily with our European partners bilaterally. This fantasy of a European army, which we have been obsessed with for years and which was never going to happen—actually, it is more likely to happen now that we have left than it was when we were in—we will not be part of that, so on that score we should have no inhibition about working with European partners to deal with real military and security problems around our borders.

- Q42 **Mike Gapes:** On that point, would it not be a way for the British Government to mend bridges, at some point, by coming out with a bold initiative such as a European defence union, as opposed to a European Union, which would be the European pillar of NATO and based on the St. Malo agreement and so on—so that we are committing ourselves to a positive approach? Would that not reassure some of our partners?

Professor Chalmers: I think that's a little bit too spectacular, if I may say so.

- Q43 **Chair:** Why is it too spectacular? The missing element in the defence of western liberal values in terms of hard power is the defence contribution made by the EU nations other than France and the United Kingdom. Once we are out of the way of EU institutions, why is a European defence pillar not possible? The decision then for the UK is how it will be involved in it. Shouldn't we now be encouraging this latent capability in the hard defence of our values to actually now take effect, which we have been stopping the entire time we have been neuralgic about defence co-operation within the EU?

Professor Chalmers: Absolutely we should be encouraging other EU member states to improve their defence capabilities, and we should be encouraging greater co-operation through the common defence and security policy. Even as a non-member, we can make contributions to both



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military and civilian CDSP missions. The obstacles to a much more integrated European approach—ultimately a European army—

Q44 **Mike Gapes:** I was not arguing for a European army.

Professor Chalmers: You were arguing for a—

Q45 **Mike Gapes:** A defence union.

Professor Chalmers: What does that mean?

Q46 **Mike Gapes:** It's a stronger European pillar within the NATO alliance, at the same time recognising the need to have European missions that operate on the basis of decisions by European countries in a much more explicit way than currently happens, given the problems we have with Turkey, Greece and NATO.

Chair: European political and military headquarters. A European military command structure.

Professor Chalmers: I think it is entirely reasonable to reverse our scepticism about headquarters. Absolutely.

Q47 **Mike Gapes:** Okay. Thank you. Can I move back to a point that follows on from Sir Simon's comments earlier about the lack of a diplomatic or trade negotiating footprint? Can I widen that? How much diplomatic energy will we have to invest in our relationship with Brussels and also key EU states in the longer term—not so much in this two years or however long it is, but beyond that—given that we have had this hollowing out of our diplomats in Europe and the focus on the BRICs and the posts in India and China and so on? How much of our actual energy will have to be invested?

Sir Simon Fraser: I think we will have to invest energy in Europe and outside Europe. We discussed earlier the resource implications of that. This is an opportunity for British diplomats. They will have opportunities to do things; they will have new challenges to face and that will be energising for them, as long as the demands are reasonable and as long as the policies that they are being asked to pursue are sensible.

Christopher raised this point earlier. We need to be smart in the way that we go about that engagement and the way we position ourselves with other countries, and then the professional diplomats need to go out and do the work. We will have to put a lot of energy into the bilateral relationships with the countries of Europe. We will have to put a lot of energy into Brussels, into knowing what is going on there and influencing it. And we will have to maintain that energy that we have injected into the relationships with the emerging powers, as I have said. So it has got to be a sort of plus game in all those quarters, it seems to me.

Sir Christopher Meyer: Can I go back to the defence thing very briefly?

Chair: Yes, absolutely.



Sir Christopher Meyer: One of the reasons why this really has not developed in the way that some people think would be a rational way to develop is that we have always had to be very conscious of and sensitive to American concerns. This is an area where the United States is schizophrenic. On the one hand, it repeatedly encourages us to get our act together and to assume more of the burden of common defence in Europe, but when the Europeans actually show some signs of putting a platoon together or something, they scream blue murder and say, "Hang on! We don't want duplication of institutions, command and control centres or whatever, particularly as you Europeans will not put the budgetary resources in to make a net addition to the troops that are already committed to NATO." So you get into this double-hatting business, which is very unsatisfactory.

I remember, in 1998, after Tony Blair and Jacques Chirac came up with the St Malo agreement, which covered Anglo-French co-operation and was supposed to be a template more widely in the European Union, I was sitting in Washington and I got a right earful from the White House on this. It led to—I am sorry to go back in history but I think this will come back again, assuming there is a rational person in the White House, which is of course open for question at the moment—

Q48 **Chair:** But the context is now an American pivot to Asia, so it is different, isn't it?

