

Exiting the European Union Committee

Oral evidence: The Progress of the UK's Negotiations on EU Withdrawal, HC 372

Wednesday 24 January 2018

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Members present: Hilary Benn (Chair); Mr Peter Bone; Joanna Cherry; Sir Christopher Chope; Stephen Crabb; Mr Jonathan Djanogly; Richard Graham; Wera Hobhouse; Andrea Jenkyns; Stephen Kinnock; Jeremy Lefroy; Craig Mackinlay; Seema Malhotra; Mr Pat McFadden; Mr Jacob Rees-Mogg; Emma Reynolds; Stephen Timms; Mr John Whittingdale; Hywel Williams; Sammy Wilson.

Questions 691 - 835

Witness

I: Rt Hon. Mr David Davis MP, Secretary of State, Department for Exiting the European Union.

Examination of witness

Rt Hon. Mr David Davis MP.

Q691 **Chair:** Good morning, Secretary of State. Thank you very much for coming today, for the first of what I am sure will be a number of appearances during this year. Happy new year to you.

Mr Davis: There will be any number, I should think.

Chair: As ever, we have a lot of ground to cover, so succinct questions from all of us and succinct answers from you would be much appreciated. Can I just begin with some very quick questions, basically of fact? First of all, do you expect that there will be a draft legal text to implement the phase one agreement? If so, when do you expect that to be published?

Mr Davis: My team were in Brussels last week and one of the things they were doing was starting on the conversion of the joint report, which the Commission delicately described as a report by Mr Davis and Mr Barnier,



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who are gentlemen and will stand by it. That was the phrase before Christmas.

Q692 **Chair:** It will be a legal text. Roughly when might that appear?

Mr Davis: It will be a legal text, which will make up the treaty. It will be in the treaty. I do not want to mislead you; there will not necessarily be a separate legal text. The treaty itself will be a legal text, and they are working on the detail of that.

Q693 **Chair:** It will not make an appearance in advance of the final legal text.

Mr Davis: No, I would not expect so. Actually, that is an interesting question.

Q694 **Chair:** The European Parliament would be keen to see it, given what Mr Verhofstadt has said.

Mr Davis: Can I take notice of that question?

Chair: Yes of course, if you come back to us.

Mr Davis: I had not thought through when it would surface, but I see no real argument why it should not surface earlier. Let me look and see.

Q695 **Chair:** If you come back to us that would be really helpful. When do you expect Parliament to be told what the Government are seeking in phase two? Are you proposing, as we recommended in our last report, that you publish a White Paper?

Mr Davis: There will not necessarily be a White Paper on phase two. To date, as you are aware, Chairman, there have been a huge amount of words expressed on the overarching aim for phase two, starting from Lancaster House, going through the other speeches, through two White Papers and 14 other documents. I am quite certain we will be publishing other things. Whether it will be a White Paper I am not sure, at this stage.

Q696 **Chair:** You do not know. When do you plan next to meet Michel Barnier?

Mr Davis: We think it will probably be some time after Monday. Monday is the day of the General Affairs Council, when the Commission will be presenting its guidelines for the implementation period, the most important component of what we are negotiating in this quarter. That is the point of contact. My office is in contact with his office at the moment.

Q697 **Chair:** Presumably officials are currently engaged on talks on a regular basis.

Mr Davis: My officials are there again today and were there last week. In essence, the text is taking the thrust of effort at the moment, which is the most important immediate thing. Outstanding withdrawal issues are technical issues, goods on the market and those sorts of things, which were left over at the time of the joint report. There is scoping and only



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scoping on the issue of the implementation period, because we will get down to the substance of the implementation period as soon as we have the GAC guidelines.

Q698 **Chair:** The UK financial services industry was clearly under the impression that a paper was going to be published setting out the Government's objectives. There were reports last week that it may not now be published. Can you shed any light on this?

Mr Davis: I am not sure where that belief came from. We may well publish on financial services. You will have seen from the Chancellor's comments in Berlin, when he and I went to Germany on what was described as a "charm offensive", that he expects, as he said in quite robust terms, a financial services chapter in the final agreement. I suspect we will publish something and we are certainly going to have a lot of public debate about it.

Q699 **Chair:** Did you say you will publish something?

Mr Davis: I said I suspect.

Chair: You suspect.

Mr Davis: We do not have an explicit plan to publish a financial services paper, so I do not know where that came from, but we may well do so, as we will in other areas.

Q700 **Chair:** In the *Financial Times*, "Senior City figures say they were promised a detailed position paper in a matter of weeks", last autumn.

Mr Davis: That was not by me.

Q701 **Chair:** That is very helpful. Can we turn to the trade and services negotiations? There has been a great deal of talk about the extent to which the UK may wish to diverge from EU rules. Let us take an example. Is it the Government's desire to diverge from European regulation of the financial services industry or do you intend to march in lockstep with it?

Mr Davis: Not in lockstep, but the aim in this whole exercise, as you know and I have said before, will be to maintain the maximum possible access to the European market while, at the same time, exercising our own freedom over what we are going to do in the future. Now, the decision on how that freedom is used will be a matter for future Governments and Parliaments. I see my task as creating that freedom. How far apart we diverge will be a matter for the Government thereafter. It will not be an issue that will be decided at this stage. The freedom to diverge should be there. Whether or not it is exercised is entirely up to the Government and the Parliament of the future.

Q702 **Chair:** Do you accept, Secretary of State, that there is likely to be a trade-off between the UK's willingness to maintain alignment and the degree of access that we are likely to get?



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Mr Davis: Yes. There is undoubtedly an impetus among some continental countries and on the part of the Commission to try to trade off regulatory freedom against market access. Our strategy for dealing with that is to say we will seek outcome equivalence in many areas, but not harmonisation. Otherwise, if you have harmonisation, you might just as well have stayed in. This is where all the arguments about departing from the European Union and departing from the single market are effectively identical, because only both of them give you control. That is the reason.

Q703 **Chair:** Are there any particular areas in which you are very keen to diverge, as a Government?

Mr Davis: No.

Chair: No, okay.

Mr Davis: Let me just finish the sentence, Chairman. It is not necessary for me, at this stage, to say what will be a good outcome or a bad outcome if we diverge. It is necessary for me to ensure that we have the right to.

Q704 **Chair:** Now can I turn to trade? In July 2016, you wrote that, within two years, "We can negotiate a free trade area massively larger than the EU". That is not going to happen within the two years, is it?

Mr Davis: That was within two years from when you start. We are not allowed to start, under the duty of sincere co-operation, until the point of departure. That is 29 March 2019, so we start then.

Q705 **Chair:** For the record, you actually wrote, "I would expect the new Prime Minister on 9 September to immediately trigger a large round of global trade deals". That was 9 September 2016. "I would expect that the negotiation phase of most of them would be concluded within between 12 and 24 months", so within two years. That was 2016, just for the record.

Mr Davis: What date was that? I think that was before I was a Minister.

Chair: That was before you were a Minister.

Mr Davis: That was then. This is now.

Q706 **Chair:** You have different objectives now. Good, I am going to come on to another example of that in a moment. What do you expect still to be negotiating with the EU during the transition period?

Mr Davis: I do not expect material negotiations with it. There may be a lot of detail work. Let me go back to the point of the transition period for a second. The point of the transition period is threefold. Number one is to allow the British Government to carry out any changes necessary in order to make the transition from where we are now to where we will be at the end. Number two is for continental Governments to do the same. Number three is to allow companies to make decisions on the basis of



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fact. All of those require the substance of the future relationship to be concluded at the start of the transition, not at the end. If you have it at the end, it is not a transition any more; it is something else. It is a deferral. You have to have the substantive negotiations concluded before you start, as indeed I think I said last time.

Q707 **Chair:** You are still expecting that the whole of trade and services agreement, all of the detail, will be negotiated.

Mr Davis: All the substance will have been. There may be fine detail that I am not worried about. It would be unwise, in my view, apart from that it practically does not meet the requirements of a transition period, to get sucked into doing a negotiation that is substantive or major during the transition period itself. Why? The balance of power in the negotiation alters and the aim then, on the part of the Commission, will be to spin out the negotiation.

Q708 **Chair:** Do you expect that that agreement will include Turkey, given that Turkey is largely in a customs union with the European Union?

Mr Davis: The decision will be made in Brussels, not in Ankara, so no. I think the access will probably include Turkey, but it will not be its decision. It will be a decision on the part of Brussels.

Q709 **Chair:** Why do you think the CBI has come down in favour of the UK staying in a customs union with the EU, rather than negotiating our own trade deals?

Mr Davis: Frankly, that is a question for the CBI, rather than for me.

Q710 **Chair:** Why do you think it is wrong?

Mr Davis: I can only hypothesise, and the main hypothesis I would give you is that existing trade associations tend to reflect the existing interests of existing factories, businesses and so on. They tend to be small-c conservative. In other words, they support the existing trade and do not think too much about future trade. The simple truth is that the Commission has said that 90% of world growth is going to come from outside the European Union in the future. That means 90% of the future markets are going to come from outside the European Union. The companies that will exploit those future markets may not even exist, let alone have a CBI membership. That is why you have that particular stance. It is an understandable very low-risk approach to things. Our aim is to get the best deal, not the minimalist deal.

Q711 **Chair:** That was not always the view that you held, as you know. You did once write, "My preference would be that we should remain within the customs union of the EU. What this means is that we would [...] give up some freedoms in terms of negotiating [...] with third countries". That was a few years ago, but it is still on your website.

Mr Davis: It was a few years ago. It was a lecture to the Institute of Chartered Accountants.



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Q712 **Chair:** I am interested to know why you changed your mind.

