

Select Committee on the European Union

Uncorrected oral evidence Brexit: Deal or No Deal

Tuesday 10 October 2017

4.05 pm

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Members present: Baroness Falkner of Margravine (The Chairman); Baroness Armstrong of Hill Top; Baroness Brown of Cambridge; Lord Crisp; Earl of Kinnoull; Lord Liddle; Baroness Neville-Rolfe; Lord Selkirk of Douglas; Baroness Suttie; Lord Teverson; Baroness Verma; Lord Whitty; Baroness Wilcox; Lord Woolmer of Leeds.

Evidence Session No. 1

Heard in Public

Questions 1 - 9

Witnesses

I: Ruth Lea CBE, Economic Adviser, Arbutnot Banking Group; John Longworth, Co-Chairman, Leave Means Leave.

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Examination of witnesses

Ruth Lea and John Longworth.

Q1 The Chairman: I welcome to our inquiry on Brexit—today, we are going to be probing “deal or no deal”—Ruth Lea, economic adviser at the Arbuthnot Banking Group, and John Longworth, co-chairman of Leave Means Leave.

Just a few points of housekeeping. I remind Members and both our witnesses that this is a public evidence session. A full verbatim transcript will be taken and the meeting is to be webcast. Members will declare any relevant interests the first time they speak. This is the Committee’s first evidence session for its new inquiry. We are looking at the key elements of what this means in terms of transitional arrangements and so on.

I will kick off by drawing your attention to the Prime Minister’s Florence speech. Do you believe that this provides a sound basis for negotiations for the UK and the EU to make progress? It has, of course, been updated by her Statement in the House of Commons yesterday. Ms Lea, would you like to start?

Ruth Lea: Yes indeed. Thank you very much for that introduction. I thought it was a sound basis for negotiation. After all, what are we trying to do on leaving the European Union? I know this is about no deal, but it is optimal if we try to get some kind of free-trade deal with the European Union. I assume that that deal will not be finalised, signed, sealed and documented by March 2019. I do not know if anybody would disagree with me on that; I would be interested to hear it if they did. Assuming that such a trade deal was not finalised by March 2019, this means de facto that the finalisation of the negotiation for the deal has to go beyond that date. It therefore makes sense to have a transition deal, which is what Theresa May was talking about in her Florence speech. Basically, I am in favour of it.

On the notion that we continue to have similar trading arrangements, well you have to bite on the bullet and say that if that is what it takes that is what it takes. She also talked about paying into the budget over that period. Again I bite on the bullet: it is not my optimal situation but, again, if that is what it takes that is what it takes. The danger is that, after the transition period—or implementation period, whatever you want to call it—there may still not be a trade deal. Under those circumstances, we would have gone through the transition and not have anything in return.

However, I thought it was, on the whole, a very reasonable and generous offer to the EU.

The Chairman: To pick up on one point there, she intimated that it would be around two years.

Ruth Lea: Yes.

The Chairman: You think that that period feels right? I want to probe a

bit deeper into the distinction which people draw, particularly in your area of financial services, between a transition period during which we continue doing things as we do now until we can finalise, dotting the "i"s and crossing the "t"s, and an implementation period, which the other side refer to, when you know what you are getting and you need a bit of time to become compliant with it. Do you draw that distinction? If you accept it, how long do you think it should be?

Ruth Lea: I see a sort of transition period of, say, two years as an opportunity to finalise the new deal. I cannot see that an implementation period should take that much time as by then business should, presumably, know what the new arrangements are going to be. A far more dangerous outlook is if no treaty is actually agreed after that transition period and we are still in limbo or we say, "That's it. We are leaving with no deal".

I can see why people might want to distinguish between a transition period and an implementation period, and that is sensible. However, on the whole, I can see the current transition period lasting in order to get the finalisation of the deal, if there is one.

John Longworth: My view varies a little from Ruth's. I agree that it is a very generous offer to the European Union. It is an offer that a business person would never make. If you look at the way the Florence speech was constructed, although it had a lot of fine words in it, the content essentially said that we will continue to be restricted by the rules of the European Union that prevent us from crystallising the economic benefits of Brexit, because we will remain subject to the single market and customs union rules, that we will pay additional money for that while having no say in any new regulations and being subject to the European Court of Justice—iconic issues for people who voted to leave the European Union—and that, at the end of that period there will be no guarantee that we will come to a conclusion.

Nobody would ever go into a business negotiation with that sort of proposition, because it gives away a lot and asks for nothing. The European Union has effectively pocketed those offers now and is simply waiting for more, as it would. It was also undermined by the fact that the Prime Minister did not make it clear at the time of the Florence speech that we were categorically prepared to walk away, that no deal was better than a bad deal. That has been partially clarified since.

My view is also that it is an implementation period. It was said to be that, not a transition period, and for very good reasons. It implies that the deal must be done before March 2019 and that the period afterwards is for implementation, not for further negotiation. If we have a period of further negotiation, not only does it lead to a second cliff edge but it produces a situation in which business continues to have no certainty for an even longer period of five years after the referendum, which is unacceptable.

As far as Leave Means Leave is concerned, as well as some other organisations that I am involved with—I am on the advisory council of

Economists for Free Trade, for example—we are rapidly coming to a position where not only is no deal better than a bad deal but no deal may well be the very best deal.

The Chairman: Ruth Lea, I can see that you were disagreeing. Do you want to explain why?

Ruth Lea: There are two or three things. First, I cannot envisage that the new deal will be agreed by March 2019. I have said that already. John obviously disagrees with me, and that is fine.

Secondly, I accept that there will be costs in this transition period plus implementation period, or whatever you want to call it. We will still be subject to all the EU's rules; we will still be de facto in the customs union and the single market. We accept all that. We will also, of course, be paying into the budget. So there will be costs.

The real question to an economist or a negotiator is: will those costs be outweighed by the future potential benefits of having a deep and fundamental relationship—a trade and security relationship—with the European Union? The simple answer is that it is almost impossible to quantify, but, from my perspective, continuing to have a close relationship with the European Union would be highly beneficial—and I was and am a Brexiter. It is worth bearing some costs for that, because in the future I suspect that the European Union will still be one of our major trading partners, not least for financial services or for the car industry. So when you weigh up the costs and benefits, my betting is that it is still better to go for a trade deal even though there are costs to be borne in the meantime. We will go on from there, but, as I say, the big risk is that at the end of a transition period or whatever we still would not have a trade deal so we would have incurred these transition costs without getting anything back in return.

