



# Select Committee on the European Union

## Uncorrected oral evidence: Brexit: Gibraltar

Tuesday 24 January 2017

4.05 pm

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Members present: Lord Boswell of Aynho (Chairman); Lord Green of Hurstpierpoint; Lord Jay of Ewelme; Baroness Kennedy of The Shaws; Earl of Kinnoull; Lord Liddle; Baroness Prashar; Baroness Suttie; Lord Teverson; Baroness Verma; Lord Whitty; Baroness Wilcox.

Evidence Session No. 2

Heard in Public

Questions 12 - 19

### Witnesses

**I:** Professor John Fletcher, Pro-Vice-Chancellor for Research and Innovation, Bournemouth University; and Dr Chris Grocott, Lecturer in Management and Economic History, University of Leicester.

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## Examination of witnesses

Professor John Fletcher and Dr Chris Grocott.

Q12 **The Chairman:** Good afternoon, gentlemen. Thank you for coming. We have here Professor John Fletcher, Pro-Vice-Chancellor of the University of Bournemouth, and Dr Grocott, from the University of Leicester, to help the Committee to explore the constitutional and other implications of the Brexit vote for Gibraltar. You will know that we heard from the Chief Minister. You will also be aware, as we all are, that sadly Sir Graham Watson cannot join the panel as originally planned. We can ask him, no doubt, to provide a note when he is feeling better, but we thought it would be a great mistake not to proceed and get your evidence, as things are moving quite quickly. Indeed, since the Chief Minister gave us evidence before Christmas, we now have at least a measure of clarification from the Government as to their preferred strategic options in relation to market access and migration. I am sure that those will come out.

If we may, we will get straight on with the questions. I remind you that this is a public evidence session. We will send you a transcript for any factual corrections. It is also incredibly important in present times, as things change, if you are prepared to, that we should have a continuing relationship with you, if you have things you want to add or material comes to light. There are quite a lot of appraisals to come in relation to Gibraltar and we would be delighted if you would share them with us at any time, or answer any queries that we have.

Subject to that, we will kick off, unless you want to make any initial statements. If not, this is a question to you both. If you want to hold back on one question and let your colleague answer, that is fine—do not feel you both have to answer all of them in detail. The question is about the main political and economic implications of the UK's decision to leave. When we talked to the Chief Minister, he was, naturally, giving a political lead and rehearsing some of the economic arguments, but no doubt your emphasis will differ from that. First, what would be the impact on Gibraltar if the UK either ends or significantly restricts free movement of labour after Brexit?

**Professor John Fletcher:** The labour force in Gibraltar is dependent not only on people who are resident in Gibraltar but on frontier workers. The frontier workers are exceptionally important for Gibraltar. They provide not only a workforce but expenditure within the Gibraltar economy; likewise, the income that is generated there is important for the Campo region.

**The Chairman:** If I can interpose for a moment, remind me of the current estimate of the daily flow of people who come across the border in order to work in Gibraltar.

**Professor John Fletcher:** It is a slightly moveable feast.

**The Chairman:** I realise that.

**Professor John Fletcher:** It is between 6,000 and 9,000.

**The Chairman:** In proportion to the population, that is a very substantial number.

**Professor John Fletcher:** It is a very significant proportion of the population.

**The Chairman:** So if that were inhibited, because Gibraltar were no longer part of an EU state, that would make a considerable difference.

**Professor John Fletcher:** It would have a significant impact on the Gibraltar economy and on that region of Spain.

**The Chairman:** Would you accept that, Dr Grocott?

**Dr Chris Grocott:** Yes, absolutely. One thing to recognise about the Campo de Gibraltar is that La Linea has one of the highest unemployment rates in Spain, approaching 35%. Gibraltar provides, as you say, something in the region of 9,000 jobs and at times as many as 12,000, depending on construction work in Gibraltar. If you take that chunk out of the economy of the Campo de Gibraltar, that is a significant loss to the Spanish hinterland. We may come later to the question of financial services and the gambling industry, which, of course, rely on links with the City of London, but they rely on labour as well. Of the 3,000 people who work in the gambling industry in Gibraltar, roughly 2,600 come across the frontier every day to work. So even the financial services and other industries in Gibraltar that we might think at first are exempt from the issue of the cross-frontier relationship are not and would be hit very hard by any disruption to the frontier.

**The Chairman:** You are implying that—this is a loose term of art—some of the back-office functions take place in Gibraltar because there is nowhere else for them to take place. They are not outsourced to some more remote location; it actually requires people, including manual labour, to come over to do the jobs, to service the casinos and so forth.

