

# Select Committee on the European Union

## Financial Affairs Sub-Committee

### Corrected oral evidence: Brexit: EU Budget

Wednesday 25 January 2017

12.35 pm

Members present: Baroness Falkner of Margravine (The Chairman); Lord Butler of Brockwell; Lord Desai; Lord Haskins; Baroness Liddell of Coatdyke; Lord Shutt of Greetland; Lord Skidelsky; Duke of Wellington.

Evidence Session No. 5

Heard in Public

Questions 47 - 52

#### Witness

[I](#): Ingeborg Grässle MEP, Chair, Budgetary Control Committee.

#### Examination of Witness

Ingeborg Grässle MEP.

**Q47 The Chairman:** Good afternoon, Mrs Grässle. Thank you for coming to speak to us in our United Kingdom EU Financial Affairs Committee inquiry into Brexit and the EU budget. As you know, this session is on the record and we are taking a verbatim transcript of proceedings, which will be published in due course. You will, of course, have the opportunity to correct any minor errors or misunderstandings. I should also say at this point that we understand that you are speaking in a personal capacity and not on behalf of the whole of the European Parliament. We are delighted that you are able to see us, and are very grateful to you for that.

Mrs Grässle, you have previously said that you believe that the UK's contributions may be around €20 billion after it leaves the EU. It is what we in Britain informally call the exit bill. Can you break down which areas or sectors you think these contributions are likely to come from, and do you think it will be a one-off payment or stretched out over time? What

is your analysis?

**Ingeborg Grässle:** Thanks a lot for the invitation. I wanted to tell you first of all that I deeply regret that the UK will leave the European Union, because you have been our partners for such a long time. The world around us is burning, and we should spend our time organising the firefighters. Now, around 30% of EU staff will have to deal with the UK leaving the European Union. This is, if you will forgive me, a big waste of resources. Of course, we respect the vote of the people. I regret it, because, as a conservative Member, until 2009 we had the Tories in our group. They have always been very precious colleagues until today. Those who work for the European Union and who understand how it works have made very valuable contributions to making the world a little better, which is what we try to do here, and to organising the cohesion of the European Union, which is difficult. This is why I really regret it. Everybody will lose. The UK will lose first, but the European Union will lose second. Germany will lose a lot, which is why we really regret it. I suggest that we do not make it any more dramatic or severe than it is. I would really welcome the UK having the closest ties possible to the European Union, but from everything I have read up to now that does not seem likely, which is also regrettable.

As to the €20 billion, it depends on how you calculate it. This is my calculation. First, I got a phone call from a journalist, who asked me, "How many bottles from the cellars of the European Council have to go to the UK?" That is how it started, because, of course, we have liabilities, but we also have assets. Just to present you with the bills, you may have the accounts of the European Union, and I will give you the last accounts that are available now, for 2015. Balancing the assets against the liabilities and including the share of pensions, using not 4% as the share of UK officials but 12.5%, you arrive at around—

**The Chairman:** Sorry, what was the second figure?

**Ingeborg Grässle:** It was 12.5%, the UK quota. Of course, the UK quota has to be applied not only to revenues but to expenditure. If you apply the 12.5% quota to pension liabilities, this is €33.8 billion in total for a long-term run. Then you arrive at around €20 billion; the exact figure is €21.7 billion. This calculation underlines the fact that you have a cut until the end of 2020, with RALs, which means money that is not yet disbursed. You also have the long-term liabilities for pensions, for example; there is accrual accounting for all pension liabilities. If you include that, it is around €21.7 billion. I can leave you the calculation. All those calculations change a lot depending on what you take as a figure.

With a hard Brexit, as it is called, you can leave the Union without looking behind you. If you do not care about treaties and obligations that you have signed, if it is a brutal exit you can say, "Who cares?", and see how you manage. Everything is possible. This is what is worrying me, because up to now the hardliners have won. From now on, please avoid letting the hardliners win, because we need friendship and a good relationship. All those things are lost by giving up a good relationship afterwards. We

urgently need the UK. We need your liberal thinking, your liberal attitude towards economics and towards people. When we lose the UK, we lose a lot from the point of view of spirituality and political philosophy.