John Longworth: Having regard to the stated position of the European Union negotiators that it is their intention to make sure that the UK does not have a better deal after leaving the EU than being in it, it seems to me highly unlikely that we will reach a satisfactory conclusion. My view would simply be—and I agree with Ruth on this—that we must take a transactional approach to any trade arrangement with the European Union, weighing up the costs and benefits. But part of those costs are opportunity costs, and by having an implementation period of two years or more—because it has not been made clear whether the two years is a stop-end—we will forgo the implementation of the economic benefits of Brexit, which are very considerable. Economists for Free Trade estimate that the combined economic benefits amount to up to 7% of gross domestic product. That would be like increasing our growth rate by a quarter every single year for the best part of a decade. That is a huge potential benefit of leaving the European Union—

The Chairman: That is, of course, highly contested.

John Longworth: It may be highly contested, but then, prior to the

referendum, the Treasury model was highly contested, too.

The Chairman: I think the statistical agency and others have reported today that GDP growth will be considerably lower for some prolonged period to come.

Lord Liddle: On the question of whether there should be a transition, I wonder whether our experts here have done any work, or were aware of any, on the timescale of what would be involved in setting up customs arrangements if we end up outside the customs union. How many staff would be involved? The Government would have to recruit them. What would the cost of this be to public finances, and how quickly could it be done? That seems relevant to any question of timescale.

Similarly, on migration controls, what estimates are they aware of, or what work have their organisations done, on what would be involved in the Home Office exercising migration controls over people from Europe? What timescale and at what cost do they think this could be implemented?

The Chairman: Mr Longworth, would you like to deal with that?

John Longworth: Yes, I am quite happy to address those questions. I wrote a paper in March this year, which was submitted to Ministers, setting out how the UK could approach the customs union question and deal with frictionless trade even if there were no deal—so, deal or no deal. It is unfortunate that the Government did not crack on and start to upgrade the HMRC IT system quickly enough. That has delayed that process and wasted time.

However, even if we need an implementation period, one might ask why that period needs to have a blanket approach to all aspects of leaving the European Union, rather than simply focusing on aspects where there may be a requirement for more time, such as for customs arrangements. Of course the UK Government have themselves published some work recently on how we might deal with customs arrangements in a no-deal scenario, and there are means of doing that. As far as the immigration question is concerned, we also published a report some time ago on immigration costs and benefits. I am quite happy to send these publications to the Committee, which it might find helpful, rather than go through them page by page.

In short, I would say on the immigration and customs work that we have already offered the European Union €20 billion for a two-year implementation period. The work that is being undertaken at the moment, which is not yet complete, on the public costs of implementing these things is highly likely to demonstrate that the cost of implementation before March 2019 is considerably less than the €20 billion which would be paid to the European Union for the implementation period.

Ruth Lea: I have not done any work on customs myself, because it does not really fall into my remit. But assuming that we leave formally in

March 2019 and there is a transition period of, say, two years, we have three and a half years in which the Government can get their ducks in a row when it comes to the new customs and migration arrangements. As I understand it, a Customs Bill was released yesterday, so the Government are obviously on the case, sorting out the new customs and migration arrangements. I really have no idea at all about the costs.

I am perhaps overinterpreting what Lord Liddle said, but it almost gave rise to the question: what sort of length should the transition period have? Some people would argue that it should be much longer than that, because to negotiate the trade treaty itself would take considerably longer than two years. They quote all the examples, such as the Canadian Comprehensive Economic and Trade Agreement, which took seven years. My reaction to that is that we will be in a very different place than Canada would have been when we come to negotiate with the EU, because we are already completely compliant with the regulations within the EU. Providing that there is a will on both sides to get on with the treaty and the negotiations, I would expect that to be done within two years.

The Chairman: Baroness Verma has some questions that she would like to pursue on that.

Q2 **Baroness Verma:** Thank you, Chair. Following on from that, the impression that I get from listening to you both, particularly Mr Longworth, is that on the UK side we are doing as much as we need to do. Where, in your view, are the stumbling blocks? How can they be overcome? Are they perhaps more on our side in the UK, or are they more so on the EU side? How, therefore, would we have the discussions to overcome them?

John Longworth: I am not entirely sure whether the UK Government are doing enough, quite frankly. The truth of the matter is that if the UK Government were serious in pursuing a no-deal option, they would look at taking practical measures very soon to implement it. It is not enough simply to plan it on paper, because to be ready to have a reasonably smooth exit without a deal by March 2019 we need to be doing stuff now. In fact, we needed to be doing stuff before now, so time is of the essence.

The other factor in all this is that the Treasury has been singularly silent on what a post-Brexit economic policy will look like. Since the referendum, it has published almost nothing on it. It is just as important for business confidence and business certainty that the Treasury makes it clear what the economic model will be post Brexit, including seizing the opportunities that Brexit presents for a change in our economic model, which will then make us richer.

It is just as important that the Treasury does that as it is that the Government plan for the administrative and technical matters relating to leaving the European Union. If those things were declared now, business would have absolute certainty about the future, because those things are

entirely in the gift of the UK Government, irrespective of the negotiations with the EU. For example, the Treasury model would be in the gift of the Government, deal or no deal, provided that we have left the single market and the customs union. Only the timing of it would be in question.

Those things are very important, and they are not happening. There is no sign that the Treasury is going to make a statement or that the Chancellor will stand up at the Autumn Budget to make it clear what the post-Brexit economy will look like and what opportunities we will seize that will give business the confidence that it needs to invest. That would ameliorate the need for any implementation period, because business would have 18 months to plan for it.

We also need to see practical measures relating to the implementation of leaving the EU being undertaken on the HMRC system, on borders, on the creation of zones for the importation and exportation of goods, et cetera. These measures need to come forward, not just stuff on paper.

Baroness Verma: Can I follow that up? That is your view from the UK side. You have mentioned nothing that you see as stumbling blocks from the EU side. However, you mentioned the Treasury, and I put it to you that any Government would have to wait for at least some indication of what the negotiations look like. You are challenging the Government to do that before negotiations have really started to size up what each side sees as a final outcome.

John Longworth: The Treasury could do these things. Put it this way: there is a whole series of measures that the Government can undertake post leaving the single market and the customs union, and which they ought to do, deal or no deal. They ought, for example, to be considering deregulation to boost the economy. They ought to be considering using the net contribution that we will receive to implement tax cuts for business to boost the economy and to encourage R&D, business investment and better infrastructure. The common agricultural policy should be reformed and the fisheries repatriated, deal or no deal. The borders issue, with the subsidy of the cost of migration into low-skilled jobs being a cost to UK taxpayers, can be resolved, deal or no deal. There should be all these things, including the removal of tariffs relating to the common external tariff and the negotiation of trade deals, deal or no deal. The Treasury could declare all those things as objectives now. It could model the effect that they will have on the economy, give business confidence and, ironically, provide itself with more leverage in the negotiations, because it would become instantly clear that the UK will do very well outside the European Union.

The Treasury ought to be doing those things now and declaring them. None of them will undermine the Government's position in negotiations. In fact, they will enhance it.

Baroness Verma: Ruth Lea, from the point of view of financial services, do you see that as feasible?