**Dr Chris Grocott:** Yes. It is not just the day-to-day on that front, but also clerical work and administrative functions which the Gibraltar economy has spent a lot of time reshaping itself around.

**Professor John Fletcher:** We could look at the way Gibraltar has transformed since I have been working out there, in terms of support from our own Overseas Development Agency, as it was then, and the Foreign and Commonwealth Office. Its economy was 80% dependent on the UK—60% on the dockyard, HM Dockyard, as it was, and the naval hospital, with the rest coming from tourism from the UK, as people were going out to visit people in the Army or the Navy. It has transformed itself into a much higher gross-value-added economy and it has become incredibly resilient. If you look at what has happened in the world, even the largest economies have been brought to their knees with the global financial crisis from 2008, but Gibraltar has been incredibly resilient, because it has had this pool of labour to call on—it is not all low-level

labour; it is quite highly qualified labour—as well as its connections with the UK. That has been the recipe for resilience for Gibraltar and it is really important that that frontier stays fluid.

**The Chairman:** I opened by asking you both about economic and political implications. This time I shall start with you, Dr Grocott, not least because of your academic interests. Do you sense that this is felt as a concern through the whole population of Gibraltar, including the labour unions, for example? Is it felt at all levels, from chief executives to manual workers? Are people worried about this as a potential destabilising factor?

**Dr Chris Grocott:** Yes, absolutely. If you were to talk to the trade unions in Gibraltar, they would emphasise not just those issues relating to the high-end financial services, but issues relating to frontier workers and basic day-to-day things: care homes; care for old age pensioners; people working in hospitals. A lot of that labour comes in across the frontier. The social welfare infrastructure of Gibraltar really depends upon the cross-border frontier.

The other thing I would say politically is that at the end of the day 96% of the population of Gibraltar voted remain. The overall vote to leave came as a tremendous shock to people and, while everybody is very keen to maintain the relationship with the United Kingdom, politically people are also talking about possible alternatives; for example, integration with Britain, which was discussed in the late 1960s and 1970s in relation to Gibraltar and, earlier, in relation to Malta. Some people have been seriously talking about the idea of some kind of microstate and some looser relationship, constitutionally, with the UK. People have been knocked for six and are coming up with all sorts of ideas as to what might have to happen next.

**The Chairman:** Just to confirm, the general impression I am hearing is that this issue about access to free movement of labour across the frontier, either on a regular or an occasional basis, is pretty central to the concerns there and might have been the major driver. Do you both agree?

**Dr Chris Grocott:** Absolutely.

**The Chairman:** I want to bring in colleagues to explore some of the details, but I have two questions in conclusion of this line of argument. You will be familiar with the arguments in the UK—although they did not perhaps have much traction, as you have said, in the referendum in Gibraltar, because few voted to leave there—but are there new opportunities for Gibraltar to diversify its economy into different sectors or new geographical areas? Is there any EU inhibition, or would it be a matter of necessity, as you were rather implying, Dr Grocott, that you would have to find a way out of this difficulty? How do you see the question of whether there are options and opportunities?

**Dr Chris Grocott:** Gibraltar, stating the obvious, is geographically part of the continental European landmass and in that sense it is obvious that that is where the main focus of the Gibraltar economy is. Yes, there are opportunities to diversify in the sense that all economies and Governments sensibly look elsewhere and try not to rely on one source of income. For example, the Gibraltar Government has an office in Hong Kong to further economic ties with that territory. There is also a relationship between the Gibraltar Government and the American chamber of commerce, so attempts are being made to find alternatives, but the truth is that the geographical imperative is there and Europe is the main focus in that sense, and of course the United Kingdom.

**The Chairman:** How do you see that, Professor Fletcher? Do you see it in the same terms?

**Professor John Fletcher:** If you add to that the fact that you are dealing with what is really a microeconomy and you look at the size of the labour force in Gibraltar and the industries that it is in at the moment—online gaming, financial services—and the trade that it does, then it is fairly well diversified now in terms of the types of production that it can do. If you try to diversify more than that, you lose your economies of scale and you are not competitive.

**The Chairman:** Thank you. Now the counterpart question. We have not asked you much about contingency planning, for example, and you may want to comment on that, but my final question is really to entertain the possibility that there might be no negotiation and Britain might depart. That is, there might be negotiation but there might be no agreement under Article 50 and Britain, having triggered Article 50, might be departing in some two years' time. That is at least a possibility. If that circumstance were to arise, would it have very serious consequences?