Mr Davis: That was a few years ago. I think it was about five years ago. At that stage, I had not gone through the analysis of two things: first, where world growth would come from and, secondly, what the impact of individual trade agreements is. This is an area of perfectly legitimate dispute. Most of the evidence that you can see in terms of free trade agreements is that, if they are well crafted—and that is a required condition, but I will tell you when they are not in a minute—you can get 25% to 40% increases in trade level, not in one year but over time.

Put 40% to one side. That is something like NAFTA, where you have the most immediate and proximate trade. Indeed, it is the sort of thing you have seen with the accession to the European Union of the eastern European countries, with low wage costs, high skills and so on. That is the first thing: if the market is there, the effect of free trade agreements is large, unless the free trade agreements are not very good. The best examples, bluntly, of free trade agreements that are not terribly good for an individual country are ones that are made on behalf of large groups, whether it is Europe, Mercosur or whatever, because there are lots of compromises in them. If you look at the effectiveness of Swiss free trade agreements in terms of delivering extra trade for Switzerland, they are greater than European ones for us, because we are one of 28. That is why. Basically, I looked at the facts and, as the facts changed, I changed my mind.

Q713 **Chair:** You have just referred to 25% to 40% gain. Unless I am very wrong that is a quantitative assessment of the potential benefits.

Mr Davis: Yes, it is somebody else's, not mine, but go on.

Q714 **Chair:** You told us last time that you have not done any quantitative economic assessments.

Mr Davis: That was economic forecasts.

Q715 **Chair:** If I may quote you, Secretary of State, you said there was "no quantitative assessment". I asked you the question, as you will recall, "Did the Government undertake an assessment of the economic impact of leaving the customs union?" Now, you have just given us figures and that is quantitative. Can you clarify, once again, whether the Government have or have not done this?

Mr Davis: This was all around the argument of the sectoral analyses. In the sectoral analyses, there are quantitative assessments of the size of the market, the capital involvement in some of them, the labour involvement and so on. They are quantitative assessments. The point that we were talking about at the time, as I remember, was effectively the forecast of what will happen. Now, the reason I take a dim view of individual economic forecasts is recent history, among other things.

Q716 **Chair:** Secretary of State, I do not mean to interrupt. You made that



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point to us previously and I accept that is what you said. You do not think they have a very good record. Is that correct?

Mr Davis: Take the best forecaster in the business, the Bank of England. It has to be to make judgments about its policy decisions on QE and so on. The Bank of England, in August 2016, made a quantitative forecast of what it thought the impact of Brexit would be. What did it say? It said that exports would go down by 0.5%; they went up 8.3%. It said business investment would go down by 2%; it went up by 1.7%. It said housing investment would go down by 4.75%; it went up by 5%. It said employment growth would be zero, flat; it went up to a new all-time high. I do not really need to make the case. The facts make the case.

Emma Reynolds: We have not left the European Union yet.

Mr Davis: I know, but that was its forecast on August 2016 and it was a forecast for 2017, so it knew exactly what it was doing. With respect, Mr Chairman, not only did it know what it was doing; it also knew what had already happened to the pound. You would have thought that it would have been able to make that assessment. In fact, it did not.

Chair: In fairness, that is separate from the question we are exploring.

Mr Davis: I think it is very relevant.

Chair: It is what assessment the Government did or did not make of the impact of its decision to leave the customs union. Anyway, we will now move on to Joanna Cherry.

Joanna Cherry: Thank you very much, Mr Chairman.

Mr Davis: Good morning and a particular happy new year to you.

Q717 **Joanna Cherry:** A particular happy new year to you, Secretary of State. It is always a pleasure to see you here. I want to ask you some questions about the joint report on the progress of negotiations, as they relate to the position of the border between Northern Ireland and the Republic of Ireland. If we look at paragraphs 49 and 50 of the joint report, they state that, in the absence of agreed solutions, there will be "no new regulatory barriers" developed between Northern Ireland and the rest of the UK. It does not specify that there will be no new barriers for trade going in the other direction, from the UK to Northern Ireland. Is that deliberate or can you now rule that out?

Mr Davis: No, we have always said that there is not going to be a border in the Irish Sea and that continues to apply. We are not going to have any breakup of the United Kingdom off the back of what we are doing here.

Q718 **Joanna Cherry:** That is very clear, thank you. We can assume that that means that there will be no new regulatory barriers between Northern Ireland and the rest of the UK and none in the other direction.



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Mr Davis: Yes.

Q719 **Joanna Cherry:** What work did the Government do to assess the potential effect of these full alignment provisions on the wider devolution settlement, before the joint report was agreed?

Mr Davis: The first thing to say about the full alignment provision is that it essentially relates to the north/south agreements. In particular, there are about six of those under the North/South Ministerial Council. They include agriculture, education, environment, health, transport and tourism. Of those, three are key here. Agriculture is big. Environment tends to relate to waterways in this context. Transport tends to relate to road and rail. The point of full alignment, as I explained in the House on more than one occasion, is that we intend to get outcome alignment, not harmonisation.

Let us take the case of agriculture. The key measures there are things like consumer safety and animal health. There is absolutely no intention to reduce standards on consumer safety and animal health, just the reverse. Indeed, the Defra Secretary has said exactly that, so I do not think it will introduce a problem for us. That was the thought process anyway.

Q720 **Joanna Cherry:** What I am getting at is what work the Government did to assess the potential effect of these proposals on the wider devolution settlement. That is for the other devolved countries within the United Kingdom, Scotland and Wales.

Mr Davis: There will be no border. That is the point. We have discussed this in JMC. Indeed, in JMC(EN), it was accepted in terms that Northern Ireland has particular circumstances and special issues related to it. I am going to be very careful about what I say about Northern Ireland, of course, because we are in the middle of trying to get an Executive in place, so it is a sensitive time. Since we are not looking at any border in the Irish Sea, it does not have any knock-on or negative effects anywhere else.

Q721 **Joanna Cherry:** Let me try to elaborate why I am asking these questions. The committee heard evidence from Professor Dougan a couple of weeks ago. He is professor of European law and holds the Jean Monnet Chair at the University of Liverpool. He was talking about the joint report and he said, "We are starting to talk a lot about the UK internal market—this new concept that has emerged since 2016—but we do not know very much about what that UK internal market consists of, what it will look like, how it will be organised". He went on to say, "The model of the internal market that is emerging obliquely from this joint report makes some very striking assumptions about the competence of the UK Government to deal with devolved matters, because the UK Government, in so far as full alignment covers the whole of the UK, are presupposing competence to regulate sectors that would belong within the devolved fields of competence".



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That is correct, is it not? In order to make the commitments that the UK Government have made in the joint report, you have presupposed that the UK Government will gather into themselves the power to regulate sectors that currently belong within the devolved fields of competence.

Mr Davis: I do not think so. For some reason, this always devolves, in internal arguments, to whether you can sell a jar of jam made in Somerset—looking at one of your colleagues—in Scotland, Northern Ireland or Wales. That is the point: it is the maintenance of the ability to sell without fetter or effectively without a commercial border of any sort within the United Kingdom. The presumption is that one of the reasons for reservation of powers centrally is in order to enable that to happen and to maintain that position.

One of the things we are discussing at the moment with the devolved Administrations, the Scottish Government among them, is the infamous Clause 11 and how we are going to amend that to recognise what we jointly all think will happen there. The point is that you have various criteria for reserving powers centrally in a United Kingdom like our own, a non-federal United Kingdom. One of them is the maintenance of the ability to operate unfettered in commercial terms throughout the kingdom.

Q722 **Joanna Cherry:** I am glad you mentioned Clause 11, because that is really why I am asking you these questions. Professor Dougan went on to say that what he extrapolated from the joint report that had been agreed in December was that “the internal market of the UK is going to be based on a relatively extensive conception of the UK Government’s powers vis-à-vis the devolved regions”. Secretary of State, the House was promised by the Secretary of State for Scotland that, at Report stage of the EU (Withdrawal) Bill, amendments would be brought forward to deal with the Scottish and Welsh Governments’ concerns about what has loosely been described as a “power grab” in Clause 11.

Mr Davis: Very loosely.

Joanna Cherry: The House was promised that. Now, that promise was not fulfilled. I am just wondering if what you have committed yourselves to in relation to Northern Ireland, in the joint report, is the reason why these amendments were not brought forward at Report stage. The United Kingdom Government, in order to deliver this internal market concept, needs to gather into itself these powers that currently rest with the devolved Administrations.

Mr Davis: Ms Cherry, you are a lawyer and you would know, when you use the word “extrapolate”, it is not the same as the word “deduce”. That is what he has done; he has extrapolated, wrongly in my view. Actually, it had no impact on that. What I suggest you do, bluntly, is to pose these questions to the Scottish Government.

Joanna Cherry: No.



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Mr Davis: Let me finish the sentence.

Q723 **Joanna Cherry:** No, let me interrupt you there, because the Scottish Government and the Welsh Government have already produced amendments. Your Secretary of State for Scotland went away and said that he would produce his amendments at Report stage, so I am afraid you cannot shift this on to the Scottish or Welsh Governments.

Mr Davis: If you want to question the Secretary of State for Scotland, you must summon him here. My view is very simple: we are seeking to get the best outcome on Clause 11. The discussions have been going on and are still going on. I think we will get a good outcome and one that the Scottish people, the Welsh people and the Northern Irish people will like, but we have to get it right. Right is better than quick.

Q724 **Joanna Cherry:** Why were the amendments to Clause 11 that were promised at Report stage not produced at Report stage?

Mr Davis: The agreements were not concluded.

Q725 **Joanna Cherry:** Were you involved in the decision to delay these amendments?

Mr Davis: The Bill is mine, so you must assume I have responsibility, whatever else happens.

Q726 **Joanna Cherry:** Is that a yes? Are you saying that the reason the amendments were not brought forward is that discussions are ongoing on the framework with the Scottish Government?