I am rapporteur for the fight against fraud and for the Liechtenstein agreement on tax fraud. Look at the achievements in the fight against tax fraud. Please do not allow the UK to become a tax haven, because if the UK offers a safe haven for all dirty money in the world you have a crime against humanity. This you cannot do. It took us such a long time to clear up the relationship with Switzerland—to abolish bank secrecy. The Isle of Man in the UK has always been a thorn in our side. The UK is now reflecting on becoming a tax haven and not only for companies; this will be broadened out. You cannot step back and justify a false decision by making plenty of other false decisions. This is what I am really worried about, because the UK will push itself out of a certain thinking in the western world. Do not do that. That is why I am really very worried. That is why I would like to suggest having fair negotiations, and these fair negotiations cannot mean picking what you would like to have and leaving the rest for others.

**The Chairman:** Fairness, as you rightly say, is the operative word in this story. I am sure that both sides will seek that. You mention pensions, and your figure was very interesting. I will bring Lord Butler in straightaway, because he has been examining the pensions issue for us.

**Lord Butler of Brockwell:** I understood you to say that you had calculated the pension liability on the basis of UK nationals working for the Commission. Was that past UK nationals, who are already in payment of pensions, or present UK nationals and the future liability for pensions; or was it a combination of the two?

**Ingeborg Grässle:** It is both. For the moment, 4% of EU officials are UK nationals, and the number of those who get a pension is around 1,000. We know the exact figure. We calculated the percentage and then we presented it as an average percentage. We did the 4% calculation, and then we did the 12.5% calculation for the UK quota. We did both. The 4% is €2.5 billion, and the 12.5% is €7.9 billion. It depends on how you attack the question, but this means that there is room for negotiation. This is good news. I am not worried about €1 billion, because this is not the problem, but there is room for negotiations, and interesting packages can be done. I know that it will be difficult for you to sell it to the British people, but at least there are obligations.

**Lord Butler of Brockwell:** I understand that there will be room for negotiation, but surely employees of the Commission are just employees. Their nationality is not significant. Therefore, this is a liability of the Commission, and it is not a legal liability of the UK. I am not saying that we would stand on the law, but it is not a legal liability of the UK. You are really saying, are you not, that as a good-will gesture the UK should feel obliged to contribute to the pensions of its nationals.

**Ingeborg Grässle:** How things can be seen is always interesting. Of course, the pension obligation is an obligation of the Union, which means the member states, which is why there is no option not to be responsible for that. Do not forget that officials pay a certain sum—5% or 6%—of their pensions to a fund that does not exist; this money is distributed to the member states thereafter. This means that during the UK's membership you had plenty of money from their pension fund. It would be fair to pay at least this money back, plus, perhaps, the money for the UK officials, but for me there is some room for manoeuvre, because in my view your share is 12.5%, not 4%.

**The Chairman:** You talked about liabilities going forward. Baroness Liddell would like to come in on that.

Q48 **Baroness Liddell of Coatdyke:** One of the big debates that we have had as we heard evidence, particularly from lawyers, is about Britain's liability in the long term, up until 2020, in relation to the multiannual financial framework. It is clear that that debate will continue. Do you think that we will be liable until 2020? More particularly, I would be interested to know from your experience who would decide if there was a dispute about Britain's liabilities for payments up to 2020. In the regulation, there is provision for it to be amended in the case of the accession of a new member or "unforeseen circumstances". Could you envisage Britain's payments being taken into account in unforeseen circumstances? I realise that this is very much a personal reaction from you.

**Ingeborg Grässle:** I am not sure if I got all the points in the question. Of course, it would be the European Court of Justice, which is always competent when we have questions on the community law. The Court is the one that decides.