Ruth Lea: I do not know where to start with this; so many issues have just been brought up. I support a deal, as opposed to no deal, although I am not sure it is going to happen, partly because of financial services. The passport is useful to banks in that if a bank registers with one regulatory authority in the EEA it can trade freely throughout it. One would like some sort of arrangement along those lines, equivalent to a passport, as part of the deal. Another part of the treaty that I would like to see is the continuation of tariff-free trade, but let us put that on one side. That requires negotiation.

You initially asked Mr Longworth about the stumbling blocks to an agreement. At the moment, it is fairly clear that one is the reluctance of the British Government to show their card on the financial settlement, prior to agreeing that we can move on the next phase of the negotiations. The Commission has made it abundantly clear that it wants more progress on the financial settlement before it is prepared to recommend to the European Council that it gives the go-ahead to move the talks on from the first phase of negotiations to the future relationship.

Quite frankly, I see a bit of a stand-off on that at the moment. It will not be resolved for the next European Council meeting, which I think is towards the end of this month. The following meeting is in December, and I would be interested to see how the stand-off is resolved. For me, it is important that they come to some sort of agreement about sufficient progress on phase 1 in order to move on to thinking about the future relationship. Once we leave the EU formally in March 2019, they can work on this and put together some sort of treaty. I am hoping that beneficial, mutual interests, on both our side and the European Union's, will prevail and that they will be able to compromise on this thorny issue.

Q3 **Baroness Neville-Rolfe:** I want to move on to the implications, both negative and positive—I am always glass half full—of no deal. It is apparent that the Treasury and the Bank of England have doubts about Brexit, because the standard economic model shows that interference with free trade is damaging. You are both economists: you and others have favoured Brexit in the debates. Could you share with us the facts that led you to the view that there were advantages from Brexit so that we can look at them in this context?

Following on from that, how likely do you think it is that agreement will be reached? Are we going to end up with no deal, and will that deliver the sort of benefits that were held up last year as stemming from Brexit?

Ruth Lea: I certainly take the view that there is a possibility of disruption to trade if we leave with no deal. That is why, as I have explained, I favour some sort of treaty agreement. I repeat that there are two main aspects to it. You need a continuation of tariff-free trade, because even though we know that the average common external tariff is quite low—only about 3% or 4%—there are certain industries where it is relatively high, such as the car industry, where it is about 10%. You will no doubt take evidence from the car industry at some point, but I suspect it would say that it was not looking forward to facing a common external

tariff of 10%. The downsides of leaving with no deal should be put on the table. I also discussed with Baroness Verma the passport within financial services.

Having said that, you do not need to look at very much more. Much is made about the single market in services, but even the Balance of Competences Review that came out in 2014 suggested that the single market in services was a poor thing. There has not been much progress on services since the services directive of 2008, but I have little doubt that there would be disruption to those particular sectors if there is no deal.

My central case is that there will be a deal, but one has to accept that there will be costs of leaving without one. Against that, I always took the view that there will be the opportunity costs that John has already referred to. We will be able to negotiate our own trade deals once we are outside the customs union and deregulate once we are outside the single market. We will be able to decide on a migration policy that is perhaps more apposite to the social and economic needs of this country. What sort of migration policy that is will have to be decided by the Government of the day. I am not in favour of Draconian migration restrictions but that is a political matter; it is not for me to decide them. The fourth advantage of being outside the European Union is that we have the bonus of our net contributions, which after the rebate and refunds run at about £8 billion a year. So there are four good reasons to think that the British economy could do very nicely, thank you, outside the European Union.

When it comes to trade deals, I tend to take the view that they sort of oil trade. It is the commercial realities—the growing markets—that really drive trade to a great extent, but trade agreements can oil and help trade. Again, I would not question that. At the moment, because we are in the customs union we cannot negotiate those trade agreements, which means that we cannot negotiate them with countries that we regard as particularly favourable to us, whether that is Commonwealth countries, particularly fast-growing countries, the United States of America or whatever. That, I contest, will be a considerable advantage once we leave.

To cut a long story short, there could be some short-term losses, especially if there is no deal with the EU, but in the longer term there are quite a few reasons for thinking that the British economy would benefit from leaving the European Union.

John Longworth: Ruth has covered quite a bit of the subject. I would point out immediately, by the way, that I am not an economist, I am a simple businessman, but I have been advised by a lot of fine economists during my career. Leaving the European Union was essentially a political decision: to take back control of our laws, money, borders and courts. So to some extent, the economic questions were secondary in the decision-making. However, during the entire campaign, when I chaired and headed up the business campaign to leave the European Union—which, by the way, had a lot of business people supporting it, particularly

entrepreneurs and business owners—I took the view that we could be better off outside the European Union than we would otherwise be in it. I took that view for the reasons I outlined on the earlier question, but also for those that Ruth outlined in relation to the opportunity costs or, shall we say, the benefits of leaving the European Union. Of course, those can only be crystallised if we leave the single market and the customs union. The longer we delay doing that, the more the costs rack up, because the opportunities cannot be crystallised. That important issue needs to be on our minds.

I would also point out briefly that the economy is made up of a lot of different things. Only 13% of the economy is directly related to exports to the European Union; 87% is not. Seventeen per cent is related to exports to the rest of the world and the remainder is domestic, yet the whole of the economy is burdened by the regulations and costs of the EU, and by the other restrictions.

It is also worth pointing out that the average external tariff of the EU is 3.5%, a very small amount. If you were to add together all the industrial tariffs that the EU could apply to exports from the UK, they would amount to less than half of our net contribution each year, so that is a very small amount. Nonetheless, there are some tariffs that bear down particularly on the poor; tariffs in relation to foodstuffs, clothing and footwear are at an average of 20%. By being members of the EU, we are actually disadvantaging people who spend a disproportionate amount of their income on those items, because we are taxing them at the rate of 20% when they could be obtained elsewhere in the world much cheaper than they are being obtained from EU member states.

At the same time, we are disenfranchising—that is probably the wrong word, but we are putting them down—countries around the world that want fair trade with the UK but have to be charged a tariff for their product. I will finish with the classic example of cocoa beans, where the EU insists that there is a zero tariff on raw beans but charges a huge tariff on processed beans to protect German and Italian coffee makers. That impoverishes countries that produce cocoa beans but that could develop in industry if they were not otherwise charged. The European Union is not a free trade area; it is a protectionist zone. It protects industries from competition from the rest of the world. So we in the UK are paying 75% on canned peach imports to protect Italian peach producers when we do not produce peaches. How mad is that?

The Chairman: Since you have gone into particular sectors, and before I bring in Baroness Armstrong, might you be able to comment on what the implications would be for the aviation sector and whether you can see any pluses there, Mr Longworth?