Mr Davis: That is part of it, and because it is not ready yet. When it is ready, it will be delivered.

Q727 **Joanna Cherry:** Why did the Secretary of State for Scotland promise they would come out at Report stage?

Mr Davis: You must ask the Secretary of State for Scotland.

Q728 **Joanna Cherry:** I have another question about Northern Ireland. Last week we took evidence from experts who had worked on the CETA deal, the Canadian deal with the EU, about it as a potential model for a future relationship between the UK and the EU. We were told that a CETA-style deal between the UK and European Union would not be compatible with an open border between Northern Ireland and the Republic. That is right, is it not?

Mr Davis: On what basis is it right? Even the notes that sit in my file in the office on the CETA deal are over 40 pages long, so which of the pages and which aspect? "It is not compatible" means what?

Q729 **Joanna Cherry:** Let me give you the evidence that was given to us. Dr Lorand Bartels of the University of Cambridge is a senior trade adviser to Linklaters. It was his evidence that a CETA-type deal would not be compatible with an open border. He was asked why by the Chair and his



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evidence was that there would have to be checks on VAT, so taxes are applied at the border. There would have to be checks on products to establish whether they could be sold, and there would have to be checks on rules of origin to make sure the products were coming from the right region. That is why he said, in the event of a CETA-style deal between the UK and the EU, there could not be an open border.

Mr Davis: I do not know Dr Bartels, but did he notice that there are different tax regimes north and south of the border now?

Q730 **Joanna Cherry:** He specifically spoke about VAT.

Mr Davis: He said VAT. Did he notice that there are different tax regimes north and south of the border, and actually different people who collect them? How does that happen without a border?

Q731 **Joanna Cherry:** He also mentioned checks on products and checks on rules of origin, which of course are a separate matter from taxes. We cannot just focus on the taxes, Secretary of State. He gave three reasons.

Mr Davis: Is he an expert in authorised economic operator regimes.

Q732 **Joanna Cherry:** He is a senior trade adviser to Linklaters, Secretary of State.

Mr Davis: That is very good for Linklaters, I am sure. I am asking the question as to whether or not he knows what he is talking about. The simple truth is that we have regimes that exist with rules of origin now. We import things here where there are rules of origin, so I cannot see where this suddenly comes from. We do not have a hard border between Northern Ireland and Southern Ireland. That does not mean there is not a border. It does not mean that the markings on the road do not change colour, as you go from one to the other, which is the principal guideline. It does not mean that VAT is not collected separately north and south of the border. There are famous examples of this.

Q733 **Joanna Cherry:** The issue is the openness of the border and the lack of structure on the border. Any of us who have driven across it in the last few months, as I have done regularly, will say that you virtually cannot notice that it is there. Anyway, the issue I want to explore with you is this: is it then your evidence that a CETA-plus type of agreement, which you say is what you want, will be sufficient?

Mr Davis: You have knocked two words off it.

Q734 **Joanna Cherry:** Plus-plus?

Mr Davis: And plus again.

Q735 **Joanna Cherry:** Okay, is it your evidence that a CETA-plus-plus-plus-plus type of agreement will be sufficient to keep the border between Northern Ireland and the Republic open?



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Mr Davis: It depends what the pluses are, does it not?

Joanna Cherry: Is that your evidence?

Mr Davis: The value of CETA, South Korea's arrangements—I am glad I did not make the mistake I made the other day and say North Korea's—the Swiss arrangement, and a variety of other existing FTAs with the European Union is that they give you a template of what can be achieved already. They are the floor, not the ceiling. That is the point to understand. That is why I said plus-plus-plus. Let me give you one example, which is easy after CETA. There will obviously be pressure from the European Union to try to avoid what it thinks of as the Anglo-Saxon race to the bottom on standards. That is its mindset. One of the things that CETA has in it is undertakings on labour law standards, which is to meet the International Labour Organization. That is quite a good template and there are other templates of similar sorts. It does not mean that we are going to adopt every single piece of CETA. That would not be enough for us anyway. It does not do the job, but it gives you a floor, nothing more.

Chair: We are going to have to move on, if we are going to get everybody in.

Mr Davis: By the way, Chairman, just so you know, I have a meeting after this one, so we have to keep to time today if we may, please.

Q736 **Mr Whittingdale:** Secretary of State, can I take you back to your answers earlier to the Chairman about the transition period? You said very clearly the purpose of the transition period and you also said that it was not a deferral. With the exception of the fact that we shall no longer be sitting around the table in the Council of Ministers or at the European Parliament, and having representation at the ECJ, what is the difference between the transition period and essentially a deferral?

Mr Davis: First, we will not be members of the Union. We will be replicating to a very large extent the operations of the single market and customs union in order to make sure there is a single change, from the point of view of businesses in particular, but we are not a member of the Union. For example, we will not be subject to the duty of sincere co-operation, which is what stops us from arriving at trade deals, negotiating and signing trade deals now. That freedom will exist.

There will be other changes. The Prime Minister has said that EU citizens who come to work will still be able to, as per normal, but they will have to register. Why? They will have a different scheme after we leave and we want to be ready for that. There will be a variety of things of that type.

Q737 **Mr Whittingdale:** You will have seen a few days ago the European Council published their draft negotiation directives for the transition period. Can you say which of those we would not accept and would like



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to amend?

Mr Davis: I have avoided the so-called "leaked guidelines" until they conclude on Monday/Tuesday, after the General Affairs Council. I take all of these things as opening negotiating positions, frankly, and we will only engage when they get to the final ones.

Q738 **Mr Whittingdale:** Where do you expect there will be argument between us and the European Union about the transition?

Mr Davis: There may be argument over the issue of doing outside negotiations. There may well be an argument over that. In truth, we have tried to devise our approach so that it visibly does no harm to the European Union in any way whatsoever, but there are people within the Union who want to restrict any advantage for us, so you may well see arguments there. That is one possible position.

Q739 **Mr Whittingdale:** In terms of red lines, you were clear about the future arrangement, but I take it none of those red lines apply during the transition period. Do you have any red lines?

Mr Davis: The transition is different. I am relaxed about transition, because my primary concern is about the future relationship. That is what matters. That is what people will think about and judge us on in 10, 20 or 30 years' time. They will not be saying, "In those two years they did this". They will be saying, "Actually, Davis did a terrible job. He left us all tied up with a regulatory structure here, there and everywhere" or they will say that "He did a great job, because now we have fantastic trade development". That is what matters to me more. I apply different mental criteria to the two.

Q740 **Mr Whittingdale:** You are relaxed about the transition period and your attention is mainly focused on the future arrangement. How quickly do you think we can get the agreement on the transition period?

Mr Davis: I would expect it before the end of March. That was not said in terms; it was pretty much intimated in the Council's instructions in December.

Q741 **Mr Whittingdale:** That is essentially within the next six or seven weeks.

Mr Davis: The next eight weeks, yes.

Q742 **Mr Whittingdale:** How many meetings on it do you have within that period?

Mr Davis: We have none organised yet. As I said to the Chairman, the DExEU staff were in Brussels last week and are there today. Indeed, Olly Robbins is there with them today as well, and we are looking at a whole series of issues at the moment. One of the things that Olly is looking at is the question of ongoing membership of all the various Europe-to-third-country international arrangements, so we are working on the technicalities at the moment to accelerate the process.



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Q743 **Mr Whittingdale:** How long do you expect it to last? Do you think Barnier is right that it is the end of 2020?

Mr Davis: We will talk this through with them. Again, I am relaxed. We think about two years. We said about two years. That was not plucked out of the air. It was partly to do with bank regulatory expectations, how long it will take to accommodate the changes and so on. It was partly to do with what we thought we could do in terms of minimum time to get things like border control to the right position. The bit that was the weakest estimate, or at least the one for which we do not have much empirical data, is how quickly it will take other countries to accommodate, but two years looks about right from a practical point of view.

Two years is also about the time that some other countries, some Parliaments of other countries and indeed some Members of the European Parliament, not all of them, think that this ceases to be an implementation or transition period and starts to be something else, whether it is an extension of membership or whether it is a new trade deal. That triggers all sorts of problems. If we see it as a new trade deal rather than an implementation period, we are into mixed agreement territory and we will be at the end of the transition period before we are at the end of the agreement. There are a number of reasons that say about two years.

Sorry, you asked about the 21 months. What the Commission and Mr Barnier have said is that they want to conclude around Christmas 2020. The reason for that principally appears to be the end of the Multiannual Financial Framework. That is one convenient date. I can see that and, actually, it has some conveniences for us, in some respects. However, in other respects it might be more sensible to go for the subsequent March, because that fits exactly with the grace period that we have agreed for European Union citizens, so it would avoid any clumsy interregnums. Bluntly, it is not going to be a deal breaker one way or the other. We will have an amicable conversation about it and come to a conclusion somewhere between 21 and 27 months, I guess.

Q744 **Mr Whittingdale:** Finally, you said to the Chairman that you will have to have a clear idea of where we are transiting to when you agree the transition period, but do you anticipate that the discussions on the future arrangement are still likely to be ongoing into the transition period?

Mr Davis: No. There may be detailed issues to be resolved but, no, I do not in principle. Bear in mind that we cannot even sign the deal until we are a third country. That is a European law problem, rather than a problem for us. I expect to be there before then. Frankly, that is the logic of the strategy. If you start an implementation period before you know the outcome, it is not wholly useful to the bank that is thinking about whether it transfers or not, or the pharmaceutical company deciding what it is going to do about its research arrangements and so on. It needs to know, at least in substance. The bank needs to know if



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there is going to be a financial services chapter or not. That has to be decided. Is it going to be substantive? Is it going to cover asset management, retail banking and so on? Those things need to be decided by then; otherwise the thing does not work.

