Select Committee on the European Union

Uncorrected oral evidence
Brexit: Deal or No Deal

Tuesday 31 October 2017

2.05 pm

Watch the meeting

Members present: Lord Jay of Ewelme (The Chairman); Baroness Brown of Cambridge; Lord Crisp; Lord Cromwell; Baroness Kennedy of The Shaws; 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. 4 Heard in Public Questions 32 - 40

Witness

I: Lord Darling of Roulanish.

Examination of witness

Lord Darling of Roulanish.

Q32 **The Chairman:** Welcome, Lord Darling. I am sorry we are sitting so far away from you, but that is the way it is today. We are very grateful to you for coming and giving evidence to us for our report on leaving without a deal and a transition period. This is a public session. A verbatim transcript will be taken and sent to you after we have finished. The meeting is being televised. Before I ask the first question, is there anything you would like to say to us?

Lord Darling of Roulanish: First, I can just about see you.

The Chairman: I am here, I promise.

Lord Darling of Roulanish: Thank you for inviting me here. I should start with an important formality which is to refer the Committee to my entry in the Register of Members' Interests and in particular to the fact that I chair the Standard Life Foundation and am a director of Morgan Stanley, both of which I think are relevant to this inquiry. Otherwise I am happy to answer any questions you and your colleagues want to put to me.

Q33 **The Chairman:** Thank you very much indeed. Perhaps I could ask the first question as a general introduction. To what extent do you think the Prime Minister's Florence speech, taken together with subsequent announcements, provided clarity on the Government's approach to the Brexit negotiations?

Lord Darling of Roulanish: I saw the Prime Minister's speech more as an opportunity for her to make an emollient move to the rest of the European Union. Its tone was welcomed and I think it was well received, but it has to be remembered that European leaders on the other side of the channel read our press assiduously in a way that we do not read theirs and they are well aware of the divisions within the Government. The good that the Prime Minister did—undoubtedly there was some good—was somewhat undone by the subsequent manoeuvring in the Government in the following days, which may account for the fact that, as far as I can see, not much happened at the next ministerial meeting between David Davis and Michel Barnier.

What is rather more important about the Florence speech is what it did not say. I noticed that the Prime Minister said that we did not want a Norway-type deal or a Canada-type deal, but she did not say what we do want. In her speech at the Conservative conference in October 2016, she burned an awful lot of boats by saying that we would not be in the single market or the customs union and we could not have the ECJ. That is throwing an awful lot overboard.

I conclude by making this point. There is a lot of talk about transition, which I dare say the Committee will return to, but you can only transition to a destination, and until we know the destination that the Government have in mind that will be a formidable obstacle to reaching a satisfactory outcome of the Article 50 process.

The Chairman: Do you see any long-term goal glimmering in the Government’s mind?

Lord Darling of Roulanish: No, I do not. I will try not to be partisan, because I have passed that stage now, but we had this referendum largely because of divisions in the Conservative Party, and the Government do not have a stated objective because there is no agreement in the Cabinet about what that objective ought to be. One of my successors as Chancellor, Philip Hammond, has shown that there are at least some grown-ups in the Cabinet who understand the risks that we are exposed to if there is no agreement and the fact that we need to reach a defined destination that we can transition to, but there are others who give the impression that frankly they would not mind if the whole thing ended in complete chaos. Everybody can see that, and not just everybody in this country.

For any Government to succeed in any negotiations, they have to know where they want to end up. In 1972, we knew roughly where we wanted to end up and we worked towards it. We did not quite get there everywhere, but that is what we did. In 2017-18, we are not in that position, and until we have an objective, a stated aim of where we would like to be, I cannot see how we can have a transition. You can have a standstill agreement, but you cannot have a transition. Equally, how on earth do you decide how much money you will pay if you do not know what the thing is going to look like at the other end? How can you decide on the Irish border issue if you do not know what the arrangements are going to be?

On the question of the rights of European citizens, you need to know what the world will look like, or what you would like it to look like. I think Philip Hammond was giving evidence to the Treasury Select Committee in the House of Commons when he said that in some ways the negotiations that we are in are the wrong negotiations. I think we are talking about three issues, which are consequent on the prior question of where we want to end up and what the world is going to look like. That is something that both sides need to address.

The Chairman: We will come to a number of those issues in the course of the hearing.

A little while ago, the Committee published a report on the implications of Brexit for devolution and there was a debate on the Floor of the House on that report. Can you say something about how you see the relationship between Whitehall and Holyrood, particularly in the context of Brexit, and what chances you see of maintaining the single market within the United Kingdom after we have left the European Union?

Lord Darling of Roulanish: My view is that the issue of Scotland within the United Kingdom was settled in 2014, and all the evidence that I have seen, including the results of the last general election, shows that the majority of people in Scotland do not want to reopen it. The constitutional settlement goes along with the single market. The single market is an essential part of what the United Kingdom is.

There is no doubt that, depending on what Brexit looks like, it will inevitably introduce new matters that need to be considered. The relationship between Westminster and Holyrood will always be strained as long as there is a Government in Holyrood that is frankly pulling every possible matter they can because they do not believe Scotland should be part of the United Kingdom.

Two issues are particularly important for Scotland. One is financial services, which is a big employer in Edinburgh and Glasgow, in particular. An agreement in relation to that is very important.