**Professor John Fletcher:** It would depend on what agreements Britain had reached with the rest of the European Union.

**The Chairman:** I was assuming that there had been a difficulty and no material agreement had been made. Indeed, the Prime Minister the other day was saying that it is possible that no deal might be better than a bad deal. Let us take that as a hypothetical, rather than as a prediction.

**Professor John Fletcher:** I think the degree of difficulty that Gibraltar would experience would depend on whether the UK took Gibraltar with it going forward, not only in terms of a free trade agreement between Gibraltar and the UK, but also wrapping Gibraltar together with trade with the partners that the UK is arranging and will be arranging its trade with. It is important from Gibraltar's perspective that Gibraltar is not left isolated. That would have a significant impact on the economy and on the politics.

**Dr Chris Grocott:** I suppose it depends on the definition of "no deal". If no deal means a very disrupted or, even worse, a closed frontier, then, okay, that has happened before of course, from 1969 to 1985, but for

example there was a lot of slack in the labour market during that time, with very low employment among women in Gibraltar, which meant that you could get by in terms of bringing people into the labour market who had not been in the labour market previously, people doing two jobs, et cetera. There is not as much slack as there was then and of course back then within six or seven years just keeping the Gibraltar economy going cost the British Government just shy of £15 million. So financially and in terms of labour, no deal is potentially disastrous.

**Q13 Lord Whitty:** The isolation of Gibraltar tends to get emphasised whenever we discuss aviation. My question is really about aviation, because every European discussion on aviation for the last 30 years has run against Spain's view of Gibraltar and whether Gibraltar should be part of it. On the other hand, we have been told by the aviation sector quite forcefully that it would anticipate a bespoke aviation agreement with Europe, which would basically be the European common aviation area, in which Gibraltar's participation has been highly controversial. We thought that we had reached a deal 10 years ago; Spain has resiled—I suppose that that is the polite word—on that; and we are still in a difficulty. What would be the implication for Gibraltar if the UK does not negotiate access to the common aviation area? Even if there were access, do you think that the British Government would be in a strong position to overcome Spanish opposition to the inclusion of Gibraltar?

**Baroness Kennedy of The Shaws:** He smiles.

**The Chairman:** Who would like to go first?

**Professor John Fletcher:** Nobody. On the good side, Gibraltar does not have a significant element in terms of airlines, so it is not like looking at the point-to-point airlines and the implications of this for EasyJet or Ryanair. We do not have those economic aspects, but any restriction to the Gibraltar runway will have an impact on Gibraltar, if that is the outcome of that sort of dispute in terms of the territory. The vast majority of trade and the frontier workers come across the frontier in La Línea; they do not arrive by air. From that perspective it is not such a blow, but clearly, in terms of communication, companies such as the gaming companies and the financial services need air access to operate effectively.

**Lord Whitty:** It has been put to us that the issue of Gibraltar could hold up any agreements on aviation generally.

**Dr Chris Grocott:** It certainly has in the past, on occasion. Thinking about those economic issues, one thing of course is the close relationship between financial services in Gibraltar and London, and part of that is the speed with which you can move between the two. Anything that obstructs that is a bad thing. Also, returning to the issue of tourism, although 95% of tourism into Gibraltar is day visitors coming in from La Línea, the other 5% are people who are staying for longer than one night. They are the people who are filling the hotels, and there is an expanding number of rooms in Gibraltar. So in terms of the tourist industry, yes, day tourism is

important, but air access is important as well, for the hotels and for the people whose jobs they support.

**The Chairman:** We can reflect on that. If you want to give us any further appraisal, it would be interesting. One small point that occurs to me, which I am not sure I have in my mind, is the mix between cruise ships and people who fly in for a weekend, say, from the UK or wherever. It would be quite helpful if you have any overall appraisal of what the tourism sector is worth to the Gibraltar economy. I think you said, Professor Fletcher, that it may be less obvious than it was a few years ago, because of the growth of financial services, but it is still a big chunk. Anything you have on that, individually or collectively, would be helpful.

**Professor John Fletcher:** In terms of tourism in its broadest sense, it is still significant, because the frontier workers and the many people who come over from La Linea to Gibraltar are day visitors and they come in to that tourism envelope.

**The Chairman:** They need to go to cafés.

**Professor John Fletcher:** They need to go to cafés, they go to the banks, they purchase items from the shops and some of them take their cars and fill them up with fuel. They make a significant impact on the Gibraltar economy.

Q14 **Lord Jay of Ewelme:** I want to ask you a bit about the importance of EU funding to Gibraltar in the years ahead. You have spoken about the transformation of the Gibraltar economy over the last few years. Does that mean that the salience or importance of EU funding is less than it would have been, say, 10 years ago? As I understand it, the Gibraltar economy at the moment gets quite substantial flows from the ERDF, the European social fund and some specifically southern European funds—the territorial co-operation programmes, for example. How important are those funds? Do you see them being retained in some form or another after independence? Do you see them being compensated for by the British Government and how important is that anyway?