Q745 Emma Reynolds: Good morning, Secretary of State. After exit day and during the transition, will the UK remain in the single market and the customs union?

Mr Davis: No, formally it will not, because we would not be a member of the European Union at that point, but we would have arrangements that mimic it, basically.

Q746 Emma Reynolds: For all intents and purposes, we would remain within the framework.

Mr Davis: Looking at it from the point of view of a business, it would look exactly the same. For example, we will not be voting.

Q747 Emma Reynolds: No, we will not have a seat at the table. The legal framework of the European Communities Act will still be in place during that transition.

Mr Davis: Or a parallel of it, yes.

Q748 Emma Reynolds: Will we still be under the jurisdiction of the European court?

Mr Davis: Yes, in that period.

Q749 Emma Reynolds: In the aforementioned speech on your excellent website—

Mr Davis: Which aforementioned one is this? Is it the one from five years ago, two years ago or 10 years ago?

Q750 Emma Reynolds: “It’s time to decide”. I think it is very informative and good that you still have it on there. It is very useful for us. You said the advantage of staying in the customs union would be that “our manufacturers would not face complex and punitive rules of origin tariffs if parts of their products were made in, say, China”. You go on to say, “That would also be the arrangement that would allow true free trade in both directions across the Channel”. The implication of what you said then is that, if we were to leave the European customs union, there would not be true free trade across the Channel.

Mr Davis: That is one of the things that I said to the Chairman: new facts, new opinion. Let me take you through that example. Recently, I went to North America: Washington and Detroit. Washington got the coverage, because that is where I made the speech, but Detroit was an important part of the trip. I went there because I used to trade across that border myself, as you may or may not know. It is probably not on my website; I have done a lot of international trading. I used to trade across that border from Canada into the USA, so I know it well.



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What I wanted to see was how a chokepoint border, with a bridge or two bridges and a tunnel, coped with massive volumes of international trade. The example I looked at, because I talked about “just in time” and that is what I was referring to there, was the example of the Ford factory. The Ford factory in Detroit is the original mass production site of the whole world. It is huge. It is 100 acres or more, I think. It makes what it calls the biggest-selling car in the world. Actually, it is the biggest-selling pickup truck, but never mind. That is the Americans. It is the biggest-selling car in the world. All the engines for that car are made in Canada. Now, Ford is a thoroughgoing, tough, hard-nosed company. If that was a problem, it would have moved the plant from Windsor, 10 miles away, to Ford.

I looked at the crossing times: 54 seconds. I looked at the mechanisms: easy, cheap, 15 years old. They were all changed after 9/11. I looked at how it worked. I watched as drivers went through and had to hand over their ID cards, so they knew that they had never been involved in smuggling—lots of other things, but not smuggling—from their records and so on. It worked very well. Even in the most difficult environment, it worked very well.

I then interviewed the customs officers and talked to them about authorised economic operators and trusted trader schemes. They said something that I had never thought of before. They said, when they introduced trusted trader schemes, this is where you check one side of the border and the other side of the border, and do not check at the border, their takings went up by \$1 million a month, because the trusted traders were more honest and did not want to lose those schemes.

I looked at the facts, and that is my task. It is not to go back and visit historic speeches, no matter how exciting they were for the Institute of Chartered Accountants in England of Wales, which is where it was, but it is to look at what the facts are. The facts show this is eminently doable and the advantages in trade terms are greater than the disadvantages on that border.

Q751 Emma Reynolds: I have one last question. Our economy is more deeply integrated with the rest of the European Union than other economies with integrated supply chains, for example.

Mr Davis: Actually, it is not. South-west Ontario and America are pretty much integrated, but never mind. I take the point anyway.

Q752 Emma Reynolds: Our economy is more integrated with the rest of the European Union than any other country around the world, particularly with regard to our supply chains. What is your assessment of the impact of leaving the customs union and the single market in 2020 on jobs and investment?

Mr Davis: I do not expect it to have a negative impact, which is what you are aiming at. There has been a lot of talk about how we have not



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laid out in detail what the benefit would be. We have given quite a lot of detail. If we achieve the comprehensive free trade agreement that we seek, which means tariff-free; if we achieve the mutual recognition standards, and again this is where CETA and other things come into it, because they are precedents for this; if we get off the back of that a customs agreement that extends the use of authorised economic operators and facilitates their throughput; if the European Union follows the WTO rules that require risk-assessed stopping—in other words, they are not allowed to stop everybody and they have to make a judgment as to whether there is a smuggling risk and so on—and if we obtain rules-of-origin arrangements that are on a par with good international free trade agreements, I do not expect much friction at all.

Q753 Stephen Crabb: Good morning. Can I start on a point of detail about the transition period?

Mr Davis: As long as it is not another point of detail on a 10-year-old speech, I would be very happy.

Q754 Stephen Crabb: It is illustrative of the kind of detail that business will be looking for clarity on very soon, in the coming two months, for example. Is it your expectation that the UK will remain part of the EU's excise movement and control system? This is the thing that allows things like Scotch whisky to be exported from the UK.

Mr Davis: Yes, for that period.

Stephen Crabb: You are pretty sure of that.

Mr Davis: I think so. It is a detailed issue, as you know, Mr Crabb. I can check and write if I am wrong, but I would have thought that is absolutely the sort of thing that would be covered.

Q755 Stephen Crabb: That is fine for now. Thinking ahead to the really ambitious trade deal that we want to secure, how important is it to keep in play for possible compromises or movements areas like ECJ jurisdiction, future cash payments, defence co-operation and maybe future EU migration, or to rule them out altogether?

Mr Davis: One by one, we had a long argument on the ECJ in phase one. People say that the European Union did not concede anything, but it initially wanted the ECJ to cover the entire operation of citizens' rights, for example, but it realised that that was not compatible with what we were seeking. It is beginning to be understood in the European Union that this is very important to us. Many people say that the referendum was about immigration. Actually, all the data show that it is mostly about this issue of control. Immigration was an important but minority issue, and control is control of our laws, but also control of interpretation of our laws and so on, which is why we had a long struggle over that. I do not see any argument in that.



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The thing to understand, however, is that whenever we sell into another market, a foreign market, if we sell into the United States, we sell under its laws and its judicial system, so its Supreme Court. If we sell into the EU, we sell under its laws and under its judicial system. If we operate in its airspace, the same applies, but not in the UK. What was the second one?

Stephen Crabb: It was cash payments.

Mr Davis: The Prime Minister said in terms that the time of great cash payments has gone. We may well be involved in scientific research issues, for example, where we will make a contribution: Erasmus and things like that. Why? It is in our interest, but I do not see us paying for access. Bear in mind I could turn around to Mr Barnier and say, "Okay, I will pay you for access. I will pay you £1 for every £1,000 of business we sell to you, as long as you pay me £1 for every £1,000 of business you sell to me". I think I would be in the money on the deal. That was the second thing. What was the third one?

Stephen Crabb: It was defence co-operation.

Mr Davis: All these things are about mutual interest. Defence co-operation is a spectacular mutual interest. We have had the French Government visiting this week. When I went to see the French Prime Minister, I talked about Brexit three or four times, but he was really interested in co-operation in the Sahel, co-operation in Libya, co-operation in Syria and Iraq. He is an ex-Defence Secretary, so there is a bit of history there, but the French are very keen on this. They see ourselves as the two great military powers of Europe. Absolutely on defence, security and foreign policy we will be seeking co-operation.

Q756 **Stephen Crabb:** Can I just come back to the cash point? Given what I have just said, you do not feel in any way constrained by the discussion that has already been going on this week about using the savings from future payments to the EU to deliver a Brexit dividend in terms of a step change in public spending.

Mr Davis: I used to be a director of a public company. I would probably be in breach of the Companies Act to talk about a dividend before I was sure I had the cash for it. I do not talk about dividends until they are delivered.

Q757 **Stephen Crabb:** Perhaps I could ask what you think would be a better use for that money.

Mr Davis: I am the Brexit Secretary. I am not the Health Secretary.

Stephen Crabb: Would it be single market access, which might boost GDP, or public spending?

Mr Davis: I do not think that will be necessary. We are not looking for a sectoral deal in any normal sense but, if you divide it into goods and



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manufacturers, agriculture and financial services, in goods and manufacturers there is a very plain £100 billion-a-year advantage to the European Union in doing a deal with us. I spent Friday before last in Munich, when we did the charm offensive. My charm bit of that was visiting seven major German companies, a huge chunk of the German economy, to talk to them about their interests the other way and what they want to do. By the way, they all had investments in Britain too. That is not an issue.

Agriculture is much more complicated, but again there is a massive interest on both sides to maintain big existing markets, so I do not think that will be an issue. Financial services is where this mounts. The view has changed in the course of the last year. A year or so ago, if you read the *Financial Times* and the other financial newspapers, you would come to the conclusion that the City would shut shop the day after we left the European Union. Of course, it was always nonsense and a lot of people are now coming to that view. Also, when I talk to German businesses, they like having an infinite supply of cheap capital for their expansions, so I do not think this will be necessary.

The other thing about this is that we are a very proud, great country. We have a fantastic future ahead of us, as well as a fantastic past. I do not think it would be a good position for us to be paying some sort of Danegeld, and I come from the Danelaw.

Richard Graham: Secretary of State, good morning.

Mr Davis: Good morning. You are in a relaxed mode this morning.

Q758 **Richard Graham:** I know. I apologise; my tie is somewhere by my bicycle downstairs. Can I talk about the joint report on citizens' rights? There are some aspects of this that are simply no/yes answers and then there are others that are more open. Firstly, can you confirm, Secretary of State, whether the original British proposal was to deal with citizens' rights first, before everything else?