I think this Committee considered immigration in Scotland, as did the House of Lords Economic Affairs Committee, on which I sit. Scotland's population is ageing; the demographic change is going the wrong way. I am not sure there is an easy answer to this, but I think both Committees came to the view that it is something the Government should look at. It is fraught with difficulty as long as you do not have a border. If you allow someone to work in Edinburgh or Glasgow, how can you be sure that is where they continue to work? Other countries seem to have a go at it. It needs to be looked at, although I would not underestimate the practical problems of doing it and the fact that immigration is as difficult and charged an issue north of the border as it is south of it.

The Chairman: That is very helpful. Thank you very much.

Q34 **Baroness Wilcox:** In your view, what are the most significant stumbling blocks to agreement being reached?

Lord Darling of Roulanish: I mentioned the big one, which is that we do not seem to know where we are going. That is a pretty big stumbling block. How do you negotiate, how do you chart a path, when you do not know where your path is going to end up?

I would add to that something that is becoming a pressing problem, which the Committee will no doubt want to pursue with David Davis when he appears, which is that time is rapidly running out. Although we talk about March 2019, that is the drop-dead date when the Article 50 procedure comes to an end. To be practical about it, you have to have the Article 50 agreement ratified, which perhaps means that there are 12 months between now and reaching ratification, and there is an awful lot to be discussed. As I said in answer to the Chairman's first question, the urgent thing is for us as a country, and by definition the Government, to form a view about where we think we want to end up in all this.

Another thing that is increasingly urgent is that if we are going to have a transitional period, whether it is a standstill agreement whereby nothing actually happens for two years or a transition to some point in the future, we had better get on with it fairly quickly, because the value of a transitional agreement degrades every day; the longer you do not have it, the less use it is. The time factor, which is now becoming pressing, and the absence of direction are the two big pitfalls. There are lots of other bits of detail that need to be discussed, but I think we are discussing it from the wrong end. But there you are.

Baroness Wilcox: So that is the most significant stumbling block?

Lord Darling of Roulanish: The biggest one is having no clear idea of where we want to end up. It is like walking through a snowstorm. You can inadvertently go over a cliff or down a crevasse or whatever simply because you do not know where you are going. That is where the United Kingdom is at the moment, and we should never be in that position.

Baroness Wilcox: How can we overcome this, if it were you?

Lord Darling of Roulanish: Putting aside the obvious, I would not start from here.

Baroness Wilcox: I know that.

Lord Darling of Roulanish: I agree with the Government. I would like a frictionless trade relationship with the rest of Europe, although how you get from the one we have now, which is frictionless, to an equally frictionless one without remaining in the single market and the customs union I do not know, but I would like to negotiate as free and open a trade agreement as we can for trade in goods as well as for services.

Also, on freedom of movement, frankly, if successive Governments, and ours was as much to blame as subsequent Governments, had implemented what the legislation actually says rather more robustly—in other words, if you do not have job, you cannot stay here—we might have resolved some of these problems. I would like to see as open an agreement as possible.

Baroness Neville-Rolfe: Given your obvious experience and expertise, I would like to ask about the way through on financial services, which you referred to in relation to Scotland. The Bank of England said today that 75,000 jobs will be lost, which is similar to the estimate that Oliver Wyman made at an earlier stage. Perhaps you can answer your own question: what would good look like on financial services? What are the stumbling blocks and how do we overcome them? Are there any opportunities?

Lord Darling of Roulanish: This is an industry that employs nearly 10% of our workforce and generates just under that of our GDP. It is not just a London issue. The industry employs a lot of people, not just in Glasgow and Edinburgh, which I mentioned, but in Leeds, Bournemouth, Norwich, Manchester—you name it. It is important to us. It is not just banks; it is lawyers, accountants and asset managers. A lot of people are involved in this industry. I would like to see as much access to the European market as we can possibly get.

We presently have passporting. There is no doubt that the problem is not just that it is tied up with the negotiations. Undoubtedly in continental Europe there are protectionist forces. There always have been such forces. You will know that this market has never been as open as it might have been, and that is something that we have to engage with. However, looked at from the other side of the channel, London is one of the world’s two major financial centres, and that is not going to change any time soon. They need access to it as much as we benefit from having access there.

You mentioned jobs. I would look at this rather differently, although not because I am less worried about it. I think that the number of people who would need to be moved to establish a European operation for the big banks operating here would be comparatively small initially. The problem arises over ensuing years when, if you have to capitalise a bank in, say, Frankfurt, Dublin or wherever, that costs you a lot of money. When you decide to expand your operations incrementally in Europe, do you do it in London or in wherever you have set up base in continental Europe?

One thing that we have in London—I use that as a general term—is a critical mass that is the envy of a lot of the world. I do not need reminding that it comes with an awful lot of risks—I certainly know that—but overall it is an asset to this country. I would be loath to do something that makes people think about whether they should be here because once people start thinking about whether they should be here, there is an awful risk that they will say, “Perhaps not”. We are not at that stage yet, and talk of thousands of jobs and so on rather misses the point. We want to try to prevent it in the first place. However, we are so close to it now that it is inevitable that some people will move because they cannot take the risk, especially as we have not even started talking about a transitional agreement, never mind having got it.

The Chairman: May I pick up one point, which Lady Neville-Rolfe mentioned? It is opportunities. Do you see opportunities for financial services in London or Edinburgh after we have left the European Union that could lead to new developments for the City and employment in the City? Is that possible?