**Baroness Liddell of Coatdyke:** I am sorry about that. I am Scottish, so my accent is a bit different. Even in relation to the European Court of Justice, as we understand it from some lawyers, we would not necessarily be bound by it after Brexit. Who, if we had not resolved this issue by then, would decide? The more complicated question is about the bit in the MFF regulation that applies to unforeseen circumstances, because there is provision for a new member joining. This phrase, "unforeseen circumstances", seems very broad. Could you envisage that being used to assist the United Kingdom? Is that clearer?

**Ingeborg Grässle:** Yes. Yes, of course. When you have a divorce—and we have a kind of divorce—you can manage it in a different way. We have to take care of the kids, and we have a dog and a cat. If you say, "I am not interested in the kids or the dog and the cat. I renounce everything and I will not pay anything", you leave and the rest have to see what to do. Never forget that you will have to reach bilateral trade agreements with some EU member states. I am sure you are only interested in five or six, but the UK has a responsibility in the world. We have very poor member states, Bulgaria and Romania, and if you trigger

this article in the MFF be aware that those poor member states will have to pay the bill for the UK. They will not forget that.

Everything depends on how you would like to see your position in Europe and on the European Union for the next 20 years. The UK was always very keen on accession and on promoting the idea of accession, and now leaving the Union and all the member states behind with the effect of these policies, such as on Turkish accession, which were vociferously defended by the UK, is not fair. That is why I would like to see a lot of fairness. We should not be too petty about money. The money in the whole thing is not the problem. Our common interest is to have trade relations, to have political relations, to count on the UK in the outside world, to have relationships with third countries, where we need the UK's intelligence and military capacity. There are plenty of duties awaiting Great Britain as well as the European Union.

That is why it would now be wise to calm the tone down. I always thought that things would become calmer, but that is not the case. Things are as hot as when the people took the decision. I do not really understand why it is like that, because that is unwise. Politicians are not interested in calming the situation down, which is also unwise, and I think you know it.

**The Chairman:** Ms Grässle, of course, the problem with fairness is that it is highly subjective. As a Committee, we are trying to get to your assessment of the facts as we know them. It seems to me that you have said that it is a political decision. What you said about the Court of Justice once the UK has ceased to be a member may be a fact, but it is not relevant to your assessment of how we resolve it.

**Ingeborg Grässle:** One member state, even if it is leaving, cannot cancel the obligations that we all took together. The treaties are clear. For quarrels on community law, it is the Court of Justice that is responsible.

**The Chairman:** Yes, but if the UK ceases to be a member of the European Community, community law no longer applies to the UK.

**Ingeborg Grässle:** Yes, but when we discuss membership questions, the Court of Justice is relevant. We do not do a kind of arbitrage, as you have in trade agreements. You now have a membership relation, which obliges you to do certain things. This obligation is not something that you can take or leave; it is an obligation. This is an obligation that will cover the whole procedure. This is why I do not think there is any choice, and, of course, who else could address those questions? It is not a question of particular figures; it depends on how you calculate it.

The problem is that the financial obligations change every day. Up to now the Commission has refused to put forward the bill, and it is the only one that knows what the exact bill is every day. I think that €20 billion is at the lower level, but you can imagine it going up to €70 billion. It depends on when you calculate it, when Britain leaves, and the obligations in the

past. Never forget that the MFF does not end at 2020. There is a RAL, estimated in 2015 for 2020, of €254 billion. You can make your calculation of 12.5%. If you add all this together, it goes from €20 billion to €70 billion. Everything is possible. If you leave closing the door and not caring about anything, what will we do then? Germany has many financial *revendications* within the Union. Two years ago, the Greeks threatened to seize German property in Greece. Do we now discuss seizing British property in the European Union and you seizing European Union property in the UK? That would be fun for Russia and China. This is where it will lead to, because if we manoeuvre ourselves into a situation where nobody can go back and we go beyond the point of no return, we have made an error. I regret that.