Mr Davis: Actually, yes, it was. This is in the public domain in a sense, because the Prime Minister raised it at the October Council of a year and a bit ago, and was rebuffed.

Q759 **Richard Graham:** Secondly, had that happened, was the British position that any agreement on citizens' rights would have been ring-fenced, regardless of other agreements or disagreements?

Mr Davis: It would have been, de facto. That may well have been the reason that German in particular, but a number of European countries, decided not to accept our view.

Q760 **Richard Graham:** That leads on to my next question. Why do you think the European Commission did not accept dealing with citizens' rights first?



Mr Davis: It has a standard line that nothing is agreed until everything is agreed. Broadly speaking, it takes the view that that works to its negotiating advantage. It is much more complex than that, but that has been its stance.

Q761 Richard Graham: The technical note on citizens' rights lists, in a category entitled "other matters", various issues that have not yet been agreed on, for example the continuing protection of rights for UK nationals, future healthcare arrangements, professional qualifications, recognition of licences, certificates and so on. Why are those issues outside the scope of talks on citizens' rights, because they would all appear to be specifically part of citizens' rights?

Mr Davis: Most of them, the Union argued, were issues for the future ongoing relationship, so we will return to them when we undertake the future relationship. For one or two, most particularly and starkly the right to vote, it has a problem with some of the member states. We will return to that one in the ongoing relationship, but we have said to the Commission, and it has not demurred, that we propose to take those up bilaterally. For example, I will go and talk to the Spanish Government and say, "If your citizens here can vote in local elections, will you allow British citizens in Spain to vote in local elections?" We will do that bilaterally. That is one of the more important rights in some ways.

Q762 Richard Graham: The European Parliament has put out its own analysis of what it thinks the issues on citizens' rights still to be resolved are. What is our Government's analysis of what the likely sticking points will be?

Mr Davis: I do not necessarily think there will be sticking points. One sticking point is the issue of voting, because that is an issue for one or two major member states.

Q763 Richard Graham: You do not think the issue of guaranteeing future free movement rights for British citizens across all 27 countries is a sticking point.

Mr Davis: That has been a sticking point, but the impression one was given was that the sticking point is that this is a future matter and they want to hold back on it. Mr Crabb was asking about services earlier. This will interact quite closely with whatever deal we do on services, professional services in particular. The right to move around will be quite an important part of that. We have to read their mind a bit here, but it may well be that they are holding that back as a bargaining chip for that part of the negotiation, which is not necessarily a bad sign.

Q764 Richard Graham: British in Europe, a group of UK citizens working in the EU, is slightly concerned that there are laws in different EU countries about non-EU citizens that would need amending if our citizens were to have access to live freely across all 27 countries. Their worry is that this might get "lost in the mass of issues". How do you see that concern being addressed?



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Mr Davis: It is one of the fundamentals of the movement issue, but it is a power that the Commission tells us it has reserved and has to itself, so we will continue with it. I can say, categorically and unequivocally at this meeting, that we will not let those issues go. They will be pursued resolutely. The thing to understand for British citizens in Europe is that there will be a large number, more than 20, maybe 40, negotiating strands. Home affairs will certainly have more than one. It will have several within the deal and we will be pressing all of them. I will be watching all of them to make sure that none of them falls down. I take it as a moral responsibility, by the way.

Q765 **Richard Graham:** Thank you. Clearly the great mantra of “nothing is agreed until everything is agreed” is something we all have to bear in mind but, in the event of a no-deal, would it be the position of our Government that any provisional agreement on citizens’ rights would still be valid?

Mr Davis: It is not just our core, but what we have tried to say from the beginning and the Prime Minister has made plain from the beginning is that we view the position of British citizens abroad and EU citizens here—3.7 million is now the latest number—as a moral responsibility. At least I see it that way. That is not the phrase she used, but that is what I see. That is why we put it first and foremost in the actual negotiation, once it started. There is never going to be a circumstance where we are going to be deporting people, unless they commit serious crimes or become a threat to the state. We are not going to be deporting people, so we will find another way round it if we have to. One way or another, we will resolve this issue. I would just say to everybody who is nervous about this not to be, because it is a moral responsibility. It is fundamental and I take it seriously.

Q766 **Richard Graham:** Lastly, I believe it has been decided to entrust the oversight of European citizens’ rights in the UK to an independent national body rather than the Home Office. Why was that?

Mr Davis: I am casting my mind back, but the first bit of that was that the Commission wanted to oversee it, and that was not going to fly. There are two things here. One is that much of this is about anxiety rather than reality, about people being concerned. We wanted to do something that met any concerns, real or imagined. The second point is that having independent inspectors and independent oversight is quite common. Even at the Home Office, you have a chief inspector of borders and security. You have an independent inspector of terrorism legislation. Throughout government, we have lots of ombudsmen of one sort or another. This seemed to us a way of championing their rights and making sure they delivered, in a way that was visible, transparent and clearly designed to deliver on the deal. There has been a lot of completely unwarranted suspicion, in my view, about the approach to this. It is a way of dealing with that.

Q767 **Richard Graham:** The greatest fear is fear itself. What would your



single message to both European nationals in the UK and British nationals working in the EU be to reassure them that, by the end of the second phase of negotiations, life will continue as it is at the moment?

Mr Davis: Our determination through all this is to ensure they can continue their lives as they are now. We will deliver on that, whatever the circumstances in two or three years' time.

Q768 Sammy Wilson: Secretary of State, in your paper in August of last year about the border between Northern Ireland and the Irish Republic—but equally it applies for the trade between the Republic of Ireland and GB—you envisaged the border being dealt with almost as a virtual border. Most of the trade would be measured electronically. There would be self-assessments, authorised economic operators, clearance at point of departure, et cetera. Given the arrangements that the EU has already made, especially with authorised economic operators, in China, Japan, Andorra and a host of other countries, are you happy that part of the trade agreement you get will enable the facilitation of trade across the border, to replicate what happens between other states and, therefore, creates that virtual border?

Mr Davis: Yes, I am. It is a negotiation, so nothing is ever certain, but yes, I am. It will not deal with all of it. One of the things that was suggested in that paper was small business exemptions, individual consumer exemptions and so on. We will have to do that. We will have to take a bit of a financial hit on that. We are willing to do that and I hope the Union is too. As I was explaining earlier when I talked about CETA-plus-plus-plus, we are looking to other deals as early markers and the minimum we could achieve. They are good indicators.

Q769 Sammy Wilson: I suppose this is where the vulnerability on that lies. You are quite right that a lot of local trade will require that kind of facilitation. Does that not require, first of all, huge political commitment from the Government of the Irish Republic in pushing that with the EU and a political will on the part of the EU? Given the very public hissy fit that the Irish Government are having at present over all these arrangements, are you convinced that you will be able to get that political commitment, even though it is in their interests to have those arrangements?

Mr Davis: It is exactly in their interests. It is in their interests in two dimensions. First, obviously there is a very strong political commitment to the Belfast agreement, the Good Friday agreement, and everybody accepts that. Even Mr Barnier has made comments about it having to be treated specially. The underpinning of it, the free trade elements of it, the tariff-free elements of it and the low inspection levels of it also help, to some extent, with east-west trade. For the Irish Republic, we are an overwhelmingly large economic partner anyway. Some of it, not all of it but some of it, will be important on the two counts.



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Truthfully, I have talked about moral responsibility for citizens, but from the beginning of this process I have taken another moral responsibility in the back of my mind, which is to try to make sure that the Irish Republic is not disadvantaged, at the end of the day, by what we do. It fits into that too.

Q770 Sammy Wilson: I know a lot has been made about this full regulatory alignment section of the agreement.

Mr Davis: It is the third option if everything else goes down, which I think is highly improbable. Nevertheless, we put it in there because the Irish Government wanted to feel secure about all outcomes.

Q771 Sammy Wilson: Could I ask about that full regulatory alignment? A lot of the areas where regulatory alignment will be required will be areas that are already devolved. Will that decision be made solely by any Administration that may well and hopefully will be set up in Northern Ireland, or would there be a role for the UK Government if there had to be some alignment that was different from the rest of the UK?

Mr Davis: It will be a bit of both, I think. There is a reference to that in the joint report. I cannot remember the exact wording now. It will be a bit of both. I am being very delicate, Mr Wilson, because it is a very sensitive time on this for the Executive, as you know. Whatever happens, we will be able to meet the alignment. One aspect of the alignment, which will be UK national, is how it is agreed because if, as I said in the House, it is a question of mutual recognition or a question of equivalent outcomes, we will have agreement on what the equivalent outcomes are. That is an international thing; it is not just a Northern Ireland thing. It will have to be UK to EU even under those circumstances.

Q772 Sammy Wilson: In a case like that, the choice for a Northern Ireland Administration would be to have either alignment to facilitate trade with the Republic of Ireland and the rest of the EU or alignment to enable Northern Ireland to be part of any international trade agreements that are made.

Mr Davis: We have to be clear what this applies to. It applies to the elements of north/south that we talked about earlier. Now, agriculture is a big one, the biggest individual one. As I said, the biggest issues there in terms of outcome are consumer safety, animal welfare and safety, and so on. We have no intention of reducing those anywhere in the UK. I can see the theoretical argument, but in practical terms I do not think it will be an issue. From memory, the environment one is principally about waterways and I do not think that will be a big issue. If the Executive ask for something specific on it, we may well say yes in these circumstances, but I do not think it is going to be a big issue anyway. We are not going to pollute the waterways. Transport is road and rail. Again, that is safety, probably with common standards. That is a



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common-sense issue, not a legal one. I have forgotten the fourth one, but there was one other.

Sammy Wilson: It was tourism.

Mr Davis: I do not think we are going to standardise tourism. I do not see this being an enormous issue. It may be a detail that the Executive have to deal with.