Lord Darling of Roulanish: The financial services industry is global by its very nature, and it is global today. I am sceptical about the idea that if we close the door on Europe everything else is going to open up. We are living in an increasingly protectionist era. Nationalism, with a small and a large N, is rife right across the world. My view, and I think that of most people, is that people can trade in whatever environment there is as long as there is some certainty about what it is going to be. I just ask myself time and again why we are doing this to ourselves. There are plenty of other things that we have to battle with. This is self-inflicted.

Q35 **Lord Crisp:** What are the crucial issues for the economy on which you look to the two sides to reach agreement? What would be the implications for UK-EU trade if we ended up with no deal?

Lord Darling of Roulanish: The big macroeconomic effect is that if you have barriers to trade the economy will not grow as fast as it otherwise would and it might even shrink. We simply do not know. If you put up any barrier to trade, there is less activity.

What I am particularly bothered about from the UK's point of view—let us take engineering as an example; the automotive industry or the aviation industry—and we do not have a deal so we revert to WTO tariffs, given that in manufacturing in both those industries you have components passing across the border, perhaps several times, as they are made up into the completed article, if you are having to pay a tariff on them as they cross both ways, and there is bother with customs, or they are stopped every now and again to see what is going on, and given that, certainly in the automotive industry, the margin on each car is not that great, it is rather like what I said in relation to the financial services industry: you do not want to put into people's minds the question, "Why are we doing it there? Why don't we go and do it somewhere else where we don't have all these things?"

I am worried not just about the overall shrinkage of trade but about the practical effects. People are focusing on tariffs because they can get a handle on them, but there is an awful lot of regulation on food standards, safety, packaging, testing and so on, and for us to sell something into Europe it would have to pass muster on all of that. It would have to be checked. There is an awful lot of scope for things to go wrong, even with the best will in the world and even if everybody is trying their hardest to make it work. You phone up to sort something, someone says that the computer says no, and that is it, you are stuck. That worries me.

Equally, on the other side, it is in their interests to do a deal with us. I think a deal will be done, but it may be four to five years at least before it is done.

Lord Crisp: Right. I was about to ask you about your sense of the likelihood of a deal being done, but I think you have touched on that.

Lord Darling of Roulanish: There is so much of a stand-off at the moment on both sides. I shall not repeat what I said earlier. There is perhaps a 50% chance that we will reach the end of this process with the traditional car crash followed by the traditional crisis meeting in the middle of the night. Then we will agree to roll the thing over and will meet for another period of time. Greece is a good example of how things do not get fixed, despite everybody saying that they want to fix them. These things just go on and on, and that situation is not fixed yet. It will take time.

It is true that German manufacturers and French exporters of food want to do business with us. It is just that we would be dealing with 27 countries and they would be dealing with one. The longer this goes on, the more disruption there will be. Once you make people change their habits and their minds, it is a problem. In the meantime, if we have no deal, we will pay a price for it: prices will go up.

Lord Crisp: Again, you have probably answered my supplementary question. Is there a distinction between an agreed no deal and a chaotic no deal, where presumably we walk away?

Lord Darling of Roulanish: I understand "chaotic" to mean that we do not have an agreement on Article 50 or anything else and we just fall off the edge in March 2019. People say that that would not matter, but we would have no trade agreements with anyone on day one. We would have to become autonomous within the WTO and do deals with the Americans. To anyone who says that this is easy, I say, "Just look at Bombardier". That is what "America first" means. America will do a deal, but it will be one in which America is first. It will be the same for agriculture and so on.

I have been looking with interest at what Willie Walsh of British Airways and Michael O'Leary of Ryanair have been saying. These things can be sorted, but if you fall off the edge on day one and no longer have a legal agreement to fly your aeroplanes, your lawyers will tell you that you cannot do it. It would be mad to come to that situation.

Organised chaos, which is the second scenario you mentioned, is not much better, other than that presumably we would have more notice of it.

The Chairman: Just on that second point, can you see circumstances in which, by Christmas 2018 or January 2019, there will be a sudden realisation on both sides that there is not going to be an agreement, and therefore there will be four or five months to put together something that means leaving but without the panoply of agreements that would otherwise be thought necessary?

Lord Darling of Roulanish: Yes. Let me give you the Greek example. The last meeting of European Finance Ministers that I ever attended was in 2010, after the general election but before the coalition Government were established. Because Her Majesty's Government continue, someone had to go there, and I went there. I vividly remember that for several hours in the middle of the night we were told that no deal could be done with Greece because it was against the German constitution. Eventually people said that if the markets opened on Monday morning without this being sorted out, there would be chaos. Surprisingly enough, the constitutional bar was lifted at five o'clock in the morning and was found to be not quite as serious as we first thought. Why? Because at a political level, Mrs Merkel, to her credit, became engaged and said, "Don't be daft. We need to sort this out".

This is an important point: I do not believe we will reach an agreement until there is political rapport and then agreement between our Prime Minister and her counterparts around Europe. I spent 13 years as a Minister attending European summits and so on. You only get deals in Europe if you are prepared to make deals. For that, you have to have the right chemistry. That means that you have to spend a lot of time engaging. Chancellor Merkel is pivotal in this, frankly, but she is not the only one.