Sir Christopher Meyer: Yes, but I don't think that is a zero-sum game either. Pivot to Asia is important but it doesn't mean no continuing relationship with Europe.

In 1999, at the NATO summit in Washington DC, the communiqué came up with this extraordinarily awkward phrase: "separable but not separate". In other words, there would be moments when the north Americans—the United States and Canada—would agree with the Europeans that certain European contingents credited to NATO could be taken out, have a Euro hat stuck on them and be sent off down to the Balkans, which is what happened. I actually find it very difficult to envisage an arrangement—absent significant additional budgetary resources, which I don't see coming—which is in effect much different from that. I think that is the realistic picture.

Q49 **Chair:** But there is an element of chicken and egg about this. Until these arrangements exist, the EU partners other than France are not going to pony up the money to be serious about this. My analysis is that there is a latent contribution to the hard defence of our values sitting there untapped, because why are they going to go to 2% of GDP along with us and the rest? What is the point when there is no effective European co-ordination and no effective European output of the organisation of defence? They are, effectively, under American command within NATO—"The Americans are doing it, so why do we need to?" Some American forces will of course remain in Europe, but if its principal focus is beginning to pivot towards Asia, here is an opportunity to create some hard capability in our interests, in defence of the liberal west.



Sir Christopher Meyer: That is perfectly rational, but I don't think that is going to happen without another crisis. The money ain't there and no one is going to find it, unless, say—I think the greatest danger at the moment to European stability is not Putin meddling at the Baltics, it is the west Balkans blowing, and we will be back again to where we were in the 1990s. At the moment—correct me if I am wrong—it is European contingents that are supposed to be holding the ring in places like Kosovo. If that suddenly gets out of control, with Serbs or Bosnian Muslims or the Kosovans getting restless—everybody is restless out there—and Putin is fiddling around there with his Putin-y stick and stirring things, if that were to blow, maybe what you are talking about might come to pass, but in absence of that, it is not going to happen.

Professor Chalmers: Over the last decades, there have been too many people in European defence discussions who have felt that, if only we get a different architecture, that will make an enormous difference to the capabilities that people provide. As long as the circumstances in broader strategic terms, in terms of the American commitment to Europe and the broad threat assessments, remain relatively unchanged, I don't think that will change.

If the pivot to Asia manifested itself in a major crisis in which the United States declined to get involved, or there was a new American president who articulated a very different foreign policy, I think things would change. I am more sceptical about any realistic new architecture for European security, still based on intergovernmental co-operation and defence budgets being set by national Treasuries; in the end, I don't think architectural change will help much. There is a risk, in some European countries at least, that talking about a European role for defence is in a way a substitute for thinking about the national contribution, rather than a means of promoting it.

Q50 **Mike Gapes:** I'm going to move on to more information. We have referred to this process of leaving and the Cabinet Office-led group that is going to be put together, but what specifically is the role that the Foreign and Commonwealth Office should play within this process, not just diplomatically? Is there a specific input that the FCO should bring to these considerations of how it works?

Sir Simon Fraser: The FCO has traditionally in Whitehall been the Department that has led policy making and negotiation on institutional issues in Europe, and therefore it would be natural for the FCO to take a very leading role in these negotiations around the nature of the institutional relationship and how we detach ourselves from certain aspects of it and create new linkages. So I would expect the FCO to have a very strong role in that area. Obviously, in some other areas—for example, on the financial issues or on hard trade issues—the expertise lies in the Treasury or, in so far as it exists, in BIS, or, on agriculture, in



DEFRA. I do not think it would be sensible for the Foreign Office to seek to duplicate that expertise. But the core knowledge of EU institutions, the structures of Europe and our relationship with them lies in the Foreign Office, and I would expect them to have a leading role in that area.

- Q51 **Ann Clwyd:** Can I turn to the United Kingdom as a whole? How will uncertainty over what is going to happen in Scotland and the future of the Union affect our global standing?