Q773 **Sammy Wilson:** One of the points in the joint report was protecting this mythical all-Ireland economy. Many people would say that there are two economies and huge competition between them, as we see with corporation tax, air passenger duty, seeking inward investment, et cetera, but there is this nice myth of an all-Ireland economy. What do you understand by the protection of this all-Ireland economy?

Mr Davis: Of course there is competition within economies. You could talk about an all-Europe economy, but there is lots of tax competition in there. It was things like the single electricity market we had in mind, which we will somehow have to maintain in place if we are going to have the best outcome for north and south, in terms of cost of electricity, reliability, seasonal adjustment and so on. It is that sort of thing we had in mind. Of course, we are not taking responsibility for the Republic of Ireland economy, but we are trying to make sure that there are no unnecessary frictions.

Q774 **Sammy Wilson:** You mentioned the example of the Canadian/US border. Some \$1.8 billion worth of trade crosses that border every day with about a 30-second clearance. I think it is down to that now.

Mr Davis: It varies. It was 54 seconds at Detroit.

Q775 **Sammy Wilson:** What lessons have you learned from that border for the kind of trade facilitation you might be seeking with the EU when it comes to not just the Northern Ireland and Irish border, but the borders between the UK and the rest of Europe, and the Irish Republic and GB?

Mr Davis: We looked at more than one border. The reason I looked at that one is that I know it like the back of my hand. I used to sell across it. The first thing to say is that, for the border there, the techniques were designed 15 years ago. What they can do, we can improve on. Some of the techniques are really simple. One of these days I will bring along the bolt that I picked off a vehicle to show how they seal a vehicle, north and south. They seal the containers with a bolt with numbers imprinted on each end. Things like that are very simple ideas.

Secondly, I said how successful the authorised economic operator issue was. They had actually got more money, \$1 million a month, out of that one crossing. Of course, it is a very different sort of border. People talk about there being 300 crossing points in Northern Ireland. There are thousands of crossing points on that border. As long as countries are



friendly to each other, and have common interests in security and so on, they work very well.

The point I made earlier to Ms Reynolds was that south-west Ontario, which is the nearest part of Ontario, is virtually integrated into the Detroit zone economy, to the extent that there is massive growth in supply of parts, machinery and so on, so much so that the Canadian Government are, at their own cost, building another bridge. They want to facilitate it, because it works. It can be made to work. With good will on all sides, it can be made to work, and we do not just have good will. We have massive mutual economic interest.

Chair: We are going to have to move on, because I have colleagues who want to come in. Stephen Timms is next.

Q776 **Stephen Timms:** Can I go back, Secretary of State, to the discussion earlier about the transitional period or the implementation phase, and the arrangements during that? Those European Council supplementary negotiating directives that you mentioned, published last week, say at paragraph 15, "In line with the European Council guidelines of 15 December 2017 [...] any transitional arrangements require the United Kingdom's continued participation in the customs union and the single market (with all four freedoms)", during the transition. You have said that you do not envisage that and, instead, we will replicate the operations of the customs union and the single market. What is the practical difference with continued participation?

Mr Davis: I will come to the freedoms in a second as well, but the principal practical difference is that we are not a Union member. We are not a member of the European Union and, therefore, we are not subject to the duty of sincere co-operation under these circumstances. That is the one that restrains us in terms of doing free trade deals with third countries. The other element where I guess there will be an issue, although we have made it clear, is that we will require EU citizens coming to the UK to register. That is not what we have normally done, although I do not think it is necessarily outside the four freedoms.

Q777 **Stephen Timms:** That is consistent with EU rules, is it not? Other EU countries do that as well.

Mr Davis: There is an argument about it but, yes, it is broadly.

Q778 **Stephen Timms:** When you say we will not be participating in the customs union and the single market, you seem to be saying that all that really means is that we are not members of the EU any more.

Mr Davis: That is right; we are not members of the EU.

Q779 **Stephen Timms:** The European Council may say we will be or it wants us to continue to participate.

Mr Davis: We will need to establish what the legal basis is. This is unique. It is the first time it has ever been done, so we will establish the



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legal basis. I do not really care what the outcome is, so long as, first, it does not require us to meet some of the other treaty duties. We are happy to accept ECJ oversight for that period. There will be questions about what happens with subsequent laws, which we will have to deal with. It will be bespoke.

One of the things I said earlier is that these guidelines are negotiating guidelines. They are just that. They are not the end of the story, although we are taking a slightly different stance. I do not want the country to be somehow gradually sucked into something that is not an implementation period, but is an extension. That is the point.

Q780 Stephen Timms: I understand. You are saying that, if the legal conclusion is that the way to replicate the operations is to be participants in the customs union and the single market, you would not rule that out completely.

Mr Davis: No, as long as it does not suck us in. That is the thing.

Q781 Stephen Timms: Do you plan a White Paper about the arrangements in the implementation phase?

Mr Davis: It will not necessarily be a White Paper. As I said to the Chairman earlier, we are almost certainly going to be publishing some papers on elements of it. But it will not of itself require a White Paper, unless it is a White Paper preceding the withdrawal and implementation Bill, which will come at some point and will be what puts this in British law. It is possible there, but it depends on whether it justifies it. It may well be that this is a relatively straightforward negotiation. It will be a first if it is, but we will wait and see what happens there. I do not want to make any promises that we end up not delivering on.

Q782 Stephen Timms: Can I ask you about what you call the withdrawal and implementation Bill? Something puzzles me about this. The EU (Withdrawal) Bill that has gone through the Commons disapples ECJ jurisdiction in the UK, most likely from 29 March next year. Will the withdrawal and implementation Bill reapply ECJ jurisdiction?

Mr Davis: It must have that effect. It will be contingent on the legal basis that we agree, at the end of the day. I suspect quite a lot of our time in the next month or two will be spent deciding what the appropriate legal basis is, whether this establishes a new treaty or whether this establishes some other approach.

Q783 Stephen Timms: In a way, this is nothing to do with me, I suppose, but there were reports at the weekend that more than 100 MPs will demand that free movement ends the second we leave the European Union on 29 March next year. It strikes me that the parliamentary handling of legislation to reimpose ECJ jurisdiction will be quite difficult. You may not want to comment on that.

Mr Davis: It has all been very straightforward so far, has it not?



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Q784 **Stephen Timms:** I have one final question on this, if I may. You have told us that you remain hopeful that implementation-phase arrangements will be concluded by the end of March. There was a report last week that Commission officials are now saying that they think it will take longer than that, I think because of concerns being raised by Norway. You remain optimistic.

Mr Davis: I would be surprised. One almost needs a filter to apply to reports that come from Brussels. They are given enormous authority and they turn out to be from a junior official dealing with one element. No, I do not think it will take longer than that.

Q785 **Hywel Williams:** The National Audit Office has published a report that reveals that your department has a database of Brexit work streams across government. Would you provide us with a list of those work streams, their deadlines and a high-level summary of each?

Mr Davis: That was the NAO report in November. It is a moving target. It alters as negotiations alter. It alters as the legislation alters, so it would not be a proper representation to do that. Some of these things are negotiation-sensitive and some of them are market-sensitive so, if we make an announcement and declare what we are doing on some element of contingency planning, it could be market-sensitive. What we are doing and will do, in the course of the next year, as these things become relevant, is publish one element of the plans taking place, something like new customs arrangements or that sort of thing. That is what we will be doing. I do not think it is wise just to dump it all in the public domain.

Q786 **Hywel Williams:** The NAO report lists department by department, showing that some have large numbers of work streams and some have fairly small numbers of work streams. Would the intrigued foreigner be able to deduce from the small numbers allocated to some departments what those work streams might be?

Mr Davis: It would be a bit deceptive, because you could have one incredibly big project or a large number of small ones. I remember, in the days of the Cold War, the MoD classified the number of tea bags that it bought, because it would enable a Russian to estimate the number of people in a department. You can carry these things too far. We will bring these things into the public domain at the appropriate time. We have to watch that things are not market-sensitive.

Q787 **Hywel Williams:** As far as I can see, there are no work streams allocated to the territorial departments of Scotland, Wales and Northern Ireland. Is that still the case? You have said that these matters could change.

Mr Davis: There will be work in the territorial departments. It goes back to what Ms Cherry was saying earlier. Discussions are going on about our responsibilities in all this. Once those are decided, they will go on, but I will not be overseeing them. Whitehall is hard enough without adding in Holyrood and the rest. There will be work going on. I am quite



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sure the Scottish Government are making plans and so on. The territorial departments themselves do not have very large resources, in terms of their own areas. Most of these things are UK-wide anyway.

Q788 Hywel Williams: I am just not clear how the territorial departments fit into this report, which is entitled *Implementing the UK's Exit from the European Union*. Formally, how do they fit into the process of implementation if other departments have identified work streams and they have not?

Mr Davis: There is a fair amount of official-level co-operation going on, and we are going to step that up as we get to the negotiation. We are going to be stepping that up in full. If there are areas that are very specific to the devolved Administrations, obviously we will make sure that they are clear about what we think is going on. It is mostly so they do not fall between the two. These are practical preparations.

Q789 Hywel Williams: This report refers to the devolved Administrations at various points. There is one schematic representation here, which is entitled "implementing exit work streams", and the devolved Administrations figure right in the middle, under the heading of "develop plans and engage with other government bodies". That is what it says and that is where they are, rather than any of the other fine boxes here. It says that the devolved Administrations must be consulted. What does "consult" mean in this sense, other than the obvious one that the department presumably asks, they give an answer and then they get on with their work plan?