Part of it is us having a grown-up conversation here with people in the UK to say that any agreement will involve some degree of compromise. Equally, on the other side of the channel, they have their problems too. The idea that, as some are suggesting, you will get a united political Europe with a single economy and political system with everybody in it is fanciful. I can see it with a core, perhaps, but a lot of Europe is going through the political upheavals that we see here and in the United States. It would be a good idea to take stock of all this and see whether we can reach a trade deal, and all the things that go with it, that would suit all of us and recognise the way the world is at the moment.

As I say, I think a deal will be reached, but unfortunately it will take some time, because that is the way of things.

Baroness Suttie: Who do you think has more to lose from no deal?

Lord Darling of Roulanish: I will be partisan and say us, simply because half of our trade is with Europe. France is our single biggest export destination for food products. We could have a situation where, yes, British fishermen have access to all our waters but the biggest market has a tariff barrier. If it is one against 27, my instinct is that they can sit it out longer, although there will be cries from companies in Europe that their business depends on being able to sell to the UK, and people are not blind to that.

The thing that worries me is that even when the European Union agrees on things, it seems to take an awfully long time to do them. On this, we have no agreement whatever. I do worry about it.

Baroness Suttie: Do you think there are any benefits to be had from no deal and, if so, for who?

Lord Darling of Roulanish: I struggle to see any benefits. I am with the Chancellor on this—and there is no Chancellors trade union. Why do people round the world, and why have they since medieval times, traded with each other? Basically, it is because they recognise that they do better and become better off as a result. Obviously it is up to individual countries how they organise the distribution of that wealth having got it, but I am not aware of any country in the world—absent North Korea, and even it trades with China to some extent—that puts up barriers and says it is a jolly good thing.

I also struggle to find any country of any significance that trades purely on the WTO rules; they all have agreements with somebody.

Lord Whitty: I think you have answered my original question to a very large extent, which was: taking a no-deal situation against some form of frictionless trade agreement, how much relocation of economic activity and jobs do you expect? I will push it a bit further and ask over what timetable, sector by sector. Perhaps you can differentiate between British companies, third-party investment such as Japanese and American, and European companies. Which sectors do you see being most detrimentally affected if we have no deal?

Lord Darling of Roulanish: A lot depends on what no deal meant in the medium to longer term. If there were the traditional crisis in March 2019, or whenever, no one would rush into a decision and say "I'm off". They would look at the landscape and decide whether people will eventually come together and fix something. If a no-deal situation and uncertainty stretched into years, and from March we had tariff barriers, an overseas investor would have to think about where they want to be; there is a market of 60 million here and a market of 300 million on the other side of the channel.

People want to be here; we are an attractive place to invest and have been a number-one destination for direct investment for a long time. The financial services industry likes being in London because of the critical mass. They do want to go. Take the automotive industry. If you are building cars here that are exported back to Europe and are faced with a 10% surcharge, you might decide that perhaps you should make the cars in Belgium, Germany or Spain.

I cannot, and I would not, pick out industries that I have no responsibility for and put my judgment in their place. But I keep coming back to this: why on earth put them in a position where they are starting to think about it?

Lord Whitty: Have you any concept of how big that shift of investment or economic activity and employment would be?

Lord Darling of Roulanish: That is very difficult, actually. All I can point to is that a lot of independent studies have been done that show that less trade has a knock-on effect in unemployment, prices and so on. Interestingly, if you read columns and blogs written by Brexiteers who that argue that we could go to no tariffs at all, all acknowledge that the road might be quite bumpy and there might be some downside. Perhaps we should expose that downside a bit more. If everything was tariff free, you might want to have a word with farmers and those in the food industry about what it would mean if they suddenly found themselves competing with an awful lot of people who can produce stuff a lot more cheaply simply because they do not have the same understandable rules and regulations that we have.

Q36 **The Earl of Kinnoull:** Staying on the same subject area of businesses and jobs relocating away, most businesses that I am aware of have been laying plans and thinking about the issue. When do you think they will begin to activate those plans?

Lord Darling of Roulanish: I think the answer to that is: when they feel they have no alternative. The financial services industry will need a licence to operate in Europe on 29 March 2019, and it takes maybe six months or a year to get a licence. There comes a point where you cannot put it off, and you would be very foolish if you did put it off. Once the train starts running, you would not risk stopping it because you might be left high and dry, and the last thing you want is to find on a given day that you can no longer trade because you do not have the necessary authority to do it, because it takes an awful lot longer to fix it.

As we come to the end of this year, people who need specific authority or permission to trade will start to do something about it. Obviously if you are a manufacturer in the Midlands and you export into Europe, you do not need to be there. I suspect you will worry about what this will mean in relation to costs and so on, but there is not a lot you can do about it. It depends on who you are as to when you need to press the button, as it were.

The Earl of Kinnoull: Certainly the end of this year would be the beginning of an activation period for business.

Lord Darling of Roulanish: Politicians can sometimes be awfully guilty of thinking that the long term is next week. Businesses that have signed contracts that are going to last for three to five years need to know what the landscape is going to be. If you have a provision in your contract on your ability to deliver, receive or whatever, you have to know you can do that. My guess is 12 months before an effective drop-dead date, which will be at the end of this year to allow for ratification and all that. We must remember that lots of things can go wrong in the process of ratification, as countries may decide that they are prepared to sign only if, say in the case of Spain, it can get a deal on Gibraltar or something like that. Businesses have to prepare, and my guess is that they will start to do so as we approach this year end.

The Earl of Kinnoull: A final supplementary question from me is: could the Government do anything that would accelerate the activation of these plans and the movement or things that would slow them down?