John Longworth: I am not an expert in aviation, but the tariffs on aviation products are zero, so any nonsense talked about tariffs—

The Chairman: I mean the open skies agreement that we would have to leave, and the sector overall.

John Longworth: Sorry, you are talking about open skies. I thought you were talking about the manufacture of planes, where the tariffs are zero, so there is no issue in relation to that anyway. Of course, a lot of UK trade and co-operation on aviation matters takes place perfectly well with countries that are not in the European Union. We should always remember that huge amounts of stuff are exported to the EU via countries that are not in it, or the single market or the customs union—for example, the United States and China—and with whom the EU has no trade deals. So trade goes on and politicians just get in the way of it, but fortunately trade goes on nonetheless.

As far as aviation and open skies are concerned, that all has to be resolved. The administrative issues relating to leaving the European Union need to be worked out, which is why an implementation period might be justifiable for particular issues, perhaps for open skies or customs union paperwork, although I believe that can be resolved without the implementation period. But why would we want a blanket implementation period to cover everything when that would mean in effect that we delayed leaving the EU by at least two years? If it is any longer than two years, it may be for ever, because if it goes beyond the next election we will be in big trouble.

The Chairman: I see. So my understanding is that you would not object to sectoral implementation periods or transition periods; you just do not want a commitment to having one that is across the board until we come to a new agreement, but you would be quite happy with sectoral ones.

John Longworth: Yes, if it were demonstrably proven that the industries could not meet their objectives within the timescale available. It is the Peter principle: timescales tend to expand according to the time available. We will always be at the cliff edge because the EU will make it so, but if it can be demonstrated sectorally on particular issues—not really by sector but on issues—that we need a little more time, it may be necessary.

The Chairman: Well, our time is not expanding, so let me bring in Baroness Armstrong.

Q4 **Baroness Armstrong of Hill Top:** I want to move slightly off script, because both speakers have mentioned regulation and deregulation. There has been a bit of contradictory stuff, so I want to bottom that out. My understanding is that as long as we abide by the regulatory framework we will be able to trade with the European Union and with third countries with which the European Union already has trade deals.

I thought it really interesting that last week, when the Trade Secretary spoke about the countries that were ready to do a deal with us, they already had a trade deal with the EU that will constrain whatever independent deals we are able to make with them. So I am now very confused about where you, as witnesses, are on regulation. Mr Longworth said that only 13% of our economy relied on the EU. That may be true overall but it is not true in regional definition. For example, the north-

east has a much higher proportion of its GDP reliant on trade with the EU. This is fairly complex trade, because the car and railway industries do not involve just one piece of kit that is moved once. They involve lots of pieces of kit and lots of services; it is very intricate. People like that think that if we are at all outside the regulatory regime and the way in which things work there is no point in them being located in the north-east. I really want to understand from both of you what you are saying.

Ruth Lea: The first thing to say is that it depends on the sort of regulations that you talk about. If you are talking about product regulations—and I think you are—it is quite clear that if we trade with the European Union we have to abide by its product regulations. If we trade with China, we have to abide by their product regulations. If we trade with the United States of America we have to abide by theirs. However, I understand that product regulations are becoming increasingly internationalised. My view is that, if you are going to be trading, you really have to be a taker of product regulations.

However, there are all sorts of other regulations, like labour market regulations. It is arguable—and I just put this on the table for discussion—that you could still trade abiding by product regulations but change the labour market regulations from those that pertain at the moment in, for example, the single market. You might do something about the working time directive or the parental leave directive or whatever. Those are political decisions, and I am not saying whether they should or should not help, but they would be on the table for amendment. When people say, “The EU would not accept any changes in regulations”, I say, “I do not think so”. The EU, including us, trades very considerably with a country like China that does not have the same labour market regulations as we do. You have to be careful about which regulations you are thinking about.

We touched on financial regulations a bit earlier. There is a dream in some parts of the City that if we leave the European Union there will suddenly be a massive reduction in financial regulation. I really do think, “Dream on”. I am in favour of agreeing to some sort of regulatory equivalence with the European Union to maintain our trade with it. In those circumstances, the right commercial decision may be to adopt, adapt and accept the EU regulations or their equivalent. To cut a long story short, it depends what regulations you are talking about.

Baroness Armstrong of Hill Top: I am no clearer, but never mind.

John Longworth: I agree with what Ruth said: it depends. Economists for Free Trade estimated a 2% benefit to GDP from a 30% reduction in regulation without touching any employment law at all, but that is one area that might be looked at. As far as goods are concerned, countries that export anywhere in the world have to comply with the regulations of the destination. There is no difference. If we export to the United States we have to comply with US laws, to Japan with Japanese laws, to the EU with EU laws. There is absolutely no reason why we should burden the

other 87% of the economy with those rules and regulations just in order to export to the EU. Why should 13% of the economy tell the rest that it also needs to be burdened?

We are talking purely about goods. As Ruth said earlier, there is, to a large degree, no functioning single market in services and never has been. There is a single market in goods, so we are not talking about services, which constitute 90% of the UK economy; 9.5% is manufacturing. As it happens, the removal of the common external tariff will benefit the poorest the most, and the competitive currency that we have now achieved, which most countries in the world are desperately trying to engineer, will benefit manufacturing. So the north-east of England should be among those that benefit the most from leaving the European Union.

Baroness Armstrong of Hill Top: Your ex-colleagues do not agree with you there, though, do they?

John Longworth: Do you want me to answer that?

Baroness Armstrong of Hill Top: It was just a comment.

John Longworth: Six weeks before the referendum, the British Chambers of Commerce produced a survey of their business community that indicated that the only group that actually agreed with not leaving the European Union was businesses that export only to the EU. Those that exported to the rest of the world only or were domestic only actually preferred to leave. That represents the 87% of the economy. It is interesting that neither the British Chambers of Commerce, nor the CBI, nor any other business group has had the courage to do another, similar, survey with its members since the referendum. They are all speaking on the basis of what the policy groups in the organisations say, and they tend to be made up of big corporates.

Baroness Armstrong of Hill Top: I would counter that nobody has gone back and asked people about their expectations, other than one group that has held a very interesting citizen's jury with people who voted to leave. It is very different from where you started today, but that is a political point and I should not be doing that.

My next question is: what would no deal mean for Northern Ireland and the border?

Ruth Lea: I am not an expert in this area, but as I understand it the negotiations are progressing reasonably well and they are talking about continuing with the common travel area. The Prime Minister has said that there will be no physical border between Northern and southern Ireland. However, what the precise relationship would be if there were no deal is yet to be clarified. Quite honestly, I do not know.

You mentioned FTAs in your initial question. Most of the FTAs that Europe has with third countries do not matter economically. There are just two or three that do. One of them is Switzerland.

Baroness Armstrong of Hill Top: We are being told that that is the answer. That is what the Trade Secretary said last week.

Ruth Lea: Switzerland is an important country, as is Korea.