Mr Davis: It is a bit more than that. We have had half a dozen JMC(EN)s since I took over. We have another one coming up very shortly. We have a JMC(P) or two coming along, so there is consultation and discussion at that level. Historically, I used to talk directly to the relevant Ministers or nominees in each area, Mark Drakeford in Wales, for example. I assume—I do not know, but I assume—that the First Secretary and then his successor, the Chancellor of the Duchy, will do or are doing the same thing. This is all about practicalities; it is not really about high policy. I presume that there is a great deal of work that the official level will deal with operationally.

Q790 Hywel Williams: Because this is therefore about practicalities, there is no role for the JMC, because the JMC is not referred to here at all.

Mr Davis: Remember, the NAO does not look at policy, or politicians for that matter. It simply concerns itself with effectiveness and efficiency of delivery, and that is what it will be doing here. I can barely remember the report. I had a quick look at it, because it read okay. It was reasonable. Normally NAO reports are coruscating. I know, because I used to deal with them all the time. They are coruscating, but it was not one of those. I cannot remember many of the details, but the long and short of it is that this is a practical thing that it is in everybody's interests to deliver on. It is in nobody's interest to have animal health inspection



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problems crossing from the continent to here, or vice versa. That is how we are focusing it.

Q791 **Hywel Williams:** Finally, therefore, for the intelligent layman looking at this report and seeing it is entitled “implementing exit work schemes” here, for example, this is not the whole story, by any means, as detailed here. For example, the JMC has higher-level involvement.

Mr Davis: Yes, on policy levels the JMC will have inputs. No, it is a big story. It varies, but there were 313 at that date. It will vary. Yes, it is a big set of projects.

Q792 **Mr Rees-Mogg:** If, on 30 March 2019, the UK is subject to the European Court of Justice, takes new rules relating to the single market and is paying into the European budget, are we not a vassal state?

Mr Davis: No, we are not, not unless we are a vassal state today. You might think we are.

Q793 **Mr Rees-Mogg:** No, because today we have a vote. We have a representative on the Court of Justice. We have representations in the European Parliament.

Mr Davis: As I said earlier to one of your colleagues, I take the view that the transition is a little different. If that were going to be the case in perpetuity, my answer would probably be yes but, for a short time, the answer is no.

Q794 **Mr Rees-Mogg:** Is this not very serious though: allowing continued Court of Justice jurisdiction? It is hard to think of any precedent in the world where an independent nation has taken the judgment of a foreign court as its superior and immediate law, without having any judge on that court.

Mr Davis: In perpetuity, you are right. Bear in mind that you talking about something that we are currently negotiating, so we have not decided quite how we are going to manage those elements, whether it is the court, the agencies and so on.

Q795 **Mr Rees-Mogg:** In your earlier answer, you said we were going to accept the jurisdiction of the European Court of Justice. What do you mean by “accept the jurisdiction”?

Mr Davis: Exactly that.

Q796 **Mr Rees-Mogg:** With automatic effect?

Mr Davis: That is right, with automatic effect.

Q797 **Mr Rees-Mogg:** We will be a vassal state for the two-year period.

Mr Davis: I do not say that at all. We are transitioning from one state to another. We are going from one state to another, and you can call it what you like, but not vassal. I do not think we will be a vassal state.



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Q798 **Mr Rees-Mogg:** Alright, if we are not a vassal state, in what sense have we left the European Union, other than that we will have no say on what goes on?

Mr Davis: We are leaving, leaving as in transiting, as in implementing that.

Q799 **Mr Rees-Mogg:** The transition is from being inside the European Union to leaving the European Union, over a two-year period. It is no longer an implementation of the consequences of leaving.

Mr Davis: It will be because, in that period, the issues that Mr Williams was talking about will be taking effect, whether it is creating a new customs regime, whether it is creating a new regulatory regime or setting up our own regulators. Bear in mind, 40-plus years in the European Union has left us with a lot of pieces of our state missing by comparison with what will be there when we are out.

Q800 **Mr Rees-Mogg:** The Prime Minister's phraseology of implementation was very important, because it meant that we left on 29 March and then were implementing the consequences, such as new queues at Heathrow and things like that. Transition is different, because transition means that we are de facto inside the European Union for that period and we are only actually out at the end of the transition. That is a big shift in government policy and a big move away from the vote in June 2016.

Mr Davis: We are no longer members, as you said, for the reasons you cited. We do not have representation on the Council, on the Court and so on, although we are going to debate how we are going to manage that. I do not accept your description of vassal state.

Q801 **Mr Rees-Mogg:** Will we accept new rules?

Mr Davis: That is an area of some interest. The average time to put a regulation into effect in the European Union is 22 months. The proposal we have with the European Union at the moment is that we leave over 21 months. In other words, there will be nothing that we did not have a say in. As to what happens where that is not exactly right and it does not work out quite that way, we will see when we come to it, but at the moment no.

Q802 **Mr Rees-Mogg:** Is it not a really rather weak answer to say that the EU has been slow at implementing new laws in the past and, therefore, it will be slow in the future? It has a 21-month period when it can implement new rules, possibly including a financial transaction tax. It may suddenly find there is an incentive to move quite quickly.

Mr Davis: I am not going to do the negotiation with the Commission on that implementation period in this room, so you are going to have to wait and quiz me in a few months when we get to the other end of it. Bear in mind that you will also have a vote in Parliament before you accept it. I do not think that what you are describing is what will happen.



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Q803 **Mr Rees-Mogg:** The *Financial Times* reported yesterday—one George Parker, who happens to be in the room—that a government official spokesman was saying that leaving the jurisdiction of the European Court of Justice was never formally a red line. Do you recognise that use of language?

Mr Davis: I do not know what the government spokesman said. I never used the phrase “red line” at all. You and I have both done commercial negotiations. Any idiot who goes into a commercial negotiation with the phrase “red line” determines one thing. He does not determine that he will hit his red line; he determines that he will hit no more than his red line. He also determines that he will get nothing in exchange for things he wants to trade away. Whatever the official government spokesman said, we are going through the implementation period pretty much as described in the Prime Minister’s Florence speech and we will do so in a way that will leave us, in 2021, free of all these fetters: no vassal state us.

Q804 **Mr Rees-Mogg:** In the transition period, will we continue to pay money to the European Union before all the final details of every agreement are completed? That is to say that the basic position is that nothing is agreed until everything is agreed. Our biggest negotiating card is our money, which they are desperate for.

Mr Davis: That is one of the reasons, not the only reason but one of the reasons, that we have to have the substantive conclusion.

Q805 **Mr Rees-Mogg:** Will we make the payment when the substantive conclusion has moved to the final conclusion or will we make the payment during the course of transition period?

Mr Davis: I expect us to make the payment during the course of the transition or the implementation period. The primary issue is not going from substance to detail. I do not think that will be the issue. The issue we are going through is that it will be a mixed agreement. The mixed agreement will take some time to conclude, as the Canadian one did. It will get there, I am quite sure, but it will take some time and that time will happen during the implementation period. I am quite sure that it will not conclude before then. That is the area where it has not been concluded.

Q806 **Mr Rees-Mogg:** On the court, the money and the new laws, why are we not just extending Article 50?

Mr Davis: Say that again.

Mr Rees-Mogg: We are going to be de facto in the European Union for two years.

Mr Davis: It would be a major error just to extend Article 50 and stay in for another two years.



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Mr Rees-Mogg: Be honest about it. We are de facto staying in for two years.

Mr Davis: There is a massive difference in one respect, which is the one I started out talking about earlier, which is the ability to make international trade deals. These matter enormously. If we do it this way, the way we are doing it, they will come into effect very soon after conclusion in 2020-21. If we extend our membership, we will not be in a position to do that. Those two years are going to be extremely important for inward investment, for establishing trade arrangements and for bolstering the economy.

Q807 **Mr Rees-Mogg:** The one advantage we have is that we are free from sincere co-operation.

Mr Davis: It is a very important advantage.

Q808 **Mr Rees-Mogg:** Can we not be a bit insincere now and get on with it?

Mr Davis: Insincerity is not government policy.

Q809 **Mr Rees-Mogg:** Who is going to punish us if we get on with it now? Are we not just still acting as if we are in the European Union, we are bound by the European Union, we are lackeys of the European Union?

Mr Davis: No, we are acting as a law-abiding country.

Q810 **Mr Rees-Mogg:** Can we not be a bit bolder and implement the referendum result?

Mr Davis: Mr Rees-Mogg, I am surprised by you. Are you, of all people, suggesting we go and break the laws?

Q811 **Mr Rees-Mogg:** It is not breaking the law.

Mr Davis: We are not going to break those undertakings, laws, commitments. Call them what you want.

Mr Rees-Mogg: We are leaving. We do not need to behave as if we are a permanent member. Thank you, Secretary of State.

Chair: We need to move on, but thank you very much.

Q812 **Andrea Jenkyns:** Secretary of State, the Prime Minister has said that the financial settlement will be off the table if there is no agreement on the future relationship. Will it be possible to withdraw the financial settlement offer if the Government are still negotiating the specific terms of the future relationship after March 2019?

Mr Davis: As I have said, there are a number of reasons for concluding before the transition or implementation period—pick your own words—starts. That is one of them.

Q813 **Andrea Jenkyns:** Therefore, Secretary of State, can you confirm that



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the Government would be prepared to walk away from any financial obligations in the result of unsuccessful negotiations?

Mr Davis: That is the natural outcome of the Prime Minister's comment. Let me be clear. In all of this, after December, it is highly likely, extraordinarily likely, that we will achieve the outcome we are seeking of a free trade deal, good or better, whatever it will be. I do not think it is going to be a bad deal. That is what we are aiming for. Clearly, the Prime Minister made it plain that all the financial undertakings are conditional on us doing that.