**Q49 Duke of Wellington:** My question is to do with the commitments taken in the annual budget process. As you would expect, this Committee is trying to estimate the budgetary implications of departing from the European Union. In the annual budget process, to which the United Kingdom is a party both through the Council and through British Members of the European Parliament, we commit to the obligations taken on in the annual budgetary process. Part of that is a future commitment for the years following the actual year of that budget. We are trying to establish whether, in your opinion, the United Kingdom would still be committed to paying its share of future payments after the actual year of that particular budget. That is really what we are trying to establish: how much are we obliged to contribute to that, if anything?

**Ingeborg Gräßle:** The MFF was concluded by unanimity and signed, which means that if you leave in 2019, we still have one year. In 2019, we have RALs. Everything is calculated as from the beginning of every year, and you have an obligation to pay as-yet-unpaid commitments for the RAL at least until you leave the European Union. In my view, there is also an obligation that covers the rest of the MFF period. The figure, given at the end of 2015, for the RAL until 2020 was €254 billion, and 12.5% is the maximum share of this obligation. There are also pensions. There is room for negotiation.

**Duke of Wellington:** If I have understood your answer—and thank you for taking the trouble to answer in that way—you base it all on the multiannual financial framework, not on the budget, including the forward commitments. Am I correctly interpreting what you said?

**Ingeborg Gräßle:** If you put together the annual budgets in the MFF and the MFF figure itself, the difference is about €50 billion over the total period. It is nearly the same. Everything is calculated from year to year, even in the MFF. The annual budget is a little lower than the MFF figure, but the member states are entitled to have the whole MFF share. The differences between the annual budget and the MFF budget will not be so great. That makes it easier to look at the MFF budget, because it is agreed by unanimity; the annual budget is agreed by qualified majority. Points discussed and decided by unanimity are much stronger than those decided by qualified majority. This means that the obligation agreed by unanimity to the MFF is a very strong one, and if you end it in 2019 or

2020 there is room for negotiation. That is why it is important to reflect on whether, if a hard Brexit means going out and leaving nothing behind you, it is wise to do so because of the money. The money is important, but it is not worth behaving like that.

Q50 **Lord Desai:** Similarly, we have commitments on research expenditure with Horizon 2020. How do you think that will be negotiated in the context of Brexit? Will it continue after Brexit?

**Ingeborg Grässle:** This is something we should really congratulate you on. The UK universities are the best universities in the whole European Union. Together with Switzerland, which is not a member of the Union, it takes 25% of the Horizon 2020 budget. This excellence idea, having a competition and having the others as a benchmark to see how good you are, is why the UK universities do best.

In my view, it depends on whether you would like to have access to the European funds for Horizon 2020. This possibility exists for EFTA states and for Switzerland, which has a special negotiation and close ties to the European Union. Everything depends on the ties you would like to have. I would welcome it, but I do not think it is possible to have those kinds of ties to the European Union without access to the internal market and the four freedoms, at least one of which is contested in the UK. I do not think it is possible without any obligation.

**The Chairman:** I have a brief follow-up question on Horizon 2020. Anecdotally we are hearing from UK researchers that there is already, even now, a disinclination to have them leading or included in teams. If United Kingdom universities wanted to sue someone, if their contracts were terminated early, where do you think that court would be? What would be the forum for suing, in this case the Commission, on the early termination of Horizon 2020 contracts?

**Ingeborg Grässle:** It would be the European Court of Justice, of course. Discrimination is not in order, because UK universities are entitled to have full access. As those programmes will last for a long time, the problem will be what happens after 2019. Finding solutions for that is urgent. This is a classic case of where we really need solutions.