John Longworth: And Singapore.

Ruth Lea: Singapore is a new one, and Canada is not quite there yet. They talk about 50-odd countries being covered by them, but, on the whole, most of them honestly do not matter.

I am sorry that I could not answer your question on Northern Ireland more comprehensively.

John Longworth: I think you need to ask a politician about Northern Ireland. There are solutions. The paper I wrote on the customs union suggested that one could be to make the whole of Northern Ireland a free trade zone. However, that would introduce a goods border between the island of Ireland and the UK, and I am not sure that would go down well in some quarters.

Ruth Lea: It is a non-starter.

John Longworth: There is a huge amount of good will to resolve the problem on both sides of the border. If we end up with the UK removing its external tariffs for goods coming into Northern Ireland and the EU deciding to introduce border posts and external tariffs for the stuff going into the Republic, that is to their detriment. I am not sure the Republic would like it at all.

The Chairman: Thank you. We will move on.

Q5 **Lord Selkirk of Douglas:** Are the Government, industry and others doing enough to prepare for the possibility of no deal? What action should they be taking to ensure that the country is well prepared for such an outcome? I ask, because a great many people want the negotiations to succeed, but it seems only prudent that we should be prepared for all eventualities.

John Longworth: I sort of jumped the gun at the beginning of the questioning by answering that question to some degree: that I felt that the UK Government could be accelerating the practical measures they need to undertake to be prepared for a no deal option. The Treasury also needs to indicate what the post-Brexit economy will look like in a no deal, or a deal, situation. It should be the same, except for the timing, but it is very important to declare it so that we are very clear that we are leaving the single market and customs union and will crystallise the benefits of Brexit. It is very important that we take a view on this before Christmas. If it is very clear that the European Union is being mendacious in these negotiations—in effect playing the same game that it did with Greece—and if there is no progress before Christmas, in order to have adequate time to prepare for a no deal scenario, we ought to declare before Christmas that we are moving to WTO in March 2019.

Obviously, a deal would be advantageous to us if we were also able to crystallise the benefits of Brexit, but a deal is not as beneficial to us as crystallising those benefits, so we should not hang everything on a deal. And it certainly is not worth paying the moon for. It is a transactional proposition. It is only worth a certain amount to have that deal.

Ruth Lea: I would hope that the various government departments are preparing for this. It was quite interesting that the rhetoric has changed to some extent. I get a feeling that the rhetoric has changed. I think that Mrs May yesterday in the House of Commons was talking about the possibility of no deal. Certainly, the *Daily Telegraph* splashed it all over the front page today. I think Dominic Raab was on "Sunday Politics" talking about the possibility of no deal and how they are making all these preparations. I heard all these rumours about the billions of pounds that are going to be set aside to sort out the customs borders if there is no deal, although these billions, apparently, will not be in the Budget. But I trust that our Government—our civil servants—are thinking hard about this. You mentioned aviation, and I trust that the Department for Transport is thinking hard if there is no deal.

The Customs Bill was released yesterday. I think there is a contingency in it for there being no deal, and that tells me that the Government are beginning to move in that direction. But without agreeing with every word that John has said, there is an opportunity for the Government to be more explicit about the sort of arrangements that they have in mind. They are obviously thinking and talking now about the no-deal option, so I was going to say, "Let's hear more about it from them".

Baroness Neville-Rolfe: I just want to deal with the subject of financial services, the problems with which you outlined very well at the beginning of our discussion. What work is being done on financial services in respect of no deal, because clearly that is important, as well as these other areas?

The Chairman: If I may, I will come in with an adjunct to that. Mr Longworth, you said that we could revert—effortlessly, you implied—to WTO rules. Of course, you will be aware that financial services are not covered by WTO rules. I wonder if, after Ms Lea has answered, you could say what you imagine might be the lack of passporting equivalence in all of that, and the impact on financial services, were we to have a cliff edge.

Ruth Lea: If there is no equivalent of the passport, then, as I think I implied earlier, there could be disruption for the banks. They will have to have bigger subsidiaries in EEA countries, because the passport relates to the EEA as opposed to the EU—presumably in Frankfurt, Luxembourg, or wherever—and they could well have to transfer more of their operations to the EU in the case of no deal. The department there, I suspect, is the Treasury, which you may have a familiarity with. I trust that the Treasury is beginning to look at these alternative scenarios, but I can see that the banks would have to respond by building up their subsidiaries.

Baroness Wilcox: I have another question on this issue. Are there going

to be sectors other than aviation for which an implementation period is particularly necessary?

Ruth Lea: I do not think so.

John Longworth: It tends to be the areas where there are particular technical matters that take time to resolve. In fact, if we crack on and start actually doing stuff, the need for time becomes less. Obviously, the nearer to the so-called cliff edge—

Baroness Wilcox: We have taken such a long time to get started, but do you feel that once we do get started we can absolutely crash through?

John Longworth: Well, with some of it. I recommend the paper I wrote on the customs union. There is some pretty straightforward stuff. We export stuff all around the world at the moment with customs arrangements under WTO rules that work perfectly well. A World Bank report about six weeks ago analysing 19 countries, most of which were not in the EU—Mexico, Canada, the United States, China, Korea and so on—said that only 2% of all the goods that move around the world are ever inspected. This is naturally the case, because the goods go along with certificates that demonstrate their origin and context. Interestingly, those are issued by chambers of commerce around the world under a 1920s treaty, which was signed to enable the movement of goods around the world for that very reason.

Baroness Wilcox: You make a very good point about the chambers of commerce. I lived in France, and they buy and sell and do absolutely everything. It is only us who are tight-arsed about the thing—sorry.

The Chairman: Would you care to deal with the WTO rules not covering financial services?

John Longworth: If we do declare that we are migrating to the WTO, it would have another additional benefit, in my view. Actually, the WTO would then become the ringmaster in the negotiations. This is quite an important point. At the moment, we are facing an intransigent EU that is simply not moving things along. If the WTO comes into play, we will have a third party in the arrangements between the UK and the EU, and the WTO will have a very particular interest in making sure that there is free movement of goods between the two.

As far as the financial services part is concerned, clearly there would be some disruption. Banks would probably have to have offices—brass-plate offices, at least—in a variety of different centres around Europe. But all the bankers I talk to behind the scenes say, “We are talking publicly about 2,000 people. Actually, it will be more like 300, because nobody wants to go, we want to minimise the amount of disruption, and we are buying 300 places in a private school in Switzerland at the moment”.

The Chairman: The figure reported by the City of London Corporation et cetera is around 10,000, with more to come—

John Longworth: But the City of London Corporation were inveterate remainers from the very beginning of the campaign.

The Chairman: So you do not accept their figures. Thank you.

Since we have covered quite a lot of what is in the questions, please feel free, Members, to go where you are yearning to go, as I can see from your faces.