Q814 **Andrea Jenkyns:** Talking now about the £40 billion, can you see a situation whereby the financial settlement of around £40 billion, obviously spread over many years, could increase dramatically during the next phase of negotiations? If so, during your discussions with your Cabinet colleagues, is there a figure so large that we would have to walk away? Can you state what that figure is?

Mr Davis: The answer to the first part of your question is no. I do not think we will see that. We may well see an attempt on the other side. It has been the case that, when I have talked to member states, some of them have raised it and I have just said categorically no at each turn. We have effectively solved their instant financial crisis problem. Beyond that, Mr Rees-Mogg's phrase "vassal state" is something I would not want to see—us paying money in perpetuity—except for specific deals, things like Erasmus and so on.

Q815 **Andrea Jenkyns:** I am still touching on the £40 billion for the financial settlement.

Mr Davis: I wish you would not call it £40 billion. You have added a billion to the top end. A billion here and a billion there and, very soon, you are talking real money.

Q816 **Andrea Jenkyns:** This figure is obviously less than if we had remained in the EU as a member state. Can you confirm that the UK will not negotiate itself into a position whereby the final financial settlement is larger than the cost of the membership over that similar period?

Mr Davis: The deal we struck is the deal we struck. It is £35 billion to £39 billion. It is about four years, I guess, and we will recoup that and more.

Q817 **Andrea Jenkyns:** Most importantly, Secretary of State, does this therefore mean that leaving the EU will result in a net gain for our country's finances?

Mr Davis: You are asking me to declare a dividend again. Then they will want me to spend it as well. That is what we are aiming for and that is what we hope to achieve.

Chair: Thank you very much.



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Mr Davis: I am very conscious of the time, Chairman.

Chair: I am aware of that and I am just going to say to the colleagues I am going to try to squeeze in that succinctness really is vital.

Q818 **Mr Djanogly:** Thanks, Secretary of State. If I could just go back to the phase one situation, I was interested to hear that the joint report is now to be formalised, which presumably will make Mr Verhofstadt happy, because he was keen on that before Christmas. I want to clarify if that now means that we will have two signed agreements to implement phase one. We will have the joint report and then something else, which will be the other bits, which were still in a state of flux at the time the joint report was signed.

Mr Davis: The joint report caused an enormous fuss before Christmas. I said this was not a legal document. It is not. It is an undertaking. The Commission agreed and said—it was rather lovely—that it is an agreement between Mr Davis and Mr Barnier; they are both gentlemen and they will stand by it, which is true. The point is we had to turn it into a legal document and the legal document will be the treaty, probably. I doubt we will have a separate legal document, other than the treaty itself.

Q819 **Mr Djanogly:** The joint report will be extended to include those things that were not finalised in December.

Mr Davis: It will also be turned into treaty language. You are a lawyer, Mr Djanogly; you know treaty language is a little different.

Q820 **Mr Djanogly:** There were clearly things that were not agreed by the time the joint report was signed and, therefore, the treaty will have substantive differences, not just legal.

Mr Davis: It might. I do not think it is likely. The things that were put back or put to one side were issues that we thought would probably be resolved by the future relationship treaty anyway. They are horrible technical details, but things like goods on the market, things like some issues of ownership of nuclear materials, fissile materials and things like that, which will probably not matter.

Q821 **Mr Djanogly:** There are outstanding immigration issues as well.

Mr Davis: There are some outstanding immigration issues.

Q822 **Mr Djanogly:** To save time, Chairman, it might be useful if the Secretary of State provided the committee with a list of things that are outstanding.

Mr Davis: I can see no reason why not, absolutely.

Q823 **Mr Djanogly:** Secondly, if I may, to what extent are the agreements reached on the joint report contingent on the success of phase two talks? This goes to what Mr Rees-Mogg was just asking. There are two ways you could do this. Either the final joint report would not be signed until phase two is agreed, or it has to be conditional. If it is not one or the



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other, I do not see how you can say that nothing is agreed until everything is agreed. Which of the two is it going to be?

Mr Davis: It will be signed in the latter part of this year.

Q824 **Mr Djanogly:** Conditionally?

Mr Davis: Yes. It cannot be at the same time, because one is signed while we are a member; one is signed after.

Q825 **Mr Djanogly:** I only asked the question because my understanding is that Brussels has been saying that it does not want to sign that agreement conditionally. If we are going to sign it conditionally, that would answer the question.

Mr Davis: Take the Prime Minister's point about "contingent on" that Ms Jenkyns raised: it has to be done that way.

Q826 **Seema Malhotra:** Secretary of State, the average turnover rate of staff at your department for the current financial year is 3% a month, according to the NAO. A recent civil service survey suggested that 44% of DExEU respondents said they plan to leave the department in the next year. Why do you believe that is?

Mr Davis: It is fairly obvious really. That 3% a month implies a three-year term, which is the arithmetic of it. Our department has done a number of things. It was created very quickly from scratch and it was created for a limited term. We take some people on short-term contracts and some on secondment. We have a disproportionate number of fast-track who turn over every two years. If you ask any fast-tracker, "Do you expect to move job in the next year?" 50% will, not 44%.

Q827 **Seema Malhotra:** Do you have the same concerns as the Institute for Government, which said, "That means that through a crucial year for Brexit, staff will be hunting around for jobs, taking time off for interviews and, in some cases, mentally checking out from their current role well before their official leaving date"?

Mr Davis: No, what I suggest to you, if you want to get a measure of the department, is to have a look at some of the other survey data, which show that, on things like team engagement and leadership, we come top or in the top two or three in Whitehall. My department has very committed people. They are very brave. They have committed themselves to one of the biggest historic changes in modern times and probably in their lifetimes. They are very good and very determined, but they are also ambitious, very good, young civil servants. They are very young too. The average age is about 29, so no.

Q828 **Seema Malhotra:** Could I ask you a slightly different question? Your new Parliamentary Under-Secretary made some comments in Westminster Hall this week, and was talking about how the Government were looking at preparations for no deal. I understand she said that "Each department has a clear understanding of how withdrawing from the



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EU may affect its existing policies and services under a wide range of outcomes". Would that preparation include preparation for no deal?

Mr Davis: Yes, both. This is part of what Mr Williams was referring to earlier. All departments are required to plan for a deal and no deal basically, and the spectrum in between, because those are not necessarily black and white differences.

Q829 **Seema Malhotra:** That would imply that they are looking to understand the impact of no deal on their sectors and that work is being done.

Mr Davis: They are doing the planning. Yet again you are off down your impact assessment rabbit hole. The simple truth is they are doing the planning. For example, if you are a customs department, you are planning for a variety of options for what you do in March 2019 if there is no deal, which is now highly improbable, or what you do in December 2020, March 2021 or whenever it comes, at the end of the transition or implementation period, when you have to have the long-term arrangements in place, and how you do that. That is a planning exercise.

Q830 **Seema Malhotra:** Who is co-ordinating the planning exercise for the potential of no deal? Is that your department?

Mr Davis: Yes, that is what the database is. Mr Williams read the NAO report. Perhaps you should do the same. It would help. Mr Chairman, my next meeting starts in two minutes.

Chair: I know that.

Q831 **Seema Malhotra:** I just have one final very short question. The Chancellor told the Treasury Select Committee that the Government have "modelled and analysed a wide range of potential alternative structures between the European Union and the United Kingdom", and that this work "informs our negotiating position". Could I just ask whether you have seen those models and that analysis?

Mr Davis: Unless I read what he says, I cannot give you an answer to that. Let me put you out of your misery in terms of assessments. In the event that we get to circumstances in the next year, which we may, where we are choosing between various different options, we may well look at the differential effect of that, not aggregate economic forecasts for the whole country. They are a waste of space, for reasons I have explained earlier.

Q832 **Seema Malhotra:** Sorry, Secretary of State, I know you have to leave. I am just interested to know whether the analysis that the Chancellor has talked about with the Select Committee was analysis that you have seen.

Mr Davis: I did not read that report. I am not quite sure what he is referring to. There are OBR forecasts post-deal.

Q833 **Seema Malhotra:** These were government models and government analysis. The Chancellor talked about the government models.



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Mr Davis: The OBR is government. You will have to ask the Chancellor, I am afraid. Mr Chairman, I do apologise.

Chair: We will do that. Craig Mackinlay, have you got one question, literally one?

Q834 **Craig Mackinlay:** I can be very brief. This is something completely different, on the financial settlement, £35 to £39 billion. We have not seen the formulation of how that has been put together. I can probably guess that it is two years up to the end of the MFF up to 2020. That is not unreasonable. We signed a deal years ago and we are honouring it. It is that type of thing. There is probably a bit of pensions but, of course, you have this very odd *reste à liquider*, which is a very odd bit of French accounting that no other institution in the world actually uses. Now, given that the 12.7% has been our contribution into the EU budget, we are determined to be liable for 12.7% of the RAL. That is how I perceive it. If a recipient country were to leave, would it all be the other way and they would expect a massive payout on departure? If that is the formulaic when you are a payer-inner, that must be the formulaic when you are a receiver, but I bet it would not work like that.

Mr Davis: I have to tell you I did try that argument, but it did not fly very well.

Chair: Fair enough. Now, Jeremy Lefroy, finally, and then we will release you.

Q835 **Jeremy Lefroy:** Very quickly, does the agreement on EU citizens also apply to citizens of EEA countries that are not part of the EU, so Norway, Iceland and Liechtenstein? We heard concerns last week in Cambridge that citizens of those countries resident in the UK are not feeling confident that they are covered by these clauses.

Mr Davis: I think they are okay, but let me write to the Committee on that and give you the detail.

Chair: Thank you very much, Secretary of State, for giving us so much of your time. We look forward to seeing you again. If you come more frequently, these sessions might be a bit shorter than they might otherwise be, but that concludes this morning's deliberations.

Mr Davis: I might hold you to that promise.