**Professor John Fletcher:** The latest figure that I saw is that around €60 million is going to Gibraltar through those two sources. That is a significant sum of money when you look at the population of Gibraltar. It is a major investment and has been used on things that underpin the tourism industry, the financial industry and social welfare, so it has a significant impact. It would be felt if that source of funding was not available. Whether it could continue in some form after Brexit is a question that we, as universities, have been asking ourselves in terms of our funding from EU sources, and we simply do not have an answer.

**The Chairman:** Presumably, just to be clear, while the Government of Gibraltar are obviously responsible for domestic budget and support whatever public purposes, have HMG given any indications, at least, that funding is guaranteed? Is it to 2020 in the way it has been, for example, for the British agriculture industry, or are you left speculating until

something is said?

**Professor John Fletcher:** I am not aware of any mention of that.

**Dr Chris Grocott:** No, I am not either. That is one of the issues, of course—Gibraltar needs some firm steers as to what will be available to it if it is to plan its economy during this two years from Article 50.

**Lord Jay of Ewelme:** The follow-up question is whether you think that the way in which the Gibraltar economy has developed over the last few years is likely to continue in such a way that the loss of those funds would not, in fact, be all that significant to it. Or do you think it would make a huge difference? How easy would it be for Gibraltar to continue to thrive if it lost at least part of those funds?

**Professor John Fletcher:** I think it would feel the loss. Whether it would be incredibly significant is a moot point, because it depends on the growth of those sectors and the other elements of the investments that are available. At the moment there are no sources other than the UK Government that they would go to.

**Dr Chris Grocott:** Yes. The other issue is that it would depend, as you say, on the sector this was focused on. One that is worth pointing out is the very new University of Gibraltar, which was planning on getting as much as 40% of its funds for research from the European Union. The university will be specialising in things that are important to Gibraltar. Some fantastic work has already been done, with courses in business management, supporting the gaming industry, but also research in marine biology, marine archaeology and the first PhD students doing historical studies in Gibraltar. So for the people of Gibraltar, and in terms of scholarship on Gibraltar, the loss of that money to the university will be significant and may well be life-threatening for the university.

**Lord Teverson:** Forgive my ignorance but, apart from the European funding, are the Government of Gibraltar otherwise fiscally self-funding? Is there any recent history of the British Exchequer actually putting similar investment into Gibraltar's general economy? If that had to be replaced, is it something that is completely new on the Chancellor's to-do list?

**Professor John Fletcher:** I cannot answer that with a tremendous degree of accuracy over the recent time. Since I have been working on the Gibraltar economy, it has been quite volatile. The UK Government have withdrawn a significant amount of funding from Gibraltar as the economy has gone from being a naval base to where it is now, but at various times have invested as part of the withdrawal of the Ministry of Defence. They have invested in some elements; they have taken money out in others. I have not seen any significant sums on money in the modelling that I have done that has come from the UK Government.

Q15 **Earl of Kinnoull:** Can we go back a bit to the importance of the UK as a market for Gibraltar? We had the Chief Minister here in December and he



said, "most of our business, ironically, is with the United Kingdom itself", particularly in the insurance and gaming sectors. With that in mind, if the City, as it were, gets a bad deal out of Brexit, I wonder how you would see that knocking on to Gibraltar.

**Professor John Fletcher:** It is inevitable. Yes, a large proportion of Gibraltar's activities are UK-focused and a very small proportion are EU-focused, particularly the insurance and gaming industries, as you say. Anything that is a downturn of activity in the UK as a result of transfers into the continent of Europe is bound to have an impact on Gibraltar.

**Earl of Kinnoull:** I can understand that in the insurance sector, which I have some knowledge of, but I do not understand how the gaming sector would have a knock-on. Perhaps you could explain.

**Professor John Fletcher:** A lot of the gaming industry is aimed at the UK market and there are pressures on that in terms of the UK stance towards the taxation of online gaming. That is another element that Gibraltar is facing at the moment. Some of that money is invested in the UK and some is being invested in continental Europe, and there are competing agencies in Europe that would probably take some of that business.