Lord Darling of Roulanish: Everyone I speak to says that if they knew where we were going, even if it was not their first option they could build around that, but they do not know where we are going, and how can you plan when you do not know what the world is going to look like? The sooner the Government spell out their destination, the better it will be, because people will say, "Okay, it's different. I'll adapt and I'll get on with it". Most companies, especially big ones, trade in different environments around the world and they live with it, even though the environment may not be of their first choosing.

What would make the situation worse would be if we limped from meeting to meeting not deciding anything. I may be wrong about this. There may be a cunning plan that is yet to be revealed, but we do not appear to be getting very far on the three things that are on the table, and they are three very odd things to have at the front. I do not know why we agreed to discuss three things that logically come at the end of the process rather than at the front end of it, but perhaps someone else can explain that to you.

Baroness Brown of Cambridge: I have a quick question. Are there any sectors that you think might do well in the circumstances of a no-deal exit?

Lord Darling of Roulanish: Anyone selling in the UK as their predominant market who until 2019 was competing with somebody selling from outside the UK who will now have a tariff on their goods that they will not will do well. Obviously they will have an advantage then. Whether that is good from a consumer’s point of view is another question.

Q37 **Lord Cromwell:** Your last answer, or the one before, took us back into the snowstorm that you referred to of not really knowing where we are going. If plan A is to come out of that snowstorm with a deal, possibly even the best deal for Britain—let us hope so—plan B therefore has to be preparing for there being no deal. In a non-partisan view, do you think that the Government are doing enough to prepare for a no-deal scenario, and if not, what should they be doing?

Lord Darling of Roulanish: I am not sure that they are planning. I say that because I read what different Ministers say on different days and they are not saying the same thing. It is difficult to plan. Take, for example, something that is frequently referred to: if we come out with no deal and there are customs barriers at Dover. I have every sympathy for the Chancellor. It makes no sense to spend an awful lot of money concreting over Kent, which would not be uncontroversial—I suspect that people in Kent and others would have something to say about great car parks or whatever—or to employ lots of people who you might not need at a time where there are very serious shortages in the NHS, for example. There is a limit to what the Government can do there. Even if you started spending the money today, I doubt things would be ready in time.

Then there is IT. I read over the summer that the Government have invented some new whizzbang technology so that when a lorry drove through Dover it can detect what was in it and do everything else. I subsequently noted that this stuff has not been invented yet. I know from my experience in government that the one thing you can be sure about with big IT projects is that they will go wrong and will not deliver on time. If you plan on the basis that they are going to be there in 12 months’ time, you are rather foolish. There is a limit to what you can do, frankly. I would rather government Ministers put their minds to averting that possibility, and I think it can be done.

I repeat that I think a deal will be done because we are human beings. Britain is part of the same continent. How can we not get on with each other? Human nature intervenes here. It is just going to take longer than I would like.

Lord Cromwell: So would I be misrepresenting you if I said that your answer is effectively that there is no point in planning for no deal because you cannot?

Lord Darling of Roulanish: I think there is a limit to what you can do. Spending money on car parks and all the rest of it would be daft. Obviously in government you road test things every day: "What would happen if we had a massive cyberattack?" or "What would happen if the banking system collapsed again"? There are plans for all these things—foot and mouth and the rest of it. A lot of these things have similar features to no deal, and the plans could be adapted, but when it comes to spending lots of money, I do not think you can do very much.

Lord Whitty: One of the components of any plan B no-deal would be to sort out our arrangements under the WTO. Clearly the Government have made some approaches in relation to this, but what do you make of the objections of the Americans, the Brazilians and others to the deal that we were supposedly working out with the EU and the WTO on tariffs and tariff quotas?

Lord Darling of Roulanish: We are a member of the WTO, but we would have to become autonomous. That can either proceed smoothly or it can be disrupted depending on people's mood. The real problem is that if this issue had arisen 20 years ago, the whole mood in the world then was about breaking down barriers and getting more trade. We are in precisely the opposite position now; the prevailing mood is the opposite, really. As you know, trade deals are a very live issue in the United States at the moment, both the ones they have and the rest. If you look at the big transatlantic trade deal, which is now dead, or the Pacific deal, which is clearly in difficulties, you will see that the environment is not particularly helpful.

In some ways the WTO is only part of the problem. We would have to renegotiate our treaties with every country that the European Union has treaties with, including Chile and Mexico, as well as make new trade deals with the United States. With the best will in the world, that will all take time. The going rate is seven years, which is when people want it. Just look at the Canadian deal, which is not done and dusted. There is certainly no capacity to do that in Whitehall at the moment—nothing like that. Incidentally, in answer to the earlier question, neither are there the customs officers. You have only to go through any port of entry to see that there are fewer customs officers than there were some years ago. As to whether or not you want to start employing them now as opposed to doctors and nurses, that is a political judgment.

The Chairman: May I ask one question on the implications of no deal? You mentioned Ireland a little while ago. Do you see any adverse implications of no deal for Ireland?

Lord Darling of Roulanish: One of the good things that has happened in the past 20 years since the Good Friday Agreement, the Belfast Agreement, is that relations between the north and south have improved immeasurably. Not only is there cross-border trade but, for example, people needing medical treatment can get it north and south of the border. It has been part of the institutions that have transformed the situation in Northern Ireland. I said that it logically follows everything else, because once we know what our overall trade agreement will be, and customs and tariffs and all the rest of it, you can see how it will fit in with Northern Ireland. The border in Ireland is exactly the same in practical terms as that between England and France at Dover and Calais.