Professor Chalmers: As reports indicate, the Government is including representatives from the devolved Governments in the process, and absolutely rightly because already, Scotland, Northern Ireland and Wales have the EU as part of the framework within which they work. If we were to leave the European Union, there would be questions about where powers currently held in Brussels are returned to. They might not necessarily be returned to Westminster and Whitehall. They could well, in many areas, be returned to devolved authorities. Of course, the First Minister of Scotland has raised the issue of whether the Scotland Act will have to be revised in relation to areas where Scotland currently has devolved responsibility and whether the Scottish Parliament has a veto or not in that process, which is something for lawyers to resolve.

The mechanics of working out exactly what this means in terms of who takes on which powers are very important, but of course there is also the broader political point, which takes a different character in Northern Ireland and in Scotland, given the referendum results in both those nations, which will have to be handled very sensitively indeed. I know Scotland and, indeed, Gibraltar in the last day have raised questions about whether they can have some special arrangement, even after the UK leaves. It is hard to imagine how that could work in terms of full membership, but there may be some other means. In Northern Ireland in particular, the political imperative to maintain the close relations with the Republic will be a very important factor to take into account.

Sir Christopher Meyer: If the worst came to the worst—I regard this to be the worst—and Scotland were to become independent from the United Kingdom as a result of the decision in the referendum, and if we had a real problem trying to sort out what to do with Northern Ireland and the Republic of Ireland and it looked like the Good Friday agreement was coming apart—I can see ways in which you could avoid that—I think there would be considerable dismay around the world. On the Ireland point, there would be a lot of dismay and questioning in the United States. We would be diminished as a result, as a power in the world.

Sir Simon Fraser: I agree with that. In so far as the question of the unity of the United Kingdom comes back on to the table, that creates a diversion. It diverts energy into our own constitutional questions and our domestic situation, and in any case, a lot of our energy is going to be focused there. That almost inevitably means we are going to be more inward looking than we might otherwise be, and that will be a challenge to us, given, as we have been discussing, that we have a big task of getting out around the world and promoting the interests of our country. If that



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were to go so far as to lead to a constitutional rearrangement, I agree it would diminish our international weight and standing in the world. I think those are important considerations and they would presumably also have economic consequences.

Q52 Ann Clwyd: What could or should be done to protect the Northern Ireland peace process?

Sir Christopher Meyer: I imagine this is probably going to happen or has even started, I just don't know. I would have thought that it would be possible to have an understanding with the Irish Government about this which would involve discussion with the First Minister in Northern Ireland to be able to at least not have the physical manifestation of a frontier and a barrier. Whether it would trigger a referendum in Northern Ireland on the question of whether or not to unify with the Republic—that is provided for in the Good Friday agreement—I just don't know. When we get through all this, we could end up with a situation where Scotland has gone off independent, trading in the euro in Edinburgh—good luck to them—and we have a united island of Ireland. That could happen; it could be the result.

Professor Chalmers: I think on Northern Ireland there are specific assurances that should be considered in relation to any budgetary support provided by the European Union to promote cross-border co-operation, retraining and all sorts of things which are funded by the European Union in Northern Ireland. One of the uncertainties created not only here but more broadly is whether European Union funding will remain in some national form, so reassurance on that would be helpful.

Q53 Mike Gapes: I was involved in negotiations for the Good Friday agreement—I was a PPS in Northern Ireland at the time. It is not just about funding, it is also about the Council of Ireland, the all-Ireland institutions and the references to the European Union in the Good Friday agreement. This raises some very political issues. Large numbers of British people who have an Irish grandparent are currently applying for Irish passports. I think this will be an issue.

The related issue is that if there is not a physical border between Northern Ireland and the Republic, we have the question of migration within the EU. People are coming into Northern Ireland and are therefore within another country, but we haven't checked their passports or anything else. I guess that is a nightmare for the Home Office. Have you got a comment on that?

Sir Christopher Meyer: It is a nightmare.

Sir Simon Fraser: It is an issue. There did seem to me to be an inconsistency in some of the arguments that were made about this in the sense that one of the purposes we were seeking was to retain control of the borders and yet it was made clear also that this particular border would not be subject to that sort of control. So I think it is a conundrum.



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Professor Chalmers: It is not that there are no checks on air travel, for example. There are some checks already, but they would have to be intensified. The land border, perhaps, is particularly sensitive.

- Q54 **Mike Gapes:** If I fly to Dublin from another European country and decide that I'm going to go up by some little country road to Northern Ireland, then I'm in another country and the British Government haven't had any passport checks on that. We would presumably have to have some arrangement with the Irish Government about these things.