**The Chairman:** Just out of interest, is the ownership of the gaming industry in Gibraltar mainly in UK hands?

**Dr Chris Grocott:** Yes, mainly.

**Professor John Fletcher:** There are some German elements, but it is largely UK.

**Dr Chris Grocott:** Yes, and some of the major players in the UK gaming industry work out of Gibraltar.

**Earl of Kinnoull:** Would Dr Grocott care to give his views on this topic?

**Dr Chris Grocott:** I agree entirely with Professor Fletcher. Anything that is bad for the financial services sector in the UK will be bad for Gibraltar as well.

**Professor John Fletcher:** There is also the impact that, if the financial services sector in the UK suffers, then the UK will suffer. Given that most of Gibraltar's trade is with the UK, Gibraltar will also suffer from that, so there is an indirect effect as well.

**Lord Teverson:** To pursue this a little, let us say that we are going to be out of the single market and almost certainly there is not going to be passporting and all that sort of side. I do not understand the Gibraltarian financial services industry particularly, but is there a risk that if the UK has to go for equivalence, generally, in terms of our financial services industry, we may achieve that but a country such as Spain might veto equivalence for Gibraltar, specifically, given that equivalence is primarily as much political as it is financial and regulatory?

**Professor John Fletcher:** I think that is highly likely.

**The Chairman:** That is helpful. We are beginning to move on from our economic questions to more overt political ones, but can I ask, in summary, about something that we touched on at the beginning? You have identified a number of areas around financial services, the gaming industry and services more generally, including personal services such as care homes, hospital services and that sort of thing. If these areas will be, as you have anticipated with a degree of unanimity between you, problems to the Gibraltar economy, are they seen and picked up, as it were, by populations across the frontier, in the Campo de Gibraltar? Are they worried and do they have any traction with their Government in expressing their concerns about them?

**Professor John Fletcher:** Yes. I think they are evident and acknowledged by the majority of people in the Campo de Gibraltar region. The figures are huge. The Gibraltar economy directly and indirectly supports 25% of the employment opportunities in the Campo region. The contribution to the gross domestic product in that region is €800 million. It is a region that has suffered significantly as a result of the 2008 financial crisis, so I do not think there is any escaping the fact, if you are living on that side of La Linea, that the loss of Gibraltar would be really important to them. The political side is probably slightly different. Do you want to comment on that, Chris?

**Dr Chris Grocott:** Yes. On the economic side of things, just as people in Gibraltar remember what conditions were like when the frontier was closed, people in La Linea and the other towns of the Campo de Gibraltar remember as well. The effects were dramatic. Politically, relationships have been reasonably good between local bodies in the Campo and Gibraltar itself. The issue, as you say, is really about the leverage that people in the Campo can put on the Government in Madrid. Speaking as a historian, historically the Campo region's politics have been very different from the politics of Madrid.

**The Chairman:** Broadly speaking, it is socialist as against—

**Dr Chris Grocott:** Broadly speaking, but specifically as well, it is in stark contradiction to the politics of the PP, so in that sense they may feel that they are somewhat isolated.

**The Chairman:** I am sure my colleagues will want to come back on some of these things as we look through the politics, if we can move to that now.

Q16 **Baroness Kennedy of The Shaws:** I am not an economist, but I am interested in the political and legal elements of this and I picked up on the fact that the Spanish Foreign Minister at the time of our referendum, José Margallo, said that he saw that the Spanish flag was closer to flying on the Rock. It was one of the things he said that gave us a signal. Our Government's response was immediately to assert their total commitment to Gibraltar and that the double lock that had been put in

place was going to remain. But there are concerns about whether Spain might be disruptive about border controls, or whether there could be any veto on any deal if the UK does not renegotiate Gibraltar's sovereignty.

The new Foreign Minister, Alfonso Dastis, seems much more flexible on all this and has hinted a different sort of approach, maintaining that Gibraltar's only route to a continued relationship with the EU would be through Spanish-UK joint sovereignty, and he has acknowledged that this cannot be imposed on the people of Gibraltar while they are so strongly opposed to the concept. The question is an obvious one: is there a genuine threat that Spain could hold the UK hostage in any Brexit negotiations over demands to renegotiate Gibraltar's sovereignty? Will that be one of the things on the table, or under the table?

**Professor John Fletcher:** The Spanish-UK relationship never seems to be very far away when Gibraltar is on the scene. The immediate kneejerk reaction following Brexit was to make crossing the border highly challenging. So it is there, close to the surface, and I think it could be used as a bargaining chip.

**The Chairman:** Has anything happened since the referendum? Have there been incidents that have given rise to concern about this since 23 June?

**Professor John Fletcher:** Immediately after the referendum there was a tightening up of crossing the frontier. They initially refused to accept the ID cards of Gibraltarians. There were huge queues, and it was taking ages. They use the frontier almost like a tap.