Q6 **Lord Teverson:** We have covered a lot of this, so I will not go through it all. Moving on to transitional arrangements, we have covered this in all sorts of ways, so perhaps we could look at the issue itself. Is a transitional arrangement a necessary component of any lasting agreement, and is that true for both sides? I think we are moving towards the position that it probably is, although, Mr Longworth, you reckon that we can sort everything out—I am speaking broadly here—by 2019.

John Longworth: I am not completely certain that we can now. I was completely certain, had the Government cracked on the moment the referendum took place. There may be some administrative issues that require an implementation period—not a transitional arrangement for actual negotiations, but simply a period for further implementation. We might be able to do it if, for example, we can accelerate the HMRC's replacement of its IT system, which we should have been doing months ago, particularly bearing in mind that HMRC was intending to replace the system anyway, and it was well known that it was necessary for this purpose.

Lord Teverson: I would probably agree with you in that area. It is one of the areas that I would agree with you on entirely.

John Longworth: We really ought to be doing it anyway. As for the transition period, there is huge danger in this. There are lots of pressures on the Government coming from trade bodies and remainers to extend it even now. My understanding is that the original transition period that was put into Theresa May's speech in Florence was five years. That was one of the things that caused the wobble in government. I have no evidence of this on paper, but this is my understanding. The fact is that that sort of stuff is mendacious activity to prevent us from executing Brexit.

Ruth Lea: I have already said that I cannot see the new deal being settled by March 2019. Assuming that, and assuming that they still want to push ahead and try to negotiate a trade deal, it makes sense to have a transition period. It is not absolutely essential, but it makes sense, because if we get to March 2019 without a deal, one set of adjustments will have to be made, and then, when the new deal clicks in, another set of adjustments will have to be made, so there will have to be two sets of adjustments. If everything goes according to plan, we will leave in 2019, *de jure* if not *de facto*. In fact, Theresa May is talking about sticking with the current trading relationships, so she is not envisaging any real adjustments in our relationships at that point. Then, all being well—

fingers crossed and all that—if the trade deal is actually ready after the transition period of within two years, they can go seamlessly from the transition period into the new treaty arrangements and just have one set of adjustments.

That, of course, assumes that everything goes right. Assuming that it does, a transition period makes sense. It is not absolutely essential to have one, but it makes sense, in my view, to have one.

Lord Teverson: This may be slightly more of a political question. Why do you think, then, that the Government have only now mentioned the word “transitional”? Again, coming back to Mr Longworth, I have a lot of sympathy with your saying that we have been doing hardly anything for a year and a half on the things that we should be getting on with. Why are we only now coming to this position of having a transition period, and do you think that, because we are iffy about it now that we have come to it, all that might change again somehow?

Ruth Lea: I was going to say that your guess is as good as mine.

Lord Teverson: That is a reasonable answer.

Ruth Lea: To be realistic, I can only second-guess, because I do not know, that perhaps there is a recognition that the notion of a trade deal that is signed, sealed and documented by March 2019 is a complete non-starter, not least because the European Union, quite understandably, has said, “We only agree these things with third countries”. In other words, “We can only finalise this when you’ve gone”. Given that realisation, you have to think about how we minimise the adjustments that have to be made. I suspect that might be behind the thinking, but I can only speculate.

Lord Teverson: My last point is that during this transition, implementation or whatever we call it, we must have the freedom to hold our own negotiations, otherwise we will be left high and dry.

Ruth Lea: This will be part of the costs.

John Longworth: Taking the point that Ruth has made, that is the problem. Having an implementation period for certain administrative matters is one thing, but preventing us from doing anything that would crystallise the economic benefits of Brexit is a completely unacceptable approach. Any so-called transition or implementation period effectively puts on hold any of the benefits of Brexit. We have to ask ourselves whether it is worth that, particularly as we may not achieve an FTA anyway, and the FTA itself is not worth that much. Would it not be better simply to leave in March 2019 with an implementation period for certain administrative matters and crack on and implement the benefits of Brexit?

Q7

Lord Woolmer of Leeds: I thought we had agreed on a distinction between implementing and transitioning, and assuming that we do, as I understood your position, Mr Longworth, it is that you would much prefer

a clear agreement now in the UK Government that there will be no deal and to get on with preparing for that and being ready to go by March 2019.

First, it would be very helpful to me to understand from both of you, whether you agree with it or not, what no deal would look like. Secondly, if there were no deal by March 2019, would that itself still require an implementation period in order to get from no deal to all the things that have to be done that are consequential on that?

Thirdly, in any negotiation—although it would not be a negotiation, of course, because the UK Government would have said, “We’re not going to have a deal. We’re ending negotiations now. There’s no point in negotiating. We’re ending negotiations. That’s it”—in so far as there were negotiations continuing, presumably on how to implement no deal, there are two sides to the negotiations, and I have to say, and this is a personal point and one that you might not agree with, that I do not think it helps to call the other side mendacious and to say that we are not mendacious. Both sides in a negotiation have interests and a perspective on what they want to do, and if we approach the 27 European member states by regarding them as untrustworthy, mendacious and not worth talking to, it does not help any outcome, whether that is a deal or no deal.

I would like your observation on the first two points, and on the third point I would also be interested to hear from you why the Europeans are always mendacious and we never are.

John Longworth: I can happily agree with your last point. On the point about what no deal looks like, it depends on what we are talking about when we say “deal”. The question is: is it a deal based on a free trade arrangement, or is it based on administrative measures relating to matters relating to leaving the European Union, such as customs documentation, open skies, visa areas, citizens’ rights?

The Chairman: Is the equivalence of passporting in financial services on your list as well?

John Longworth: That is really a trade issue. As far as those administrative measures are concerned, it would be better if we could come to an arrangement with the European Union in order to minimise disruption. Some of them, of course, we could unilaterally declare. Since the referendum, Leave Means Leave has been arguing that European citizens who are in residence in the UK at the point of the referendum should be declared unilaterally to be able to stay in the UK. If the European Union decides not to reciprocate with regard to UK citizens, shame on them.

The fact of the matter, however, is that a deal negotiation on a free trade arrangement is not likely to take place before we leave, as we heard earlier, so to delay crystallising the benefits of Brexit in order to achieve that is not in the UK’s best interests, in my view. We need to prepare to crystallise those benefits in March 2019, and we do not need an

implementation plan to do that because we have plenty of time between now and 2019 to prepare to implement matters that we can declare unilaterally. All the matters that Ruth and I have spoken about relate to the opportunity of leaving the European Union.

On the behaviour of the European Union, Theresa May made a very generous offer in Florence, and she has gone further than that in her parliamentary Statement. If the European Union decides to delay negotiations on the basis of that offer, then in my view it is being mendacious and is behaving in the same way as it demonstrably behaved in relation to Greece, which was absolutely appalling.