If there were to be a hard border, you would be reintroducing some of the characteristics that we had for 30 years before the peace process started. I do not think that anybody anywhere wants to see that. There are also the practical things, such as farms straddling the border. What about the absurd situation of a cow happily grazing in one side of the field in a customs union that then marches across to the other side and suddenly discovers that it is in another jurisdiction? That is mad. It needs to be sorted out. As I understand it, not much is happening on that front at the moment, yet here we are, 14 months before the shutters might come down.

Of course, it is the EU that will negotiate this with us rather than Ireland, because of the competencies. It is one of many things, but logically the three questions that we are discussing today are the three questions that logically fit into the process at the end, not the start.

The Chairman: Would it be possible to be outside the customs union and to have no hard border between the north and the south?

Lord Darling of Roulanish: It depends how tolerant you are going to be. I wonder how much surveillance could be done electronically at a border. In practice, are you pushing the border back if a lorry has to be looked at before it can take off from a Dublin car park to arrive in Belfast? What will happen to it as it drives up the road?

I am not saying that it cannot be done, but when stuff comes in to the European Union from America or anywhere else in the world it gets looked at. Not every container is looked at, but generally speaking people have a good idea of what is inside. There are customs officers who do that. I am not suggesting that we would have to have long traffic jams and stop every lorry, although we would have to impose that if there was controversy about the quality of food, for example. As I say, much will depend on what the overall border regime will be in whatever the new world is.

Baroness Kennedy of The Shaws: What about the movement of people with regard to the Irish issue? Southern Ireland wants freedom of movement. If you do not have a border, the question is: does the Stranraer-Larne crossing become the border? That would be a rather unhappy thing for Northern Ireland's unionists, who are not going to like the idea.

Lord Darling of Roulanish: I think there will be huge political difficulties in putting a border between Northern Ireland and Great Britain. As you will recall, this was one of the issues in the Scottish referendum. Once you have borders, you are into completely different territory. Northern Ireland is part of Great Britain and Northern Ireland, which is a single legal entity. I would not want to see British citizens living in Northern Ireland being told that in effect they are now foreigners.

Baroness Kennedy of The Shaws: Bring your passport with you.

Lord Darling of Roulanish: The other thing is that there has been freedom of movement between Ireland and the UK ever since the last century. That is one of the very good things that was maintained even at the height of the Troubles. I do not think anyone wants to see that stop. How that would fit within the new regime I do not know, because it was never a live issue until now.

I can see from the European Union's perspective that logically if somebody living in Dublin can come to London without let or hindrance, why should somebody from Paris not be able to do the same? Of course, I would say hoorah to that, because I think that generally that system works.

As I said earlier, freedom of movement is a political problem, and we should have been tougher about what freedom of movement means. It does not mean that anyone can do what they want; I am talking Europe-wide now, not just about Ireland. It means that if you come here to look for work you have to look for work; you cannot just come here and park. But perhaps all those boats have been burned.

We have not touched on visas and the rest of it. I reflect on the fact that when you go to Europe, especially with more and more passports being electronic, you can go through a terminal building in three or four minutes unless you are from what we call the "rest of the world". If we become the "rest of the world" it will be slower for you, not just if you are travelling for business but if you are going on holiday. You will be in the wrong channel.

Q38 **Lord Liddle:** There has been a lot of discussion about transitional arrangements and implementation periods as a means of dealing with the problem of the cliff edge. I would like your view on this. How helpful do you think that could be?

Also, do you see a difference between a transition and an implementation period? When the Prime Minister last spoke about this she seemed to think of an implementation period as starting only when the agreement has been reached some time later in 2018, whereas business is looking for agreement on a transition period of a certain length after March 2019.

Lord Darling of Roulanish: In terms of nomenclature, transition is what most people are referring to. However, if you are talking to a hard-line Brexiteer you call it implementation to reassure him or her that there will be no backsliding. I am not sure there is much difference between the two, frankly.

There is a difference between that and a standstill agreement, where we reach March 2019 and do not have an agreement but agree to keep talking. The downside of that is that you simply move the crisis from

2019 to 2021. It will be a standstill agreement unless you know where you are going, because transition, by definition, can only be from one place to another.

If I may make a general point here, it is that given that we are now on the last day of October 2017, we will not sort this out in 18 months. We need a period of two, three or four years to reach an agreement and then transit to somewhere. I cannot see how we can possibly get 40 years' worth of stuff redone in 18 months. It would be a big ask, even if everybody was on the same page on all this. I just cannot see how it could be done on a practical level.

As I say, one of the things that the Government will be pressed on shortly is whether we are on a standstill agreement whereby we stay in the single market and accept the ECJ and the customs union—in other words, nothing changes—or whether we are heading towards a new destination and are transiting towards it. Even if you have whatever element of the status quo, and here I agree again with Philip Hammond, you cannot change from where we are now to a temporary situation and then change again to a permanent one. It would be disastrous for everyone if we had to change things twice. We need one change, but let us be very clear philosophically about what we are up to. Are we just kicking the ball down the road or are we en route somewhere?

Lord Liddle: May I just press you on what you think is the right thing to do as we move from where we are now—

Baroness Kennedy of The Shaws: You are leading up to my question.