**The Chairman:** To be clear, that was official action, so far as one could see? It was not informal action.

**Professor John Fletcher:** I think we have to be careful. An EU delegation went out to observe what was happening and it found that the flow through the frontier was much quicker again. It is something that comes and goes.

**Dr Chris Grocott:** Certainly. Orders can be interpreted in different ways, can they not?

**The Chairman:** Indeed.

**Dr Chris Grocott:** That is part of it. One thing that is also worth putting into the conversation is that as well as the disruption on the frontier itself—people coming and going for work—this goes down even to very basic things. A memoir has just been published in Gibraltar by a gentleman whose father died while cycling in Spain, and he writes about the problems he had going through the Spanish authorities and trying to repatriate the body and find the personal effects. Even those things, which we might not think about on a day-to-day basis, just living round that area, can be very severely disruptive if, for political reasons, people want it.

**The Chairman:** What about the rhetoric of this? Baroness Kennedy has referred to the Minister, who may have his own position; he is not there now. Is there a sense in which the temperature of the comment has risen, either officially or indirectly, that would give rise to concern for people lately?

**Professor John Fletcher:** In most recent times, if you allow the shock of the Brexit vote to settle, I think it has softened again, but that is anecdotal; I have no evidence of that.

**Dr Chris Grocott:** I agree. However, I was in Gibraltar last week and if you talk to people there they will say that although, in their view, Señor Dastis' tone seemed more moderate, if you read between the lines it seemed almost exactly the same as that of Señor Margallo. That is worth considering.

**The Chairman:** And as you said—I do not want to put words in your mouth—memories are quite long.

**Dr Chris Grocott:** Quite so. People can remember not only the closure of the frontier but the disruption that came before that, from 1954 onwards, the irony being that the frontier flowed very freely prior to that. As you say, people have memories and they were quite devastating at times.

**Lord Jay of Ewelme:** You talked earlier about the way in which the Gibraltar economy has developed over the last years and about the degree of unemployment on the Spanish side of the border. If the Spanish authorities start interfering with free movement across the border, who does that hurt most, the Gibraltarians wanting to get to Spain or the Spaniards wanting to get into Gibraltar?

**Professor John Fletcher:** It hurts both. There are huge benefits to both economies from the freedom of workers and trade going across those borders. Most international economists would tell you that free trade is beneficial.

**Lord Jay of Ewelme:** Indeed. And will the fact that there will be Spaniards in a high-unemployment part of Spain who are unable to get to work in Gibraltar because of the Spanish authorities' action on the border be in any sense a deterrent, or is economics always trumped by politics?

**Professor John Fletcher:** I think that the economics are always trumped by politics, if you want an honest answer from me.

**The Chairman:** Is that the view of both of you?

**Dr Chris Grocott:** Absolutely.

Q17 **Baroness Wilcox:** I have very much enjoyed listening to you. I was in Gibraltar only a few weeks ago, so hearing what you say feels fresh to me. The thing that struck me was the wave of people coming into work every day from Spain and the speed at which new hotels are being built. I had gone in on one of those great big cruise boats. There is a lot of

business going on for both sides, so I am not quite as pessimistic as some people might be. The question that I have is: how far are the other 26 member states alert to the needs of Gibraltar? I do not think that they are much, but I would like to know whether you think that they are.

**Professor John Fletcher:** I cannot answer that. I do not think it is high on anyone's radar outside the UK, Spain and Gibraltar.

**Baroness Wilcox:** And it is the UK and it is Spain. That was the feeling that I had when I was there: it was the two together. It was not like having an enemy on the other side of the runway; the situation seems to have moved on. I have one more question: how would you expect the other 26 members to respond to a hypothetical Spanish threat to hold up a Brexit deal?

**Professor John Fletcher:** I do not think that I am qualified to answer that.

**The Chairman:** Just by way of background, I recall that when we were dealing with the infamous Protocol 36 on justice and home affairs, it was felt by Ministers that re-entry to the 35 or so provisions could be effected fairly easily. As I recall, the Spanish Government caused difficulties until almost the last stage of the process. There had to be a deal to extend the old arrangements until the new ones could come in. That would have involved other member states, because they would have observed it from outside. However, there is no real salience in that. I do not know whether people refer to the incident in Gibraltar. You were very much identifying the issue as being Spanish, British and Gibraltarian, with the EU now if not an umpire then at least a participant. However, if you remove that, it becomes a matter almost of bilateral resolution.