Ruth Lea: When I talk about a deal I am talking specifically about a trade deal, because I assume that the administrative matters will be sorted out satisfactorily, for mutually beneficial reasons. We would basically be under WTO rules and, as I have already explained, there could be some disruption from that, not least to the financial services industry.

Having said that, trade deals on the whole oil the works, as I have already said. But it is the commercial reality that drives trade and it is interesting to note that between 2005 and 2015 our exports to non-EU countries rose by 75%; to EU countries, they rose by only 25%. The idea that going into a no-deal trade situation would be utterly catastrophic is one that I really do not buy. It would not be optimal, but it would not be catastrophic. That is the message I would like to try to get across.

The other thing is that I like to think more kindly of our European Union friends than John does. To have a trade deal would be mutually beneficial. We know this and it is worth repeating again and again that it is in everybody's interest that we do a deal, not least for the people in the European Union who have an enormous trade surplus with us. I know that this is quoted on occasions, but it is worth thinking about just how enormous it is. Our goods trade deficit last year was £96 billion. It was ginormous, so to continue with some sort of tariff-free arrangement for that trade is very much in our European partners' interest as well as ours.

Lord Woolmer of Leeds: So if there were no deal?

Ruth Lea: If there were no deal, trade would continue with the European Union but probably not as buoyantly as it otherwise would. But then, as we have both discussed, once we are out of the European Union we can do our own trade agreements with third parties.

Lord Woolmer of Leeds: What do you think the reaction would be in business and commercial circles if the Government announced next week, having listened carefully to such wisdom as we have heard this afternoon, that they have decided to stop these negotiations? They would accept that there is to be no deal and would now put all their efforts into preparing for no deal. Do you think that would be welcome in British business?

John Longworth: I think it would be very welcome in certain parts of British business, such as the entrepreneurial, enterprising, business-owner sector of the UK economy—the people who are prepared to seize the opportunities. If it were accompanied by a package of measures that crystallised the benefits of Brexit and said to business, “This is what we’re going to do”, and provided a lower regulatory and low-tax economy, it would be very welcome.

Ruth Lea: We will see. I do not expect that it would.

The Earl of Kinnoull: I want to come back on something Mr Longworth said a little earlier. He has gone on several times this afternoon about crystallising the benefits of Brexit. I wonder whether there might be another way of interpreting what Mrs May has actually done. We have now prepared 22 reports on Brexit, so we are all well up the learning curve. One of those many reports was on the budget, and as we took evidence on that it became very obvious that the stub end of the current seven-year budget period is horribly problematic if Britain is no longer there. You would have, from memory, €350 billion-odd of RAL, and Britain’s gross net share of 12.5% of that would suddenly not be available for spending in that budget area.

Another way to think about this could be that Mrs May is helping out the European Union by saying, “Okay, we will fix the budget problem, which would be really horrible for you to have to have a go at, as you would have to cancel a whole lot of programmes”. It is politically impossible to produce 12.5% of €350 billion from other people’s pockets. She is perhaps saying, “It suits us too to have a bit of a delay, because we haven’t met many people who think it realistic to conclude a trade deal in the short period between now and 29 March 2019, so why don’t we all agree that we’ll try to work together on that?”

It is a bit like the apple tea and the carpet dealer. I might drink the apple tea but I have not actually promised to buy the carpet. I am saying not that our contribution is apple tea but that it was in fact a quite pragmatic and British suggestion. I put it to you that we do not want to crystallise the benefits, as you put it, on 29 March 2019. I think that Mrs May’s suggestion is quite canny and worth following: to see whether we can create a good negotiating atmosphere so that we can come out, probably on 31 December 2020, when everything is nice and convenient and we probably would have enough time to conclude a free-trade agreement. That is another potential way of interpreting what she said. How realistic do you feel that is?

John Longworth: I think that is a very fair interpretation of the way it is viewed from within government. I can clearly see that you buy your carpets in Axminster.

The Earl of Kinnoull: I do not.

Baroness Armstrong of Hill Top: It is no longer there.

John Longworth: However, I would say that it takes two to tango. It works only if the EU dances to the same tune. If in fact the EU decides to delay and delay a conclusion up to March 2019, or even beyond and up to the end of the so-called implementation period—

The Earl of Kinnoull: You are saying that is a perfectly valid other way of interpreting it.

John Longworth: It is a perfectly valid other way of seeing what the Government are doing.

The Earl of Kinnoull: It would be interesting to hear whether Ms Lea also felt that.

John Longworth: That is the interpretation that you can put on it, but from a business person's point of view you would never negotiate in that fashion. The Prime Minister has in effect given lots of things away.

The Earl of Kinnoull: I put it to you that carpet dealers are the ultimate businessmen in many ways and that that is exactly how they negotiate.

John Longworth: I am not sure you can draw a direct analogy between apple tea and giving away lots of things to the European Union at high cost.

The Chairman: Ruth Lea, would you like to comment on that?

Ruth Lea: This is interesting speculation, if I may say so. As I have already said, on the current scenario, de jure we will be out in March 2019, de facto we will probably stay in something that looks very like the European Union for another couple of years. But there is many a slip between cup and lip. Who knows what is going to happen? I merely emphasise that any negotiations that we have with the European Union have to be in our mutual interest. I think back even to March when Donald Tusk sent his reply to Theresa May's letter. It was a friendly letter and not hostile. The European Parliament had a debate soon after that and Juncker, as the Commission's President, was not hostile. I heard Juncker say the other day that there will be a deal, so let us calm down a little and see whether something can be negotiated, because that is by far the better outcome of all this.

It is not just an economic matter. We all know that this is overwhelmingly a political matter. We do not want just to cut our links with the European Union. I hope that we will continue with some of the programmes, but it will have to be done in an atmosphere of mutual respect and friendship, which I hope will be the case. We can all hope.

Lord Crisp: Let me follow that up. I do not think we have explicitly asked you yet who has the most to lose or to gain—us or the European Union—from not having a deal.

Ruth Lea: I think it is pretty even-stevens. I am aware, obviously, that the proportion of our trade going to the European Union is higher than the proportion of its trade that comes here.

Lord Crisp: Indeed.

Ruth Lea: But against that we have this enormous trade deficit, it has an enormous trade surplus. I must admit that if I worked on the Volkswagen production line or a factory in Bavaria, I would be quite concerned about a hard Brexit. I think it is true to say that the other day the head of the German equivalent of the CBI, the BDI, said, "Perhaps we ought to start making plans for a hard Brexit", but not because he wants it. Economically, perhaps we might have a bit more to lose than the European Union, but look, we both have something to lose, and that does not seem to me to be a very good outcome.

Lord Crisp: Do you agree, Mr Longworth?