Lord Liddle: Do you think the former: that we should say now that we are not going to get agreement, we are not going to sort it out by March 2019, and therefore we have to have a further two years in which we are going to complete this deep and comprehensive trade agreement?

Lord Darling of Roulanish: I think that is right, because even negotiating a transitional deal is going to take time. As I said earlier, every day you do not have one, the less use it is, because people will say that they are going to have to plan for the worst. I think it would be entirely sensible. If we could only stand back from this and tell people in this country that we are going to have to negotiate a new deal and there will be some compromises, and tell those on the other side of the channel that we know that they also have internal arguments—they are superficially united just now, but you do not have to go too far to see that in different parts of the European Union there are all sorts of tensions—so why do we not have a grown-up conversation and see whether we cannot get a deal that does for both of us? On any view, that will take longer than the 18 months between now and the trigger point, so let us make a virtue of that. Suppose we are starting from scratch and are back in 1972. I do not recall a timetable being set then that it all had to be done by whenever. Actually, the 1972 agreement was pretty rudimentary and was added to over the years. That is the way we ought to be dealing with this rather than heading for a crisis—you can see it now—that is eminently avoidable.

Baroness Suttie: I just want to question you a little on what you are calling a standstill agreement. My understanding is that the only way that could happen is by unanimity under Article 50. Do you believe there will be the political will in the EU 27 to grant us that?

Lord Darling of Roulanish: It could happen with difficulty. If we got to a situation where nothing had been agreed and we risked complete chaos, they would, but probably not before one or two of them started saying, "If we are going to do this, we want something else", which we cannot control. I mentioned Spain and Gibraltar, which is something we could control, but when it comes to some of the countries of former eastern Europe that are getting more and more agitated about the movement of people, for example, it could be difficult.

In my experience, these things can be done, but an awful lot of time will have to be put into this. We cannot just spring it on them. When David Cameron sprung his veto on them in 2013 or 2014, it went down really, really badly. It is like everything else in life, in your domestic life for example: it pays to make friendships, because sometimes you need to call in some favours, but if the cupboard is bare in that regard it becomes more difficult. You are right. It is not a great position to be in when you have 27 people, all of whom have the right to object to something over which you have no control whatever.

Q39 **Baroness Kennedy of The Shaws:** I want to pick up your alternative possibilities: the standstill agreement and working towards a final outcome. What do you think are the necessary components, particularly of the latter—the idea that you are working towards something—but even on the standstill? What things do you have to create now in order to have even standstill?

Lord Darling of Roulanish: Wherever we end up, we will arrive at some destination or other, you would think. That is why I said right at the start of this session that what is lacking is any clear articulation of where the Government wish to end up. I mentioned 1972, when both sides agreed that we wanted to join the then Common Market. Lots of things flowed from that and negotiations were held.

On this occasion, we know that we do not want to be like Norway or Canada, because that is what the Prime Minister said in her Florence speech, but we do not have a clear articulation of what we do want. The difference is that a transition goes from point A to point B, and you have time to get all that sorted out. A standstill agreement is rather like what they used to have in the old industrial relations days: they agreed not to go on strike and to talk a bit more, and something came out of it in the end.

Baroness Kennedy of The Shaws: Imagining that situation, it almost seems as though what is missing is someone to do the mediation.

Lord Darling of Roulanish: It may come to that, although I cannot think of anyone on the planet who would want to do it or who everybody would agree should do it, because he or she would undoubtedly be blamed by both sides when none of it worked out the way they wanted. At the end of the day, both sides will have to do a deal of one sort or another. The question is how we can get something that works for both of us. At the moment, people on the other side of the channel ask, "What do you guys want?" The answer is that we do not really know.

Baroness Kennedy of The Shaws: I have to tell you that I was asked the same sort of question recently in the United States, and my answer was that it will probably be a great British resolution, which is that we will say that we have left but in fact things will be much the same as before. Is that possible?

Lord Darling of Roulanish: I suppose some would regard it as a weakness, but some might regard it as a strength that we have always been a pragmatic nation. There are compromises in any trade deal, because both sides cannot get everything they want. Critically, an interesting thing in the Florence speech that people did not dwell on was that while the Prime Minister said that she did not want the ECJ, she recognised that someone would have to arbitrate. It could not be the ECJ or the British courts, so it had to be somebody else.

Baroness Kennedy of The Shaws: You know what will happen: some mini tribunal will be created that will have a British judge on it. Face will be saved and things will be much the same as before.

Lord Darling of Roulanish: I am certainly not discounting your analysis of what might happen. I just think this process is going to be long, and, frankly, the longer it goes on the more some of the difficulties, which were never mentioned in the referendum campaign, will surface. At the end of the day, we need to reach an agreement. What are the hard-line zealots who say they want nothing to do with Europe going to say when we sit down to deal with the Americans and start talking about aircraft that we make here or importing meat and foodstuffs from the United States? Inevitably, guess what, you end up compromising. If you do not compromise, you spend years with no deal. That is not in our long-term interest.

Baroness Kennedy of The Shaws: My last question to you is this. You have pointed out from the beginning, and I am sure it makes perfect sense to all of us, that it is very difficult to reach a conclusion if there is division at the heart of Texas—basically, in the Cabinet—about what people want, which reflects the division there may be in society at large. Until you get to a point of knowing what you want, how can you get clarity and a deal that is going to be any good in the interests of the country?