**Lord Skidelsky:** What, in your view, do Norway and Switzerland get from their contribution to EU programmes?

**Ingeborg Grässle:** Norway pays €107 per capita to the Union budget, on average. It has access to the internal market. It also has access to legislation. It takes over a large share of EU legislation; this is the condition. It has access to Horizon 2020 and to the excellence idea. There is no national quota, no share that you have to get, because the idea is the competition. The competition idea makes people improve; they improve because there is competition. You know that very well, because you like competition. Not every member state likes competition, but competition is good for making people better. This is the benefit that Norway and Norwegian universities, as well as Swiss universities, get out

of it. It forces them to be better. This is what I see as a huge benefit for Swiss and Norwegian universities. They also have access to the internal market and the products without all the nitty-gritty, awful things that countries do to protect their markets.

**Lord Skidelsky:** What was the thinking behind Switzerland being temporarily suspended from Horizon 2020, following the impositions of restrictions on free labour movement?

**Ingeborg Grässle:** As you will know, Switzerland was part of Horizon 2020, and it was an important measure to show that the four liberties are taken seriously. We really believe in the benefits of the four liberties for the internal market. Being cut off hurt Switzerland. Horizon 2020 did something very useful for Switzerland; it became very creative and managed to implement the people's will on limiting free movement, compatible with the four liberties. It did exactly what Germany has done since as an EU member. I wonder why it lasted for such a long time. From time to time, it is good to look at how member states do things, because it might be a prospectus model.

**Lord Skidelsky:** Certain limitations are allowed.

**Ingeborg Grässle:** Yes. It did what Germany has done since, and it now has full access to Horizon 2020.

**The Chairman:** It was the use of a sanction to change behaviour.

**Ingeborg Grässle:** Yes and no. It took the result of the referendum and worked on it. It did not put it literally into force but looked at how to make it compatible. As we know, all over Europe people want to look at immigration. That is what we constantly do. When we see that we have regulations that promote immigration we do not want, we have to look at this legislation. That is what we try to do. On the referendum question, there was a reform package for the Union. It is a pity that it did not go through in Great Britain, because it would have been so useful for us as well. We will come back to it in some months' time. It would be useful to implement it, so as to not give false attractiveness to our member states. We need to protect our social systems. Everybody is of the same opinion.

Q51 **Lord Shutt of Greetland:** What immediate concerns does the UK exit present to the remaining members? There is a shortfall in the UK's commitment for 2016, due to the depreciation of sterling. How was resolving that discussed?

**Ingeborg Grässle:** This is still a real problem today, because the pound, from time to time, is losing value. Now it has stabilised at \$1.25. There are fines in the European Union budget, and the fines are used to balance it. This is a news story, because until now the fines have always been sent back to the member state. It was a kind of sacred cow not to use these fines for the EU budget; they were always sent back to the member states, because the Commission did not want to have this power. As the only one to be able to issue fines in the internal market, it did not want to link these fines to the EU budget, because fines are a

question of competition politics and not of European Union revenue. It does everything to avoid the impression that it issues fines to get revenues. It is for the first time, and it is a dramatic new step, that competition fines are being used to balance the EU budget. This means that other member states renounce something they would have got. The others start paying for the UK.

Q52 **Lord Shutt of Greetland:** Do you have any views on the ongoing commitments and how they might be affected by the work of the High-level Group on Own Resources?

**Ingeborg Gräßle:** I am a humble budget controller. Richard, you listen to Monti. I am a little overloaded with work. I would be grateful if you could ask him. I have no special views on that. Thanks a lot.

**The Chairman:** Thank you. I should welcome Mr Richard Ashworth. It is very good to have you here, Mr Ashworth. Does anyone else have any follow-up questions for Ms Gräßle? Thank you very much for coming. We have found it most instructive. It is very interesting to hear your point of view.

**Ingeborg Gräßle:** Thank you very much, and good luck. Please help us do a really good deal for both.

**The Chairman:** We will bear that in mind and communicate it upwards.

**Ingeborg Gräßle:** I will leave you with the calculation I did.