**Baroness Wilcox:** To add one last thing, when we spoke to people there, on both sides, it felt a bit like what one hears in Cornwall. People felt that it all happened in London and not down there with them. The impression that I had was that the people of that bit of Spain and Gibraltar have their lives and that what is coming out of the mouths of the big boys up in the big city is not necessarily how things are going day by day. Do you have that feeling?

**Dr Chris Grocott:** There is certainly a sense on the ground that people have businesses and families on both sides of the frontier. That is why the frontier closure was so devastating. In that sense, people want to maintain that relationship. We have heard already how profitable it is, both socially and economically.

To come back to the issue of the extent to which the Spanish Government may try to hold the UK hostage over this, if anything we have seen that robust action against Spain when it comes to Gibraltar has, as a general rule, been successful. To give an anecdotal, slightly cheeky example, I remember when the Gibraltar Football Association was finally able to join UEFA. There was a threat on behalf of the Spanish national team to withdraw from the World Cup if that was allowed. This

was at the height of the Spanish football team's success. The bluff was called and Spain will be playing its qualifying matches. So robust action is part of this.

**Lord Liddle:** Lord Chairman, my impression is that when there have been previous difficulties on the border with Spain, the European Commission has been quite helpful to Gibraltar.

**The Chairman:** Just for the record, you are identifying the Commission and the European agencies, rather than the member states out of the 27.

**Lord Liddle:** The argument is that the member states are not interested, whereas the European Commission has been very engaged in this question. I suppose the issue is that, with Britain outside the European Union, the Commission will no longer feel the need to put pressure on the Spanish Government in the way that it has in the past.

**Professor John Fletcher:** I think that is a reasonable conjecture. Once you are dealing with a country that is still within the EU and one that is not, it becomes less of a European Commission issue.

**Lord Teverson:** I assume that the Commission has no authority to intervene on an external border. It is not just that it will not feel that it has to; it will not have the legal powers to do so.

**Professor John Fletcher:** I am not a lawyer. I am an economist, so I cannot answer that.

**Dr Chris Grocott:** Nor can I, but I point out that this is not strictly a bilateral issue, in terms of the frontier and the people involved at the frontier. This is not just Gibraltarians and Spaniards. A good chunk of the people—roughly a third—who go across the frontier are EU nationals who are not Spanish. In that sense, the European Commission may be interested in what is going on, because it does not just affect people who were born in that area.

**Lord Liddle:** But presumably it is question of whether the British Government can negotiate some special arrangement for free movement across the border as part of their comprehensive deal with the EU.

**Professor John Fletcher:** I think that such a negotiation is really important for Gibraltar and for Spain.

**Dr Chris Grocott:** It is absolutely vital, but it is worth pointing out that if that were solely a bilateral agreement, the extent to which we could rely on it in the future may be questioned. Because of the usefulness of the European Union in arbitrating these matters, it would have to be built into the negotiations so that there was at least some recourse to a third party and it would not be handled solely bilaterally.

**The Chairman:** Just to be clear, there are two potential routes for resolving this. One would be a bilateral agreement between Spain and the United Kingdom outwith the EU negotiations but obviously compatible

with the EU's general rules on the movement of labour and the single market. The other would be a provision in an exit treaty, or whatever, to enable this to happen. In one case, the Community institutions and possibly the judicial institutions would have a locus; in the other case, they would not.

**Dr Chris Grocott:** Yes, and there are special arrangements for Gibraltar at present in relation to the way in which the UK joined the European Union, so it is not unusual to make special arrangements.

**The Chairman:** Forgive my ignorance, but have any of those been adjudicated on? Are they things that eventually get to court, or are they just there in the background in case of necessity?

**Dr Chris Grocott:** I am going to invoke Professor Fletcher's phrase and say that I am not a lawyer.

**The Chairman:** I do not want to get you into trouble, but are you aware of any celebrated cases?

**Dr Chris Grocott:** The only one that I can think of is the Denise Matthews case, which brought about the vote for Gibraltarians in European Union elections.

**The Chairman:** I am advised that we may be moving towards a Division, so we will see if we can close these lines of question, which have been very helpful.

Q18 **Lord Teverson:** I think that we have gone through most of this, Lord Chairman, but I would never underestimate the ability of national pride to trump economic interest. That is my concern. I understand that there is a cross-frontier group. I know nothing about it, but do you think that it has been successful and could still act as an intermediary or a pressure group to make sure that these border issues are resolved more amicably?

**Dr Chris Grocott:** Absolutely. I talked to the unions and the Chamber of Commerce in Gibraltar last week and both were very positive about the work of that cross-frontier group. It has brought together parts of the Gibraltar economy that normally might find themselves in confrontation but are united in this common goal. That organisation has been very successful.