Lord Darling of Roulanish: I do not think that you can. Part of the problem just now is that the Cabinet is quite clearly split on this. People have different views of what the world ought to look like. I find it very difficult to see how it will be done, but if the Government are to remain in office for the whole of this Parliament, they have to come to a view. It might mean that at some point some people will be angry and walk out, but you have to have a view on where you are going to end up. We cannot limp on for five years.

Baroness Kennedy of The Shaws: But is it not more than just a split? There are three sides to this triangle: there are those who want to walk away and not have a deal; those who want to leave and see that as an honest reflection of what happened in the referendum but who do not want it to be as hard as that; and those who would have preferred that we had not got into this place in the beginning.

Lord Darling of Roulanish: I understand that. I am not going to wade into the psychology of the Conservative Party; there are better things to do in life. My starting point in all this is as with the Scottish referendum. I made it clear during that referendum that whatever the result we had to abide by it, because you cannot ask people what they think and then say that what they think does not matter. Although in the Brexit referendum my point of view was clearly in the minority—just—I do not remember anybody in the campaign voting for the hard Brexit on which we now appear to be embarked. It was not on the table. When Mrs May said in her speech at her conference in 2016 no customs union, no single market and no ECJ, we appeared to burn an awful lot of boats. Like everyone else, I think there is always room to recover these positions and get something that works for us, but, at the risk of repeating myself, we need to decide where we are going and to accept the fact that this is not going to be done in 18 months. We need some degree of transition. Our country is becoming as divided as many other countries are on issues such as this. Referendums are really divisive things, and I hope the Government can sort something out before these divisions become too deep-seated.

Q40 **Lord Selkirk of Douglas:** Thank you very much for an extremely interesting analysis this afternoon. Will you accept that we all recall the crisis with the banks in which you played a very decisive role? You mentioned that transitional implementation—whatever you wish to call it—might take three or four years. Obviously a lot depends on the progress of the negotiations, but do you think three to four years is a realistic assessment and that it would be accepted?

Lord Darling of Roulanish: If the spirit is willing, you could get the heads of agreement agreed in a couple of years. I added years three and four, because if you look at the sheer raft of regulations—something like 33 regulatory bodies operate in Europe that affect our lives in different ways in relation to food standards, pharmaceuticals, you name it—you can see that there is an awful lot there to sort out. I do not put three to four years on the table because I want it to take that long; I am just being realistic about how long it is likely to be between getting heads of agreement and negotiating yourself down to where you have a living agreement that works on a day-to-day basis.

From a business point of view, the longer you have to transition, knowing where you are going between here and there, the better, because business tends to deal in longer timeframes than we do. It is not that I particularly want to see the process strung out. It is just that, in some ways, the more certainty you get and the quicker you get that certainty the better. Let us just be realistic about it.

Baroness Verma: We will continue to do business, even if the period of transition is longer. From your conversations with countries outside Europe, what is your feeling about the tone of the debate? We do not want to stop businesses wanting to work with us, even through the long transition, the short transition or whatever it may be. How do you think we can make the tone more acceptable so that people do not feel that we will suddenly see a flight of businesses from the UK?

Lord Darling of Roulanish: I have not been on a world tour of capitals; I enter that caveat. In the conversations I have had with people from different parts of the world, the most common comment is, "Why on earth are you doing this?", because they do not understand it. I think they would all accept, to a greater or lesser extent, that nationalistic debate—I regard Brexit as a manifestation of nationalism—is manifesting itself in other places, such as in the United States. As you know, what view people take on how things ought to be depends on who you speak to. I just make the general point that the longer you have uncertainty, the longer you have manifest disagreement, whether in the Government or wider, the more it seeps into public consciousness, not just in your own country but outside it, and they view the country accordingly.

One of the remarkable things I have found wherever I go in the world—I found this especially during the Scottish referendum—is that people have a view on our referendums because they take far more interest in the United Kingdom and its component parts and what we do than we take in most other countries. For a country that has been so influential in the world, for the good in most cases, and that has done so much to shape things in the world, it is a pity that we are going to spend far longer than I like in a degree of introspection and uncertainty. But, as I say, wherever you go in the world you can find someone to agree with whatever you happen to be thinking.

Baroness Verma: May I just add one more thing about WTO rules? Do you think that the debate in the UK has really allowed the public to understand what WTO rules will mean? How do we make sure that if there is no deal or a standstill deal, the public are fully informed before we, as parliamentarians, agree to something that we will have to abide by?

Lord Darling of Roulanish: I have yet to be stopped in the street by anybody asking about the WTO.

Baroness Verma: That is exactly my point.

Lord Darling of Roulanish: If I were, I would probably think they were parti pris before they said anything further. How many people realised that we were in a customs union until comparatively recently? It is not the sort of thing you talk about in polite company. It is not part of the day-to-day discourse. Referendums are decided for various reasons. Some people choose from gut feeling and others look at every detail and so on, but we are where we are on that. People do not tend to study trade agreements. They clearly understand the concept of buying and selling things and that what they buy has probably been made in many different countries, but not always.

The Chairman: Lord Darling, thank you very much indeed for coming and giving evidence to us today. We have hugely appreciated it. You have answered a lot of rather different questions extremely clearly. Thank you very much indeed on behalf of all of us. We will send you a transcript to look at in the usual way. We are most grateful to you. Thank you. I now close the public session for a moment.