Professor Chalmers: Yes.

- Q55 **Mike Gapes:** Right. Can I now raise an even more difficult question? Ninety per cent. of the people of Gibraltar voted to remain in the European Union. We have already seen the popular party politicians reasserting threats to the sovereign decision of the people of Gibraltar to remain a British overseas territory. Fabian Picardo, the Chief Minister, has been in some contact with Nicola Sturgeon already, apparently. What do you think Brexit means for Gibraltar and its desire to remain in the European Union and the economic and political consequences for Gibraltar?

Sir Christopher Meyer: There was a time in my career, Mr Gapes, when I was the Gibraltar desk officer in the Foreign Office. I was posted to Spain just before Franco died in the early '70s, and one of my responsibilities was to fly down there every now and again to see the local Gibraltarians—admittedly, it was different times, before Spain had become a democracy—and then to talk to the Spaniards in Madrid about ways to resolve a problem. I came back to the issue when the late Lord Howe, Geoffrey Howe, was Foreign Secretary and tried to fix it with the Spanish Foreign Minister, by which time there was a democratic Government in Spain. There have been waves of diplomatic effort, but they have always broken on the rock of sovereignty, if I may put it like that. There has been no way of coming out. At one stage, we thought Andorra was a model, which I think had two bishops; it is split down the middle, with a bishop who runs one bit and—

Chair: The President of France is the other, from memory.

Sir Christopher Meyer: Yes, thank you.

I imagine this will fire up Spanish irredentism vis-à-vis Gibraltar, which will make life extremely awkward for the Gibraltarians, but in principle they will not be any different from—no, I am about to say something stupid, so I will not go any further. I simply do not know what you do about it. Gibraltarians consider themselves to be part of the United Kingdom; if that is the case, which they have emphasised time after time, then they must accept the verdict of the people of the United Kingdom. It will be awkward, but that I think is the only position you can take.

- Q56 **Mike Gapes:** We as a Committee in the previous Parliament visited Gibraltar. We saw how quickly the special police could create queues in and out, and make it very difficult for the Spanish citizens who were



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working in Gibraltar but living on the other side. That, presumably, could become much more difficult—economically, it will be difficult. In addition, is there not a problem that, at present, because we are in the European Union, we can resist moves by Spain to assert sovereignty over waters, for example, or make difficulties at the airport, but once we are out we will not be there any more to protect the interests of Gibraltar?

Sir Christopher Meyer: It will be much more difficult. I don't think it is mission impossible, but it will take far more resources than is the case now. We could have more problems in the waters of the bay of Algeciras; as you say, they could make it extremely difficult for aircraft flying into the airfield; and they could hold things up at the frontier. The argument we always used to make to Spain, which I do not think would travel again, was, "If you want Gibraltar, for God's sake, seduce the Gibraltarians. Don't be nasty! Be nice to them", but they have never taken that. The answer was always, "That gives them no incentive to become Spanish." Maybe the carrot and stick are now changing shape, if you get my meaning.

Sir Simon Fraser: May I broaden this point out? There is a wider set of issues, which the Committee may want to consider at some point: the implications for the British overseas territories more generally. I have not thought it through, but we have a number of overseas territories—for example, I know a representative of the Falkland Islands is in the room.

Chair: They have submitted evidence to us.

Sir Simon Fraser: It is quite important to consider that. Personally, I am not quite sure what the regime is, whether Gibraltarians have eligibility for EU funding, and, if so, how, but there are other issues—of course concerning their general sense of security and protection in the world, and the fact that, for example, some of the agreements that we have within the European Union reinforce their status and circumstances. That merits some attention.

Q57 **Mike Gapes:** Will there be a change in attitude among EU states in the UN to, for example, Argentina's hostility towards the Falklands?

Sir Simon Fraser: I don't know the answer to that question, but it relates to the broader question of our ability to use the European Union as a multiplier of our position in international organisations, which we will be less able to do in future, potentially, than we were in the past.

Chair: I am trying to remember the exact recommendation in our report, but we were certainly very clear that the interests of the overseas territories will have to be taken into account in the negotiations that are now about to happen.

Gentlemen, thank you very much indeed for your time and evidence this morning. It is very much appreciated, and it was a very helpful session for us.