**Lord Teverson:** For clarity, how is its membership determined?

**Dr Chris Grocott:** I could not give you the exact details, but it consists effectively of representatives of—if I can use these words—capital and labour on both sides of the frontier. If there is a message to take away from that group's activities, it is that everybody on both sides of the frontier benefits from a good relationship between Gibraltar and the Campo.

**The Chairman:** Lord Green is next, just to tidy up, particularly on the trade side.

**Q19 Lord Green of Hurstpierpoint:** Looking forward to the kind of deal that the UK may end up doing with the EU and the interests of Gibraltar, the Chief Minister told us that if the UK does not include in an agreement with the EU provision for access to the single market—it is at least now clear that the agreement will not provide for membership of the single market—the Gibraltarians may seek to ensure that the UK’s negotiation includes a facet that allows Gibraltar to have a microstate-style relationship with the EU, I suppose along the lines of San Marino, Andorra and Monaco. He has suggested at other points that because of Gibraltar’s strong relationship with the new Department for International Trade, Gibraltar’s economy might stand to gain through deals that may be done by the UK with the rest of the world after Brexit. Are those two objectives compatible with each other, in your view?

**Professor John Fletcher:** Yes, I think so. I see no reason why not, although I can see the tension that could be there. Gibraltar is so interlocked with the UK economy that it is hard to imagine it flourishing without that interlocking continuing. I can see Gibraltar benefiting if it can also channel into European markets as well as the new markets that the UK would engage with, although I can also see the political tensions that would come with that.

**Lord Green of Hurstpierpoint:** It does sound a little like having your cake and eating it.

**Professor John Fletcher:** I am not going to comment on that.

**The Chairman:** On that note, gentlemen, and you have been very helpful, is there anything that you would like to share with us—if not now, then at a later stage, if that is more convenient—that you think we ought to be aware of?

**Professor John Fletcher:** The only thing that I would say—and I am quite happy to provide more detailed and specific information following your deliberations here—is that, having worked closely with a succession of Chief Ministers over the years in which I have been engaged either for the UK Government or the Gibraltar Government, I think that the economy is incredibly resilient. Because it is small, it is incredibly adaptable. It has surprised me. I specialise in islands. I have been around the Caribbean and the south Pacific building economic models, and Gibraltar is the jewel in the crown in the way in which it has survived economic challenges. But it will survive this one properly only if the UK keeps Gibraltar close to it in the way in which it can trade, build its services and carry on developing its economy.

**The Chairman:** Is it important to have at least some time to adapt? Cliff edges are not as acceptable as reasonable periods of notice. Just rehearse that, if you would.

**Professor John Fletcher:** To ask it to adapt without the interlocking of the UK is a bit like asking whether it will survive in a cul-de-sac. It needs the UK economy to be with it going forward. It is a really important



element. Gibraltar without the UK economy is a totally different ball game; it would be a restructuring and would be particularly challenging.

**The Chairman:** Thank you. You put that very moderately.

**Dr Chris Grocott:** I agree with all that. I would just like to say at the end that the only way in which the Gibraltar economy will remain successful in the way Professor Fletcher has outlined is if there is some indication publicly of the Government's plans in relation to Gibraltar. Last Monday, I spoke to the Chief Minister. We had the speech by the Prime Minister of the UK on Tuesday. By Wednesday morning, everything was back up in the air again. That level of uncertainty is unhelpful. People need a clearer steer as to what will go on in the future.

**The Chairman:** Can I just ask you to think for a moment about whether this is the uncertainty of reticence or the uncertainty of not having decided what to do? To put it another way—you will both have had official meetings with Whitehall—is there a sense that people are at least working on the case but have not necessarily reached a final conclusion, or is it that in certain cases what they ought to be worried about has not been noticed yet?

**Professor John Fletcher:** I think there is a compounding of problems. On the question of the uncertainty in the UK because of Brexit, if businesses are uncertain there tends to be a holding back on investment and it has a long-term effect. Gibraltar has the uncertainty not only of Brexit but of where it is going to stand in terms of its frontier with Spain. That brings additional challenges.

**Dr Chris Grocott:** The issue is that you can map out all the scenarios but you can cope with only a number of them. That is why a clear message is required.

**The Chairman:** Thank you for that. You have been most helpful. You have set out both the economic and political considerations in a way that has illuminated the problem, which we were anxious as a Committee should not be overlooked. It is very helpful to us. We will send you a transcript. As I said, if you have anything to share with us, particularly on tourism, and as you indicated, Professor Fletcher, some of the later statistics, we are very much in the market for it. In closing the formal evidence-taking, we express our thanks.