John Longworth: Yes. Economically, I broadly agree with what Ruth is saying. I would add, however, that if we forgo the opportunities of Brexit, we will be the losers, because the only possible outcome of what seems to be the Treasury's main objective—to salvage as much as possible of what we have now, pay more for it, have no say and, during that two-year period and perhaps beyond, not be able to obtain the opportunities of Brexit—is us being worse off. That is the only possible result by definition. If we have part of what we have now—pay more for it, have no say, and be unable to crystallise the new benefits of leaving—we must be worse off. The only way we can be better off is to be able to take the opportunities of leaving.

Finally, I went to Berlin with Owen Paterson earlier this year to speak to 500 business people, including heads of motor corporations in Germany, academics and others. It became crystal clear to me at that meeting that the project was more important than the economic disbenefit to Germany of not doing a deal with the UK. It was very clear that German industry was right behind the German Government on the European project, which is absolutely essential for Germany politically and economically—in complete contrast to UK industry, by the way, which is not helping the UK Government's negotiating position but is actually undermining it. Ruth mentioned the head of the BDI. The head of BDI was part of the group we met. He said to me across the platform, and this is a direct quote: "You should be grateful that a strident and muscular Germany is contained within the European Union and not out on its own". I found that jaw dropping, quite frankly.

Q8 **Lord Crisp:** Yes. Let me check my understanding of something that Ruth Lea in particular has talked about. Would continuing payments to the EU budget be a fair and reasonable price for achieving the right transitional agreement? I think you have said that it is.

Ruth Lea: Yes.

Lord Crisp: How much should that be, though?

Ruth Lea: The transitional payments will basically be what we pay now. That was my understanding of what Theresa May said in her Florence speech, and as I said earlier we met after the rebate and the refunds were about £8 billion or £9 billion a year. It is obviously more in euros, even though the pound has depreciated against the euro. That strikes me as a reasonable, generous offer. I did think she was very generous in her Florence speech, because she really wanted to move the debate on, which made a lot of sense to me. That struck me as sensible, because that takes us to the end of the seven-year financial framework period between 2014 and 2020, which is the Commission's way of doing the budget. So in a way we were committed almost to the end of 2020 in any case, and I thought that was reasonable.

Lord Crisp: Do you agree, Mr Longworth?

John Longworth: The figure varies from year to year, of course. In the year we leave the European Union it will probably be about £11 billion, not £8 billion. As for the figures, I would be very surprised if the European Union were prepared to settle for €20 billion. I think the figure will be ramped up and up and up. The EU is talking about legacy issues. Bruegel, the much respected European think tank, put the UK's net obligation at €24 billion but the total potential political obligation at €100 billion. It will be somewhere between those figures. I think the majority of the UK population will balk, quite rightly, at huge amounts of money that could be spent on boosting the UK economy and UK public services.

Lord Crisp: May I ask a completely different question about reciprocal health arrangements? You have talked about what the deal may look like. I know that there has been some progress on reciprocal health arrangements between us and the EU, but, to take some figures I remember as an example, I think we have 70,000 British pensioners living in Spain and 700 Spanish pensioners living in the UK. We can imagine the consequences of that on healthcare if people decide to move. Could you comment on the level of risk you see in that, and how important it is to achieve a deal on it?

John Longworth: There are a lot more EU citizens living in the UK than there are UK citizens living in the EU, so I would have thought it beneficial to at least a number of EU countries to come to an arrangement. It is not unlike the other administrative and technical arrangements that we talked about before, but it remains to be seen.

Ruth Lea: On the question of EU citizens, there is quite a coming together in the negotiations. After all the rounds of negotiations, the joint technical notes between David Davis's department and Barnier's EU task force are published and it seems we are getting closer. The one sticking point there now seems to be the role of the ECJ in guaranteeing EU citizens' rights. I would have thought that that was a red line for the British Government, but, again, I hope that mutually beneficial desires will prevail and that they will come to some sort of compromise as to how EU citizens' rights should be guaranteed. Perhaps that will be by a third court, but I am just speculating.

The Chairman: I am conscious that Baroness Suttie and Baroness Brown have joined us. Do either of you have any questions?

Q9 **Baroness Suttie:** My apologies for arriving late and so missing your introductory comments. I have picked up from you both that you have mixed views about a transitional implementation period. Mr Longworth, you also just talked about the reaction of the British public if things do not move forward. If there is a transition period, how do you see the legal basis of that working? In particular, do you agree with the Foreign Secretary's proposal that the UK should "refuse to accept new EU or ECJ rulings during transition"? Is that realistic?

Ruth Lea: No.

Baroness Suttie: I thought it might be a short answer.

The Chairman: Brevity is very helpful.

Ruth Lea: As I was saying, even if we leave the EU de jure in March 2019, if there is this transition period it looks as if, de facto, that we will be in an awful lot of it.

John Longworth: The implementation period is a delay in leaving the European Union for all practical purposes, not a bridge to a new future. It is more of a tunnel with no light at the end at the moment.

Baroness Suttie: Do you think from your perspective that the British people would regard it as acceptable if the ECJ continued to have jurisdiction?

John Longworth: Who am I to speak for the British people? But I imagine that there will be a lot of discomfort about the fact that in effect we will not have left the European Union for at least another two years. That is not what people voted for. To have a situation where, five years after the referendum, we still have not left for all practical purposes would be unbelievable.

Baroness Brown of Cambridge: You talked about no deal and that WTO regulations are no problem for us to trade under. There is of course a sector in which I am particularly interested, having been a former vice-chancellor: our universities. We have absolutely outstanding, world-leading universities by any measure. Our best research universities now get, in some cases, 30% of their research income from EU programmes. Among the staff working on those programmes, huge numbers of very bright European staff are helping to create that reputation. A no-deal situation that was a sudden switch-off would be very challenging. I would be interested in your views on how we should address that.

Ruth Lea: There are two things, of course. We will be saving on the budget, and those research funds are part of the refunds that the UK gets back from the European Union. I would hope and trust that the political decision will be that the research funding could continue, but it would be a political decision for the British Government. When it comes to the use

of expertise from the European Union, again I trust that the Home Office would look kindly and favourably at continuing to attract people of high calibre to make sure that our universities were not disadvantaged.

John Longworth: The European projects that people bid for funds from are available not just to countries within the European Union but are often provided to universities in third countries too.

Baroness Brown of Cambridge: Assuming that we pay into the schemes.

Baroness Armstrong of Hill Top: We would have no say in them.

Baroness Brown of Cambridge: We would have no say in developing the topics and focus areas.

John Longworth: That is perfectly true. But, as Ruth said, the thing to recognise is that not only will we have repatriated a huge net contribution that we pay to the EU—£11 billion—but we can redeploy the balance of the gross contribution, which of course includes university funding.

The Chairman: We have come to the end of our session. Thank you so much for giving us your time. You will be sent an uncorrected transcript, to make minor modifications as you see fit.

Ruth Lea: I look forward to it.

The Chairman: Thank you very much.