

Select Committee on the European Union

Uncorrected oral evidence: Post-Brexit UK-EU relations

Monday 30 April 2018

3 pm

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

Evidence Session No. 3

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Questions 22 – 33

Witnesses

I: Mr Daniel Hannan MEP, Member of the European Parliament; Ms Jude Kirton-Darling MEP, Member of the European Parliament.

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Examination of witnesses

Jude Kirton-Darling MEP and Daniel Hannan MEP.

Q22 The Chairman: Good afternoon, Daniel Hannan and Jude Kirton-Darling. You are most welcome. You will appreciate that you are well known to a number of members of this Committee from interparliamentary activities and otherwise. We very much hope that you can give us your own political take on the perspective that we are trying to build up about post-Brexit UK-EU relations. That is partly about where we go with the withdrawal process, but it is also about what we need to maintain, support or, in certain cases, develop thereafter.

This is an on-the-record session. The normal rules apply. I remind my colleagues to declare interests, but interests that are relevant to this inquiry rather than generic ones.

We are conscious of your timetable, Daniel Hannan—we know that you have to go—and we have the rather vulgar matter of votes on major EU legislation, which might interpose. All that is a very good reason for starting. Unless you particularly want to make an opening statement—please do not feel that you have to—we will kick straight off.

We have had the Mansion House speech, which developed and to some extent qualified the Prime Minister's Lancaster House speech. As you know, this is not a Committee that has a strong tradition of partisan political feeling but we want to get your take on this. To what extent do you think that the Prime Minister's Mansion House speech set out a coherent and achievable vision for the future UK-EU relationship, and how far have we got? We will then perhaps ask you for details. Jude, would you like to go first?

Jude Kirton-Darling MEP: Sure. Good afternoon everybody. Unfortunately, the Mansion House speech gave neither a coherent nor an achievable vision, for several reasons. The first is that the internal contradictions in the Government's position remain on the table. On the one hand, we hear all the red lines about not wanting to be in the single market or the customs union and not wanting to be covered by the ECJ. On the other hand, we hear the lines about wanting to be part of the chemicals regulation and inside the medical agency, as well as inside EASA, the European Aviation Safety Agency. Explicitly, that means that you are in parts of the single market, and it is exactly what the EU side has called cherry picking, although we pretend that somehow it is not.

It is a direct contradiction of the very blanket statement that we do not want to be in the single market. Therefore, it is not coherent and it is not really achievable. Because of our red lines, we have excluded several options that were on the table and which would have been possible for us, whether it was the EFTA model or one like the Turkey model or other trade models, and we have basically left ourselves with a kind of Canada CETA model.

In the end, the rhetoric is that we will have a deeper relationship with the EU going forward. That is particularly important for the “achievable” part of your question when it comes to services. We know that services will be the key part of these negotiations. In order to have trade in services equivalent to what we have today, we will have to have some recognition of the single market. Therefore, in my view, it is neither coherent nor achievable beyond the broad slogans that are thrown out. Once you scratch below the detail, things are very difficult.

The Chairman: I do not want to lead you and I do not want to exclude Dan Hannan—we will come to him in a moment—but would you accept that there has been some evolution of government policy between the Lancaster House speech 12 months before and the Mansion House speech in that the Prime Minister is to some extent introducing some of the constraints that she might see as practically inevitable in concluding the negotiations?

Jude Kirton-Darling MEP: I think the main advance in the Mansion House speech was stating that we could be worse off as a result of Brexit. However, that is more of a political point rather than being about the contents of the negotiations. It is about preparing people for the potential outcome of the negotiations. That would be the main advance.

Another main advance that occurred between the two speeches was when the Prime Minister spoke in the Munich speech about security co-operation, where we saw red lines being completely passed. The ECJ red line has been blown completely out of the water, and there has been a restatement of more or less the status quo today. In that respect, there has been an evolution of the Government’s position, but between the two broad speeches the main evolution is the recognition that Brexit may cost us.

Daniel Hannan MEP: Thank you for having me here. One of the consistent themes in all the Prime Minister’s utterances since the referendum—in the Lancaster House speech, the Florence speech, the Munich speech and the Mansion House speech—is that, as she keeps saying, she wants to be the EU’s best friend and strongest ally. That flows almost inexorably from the closeness of the result. A 52:48 referendum result is not a mandate for severing all or most of your links. It seems to me that the only fair way to interpret such a narrow margin is as a mandate for a phased, gradual repatriation of power that would leave intact a number of our existing institutional links and obligations.

Interestingly, we keep hearing, as we have just heard from Jude, about Canada and CETA. In a way, the most interesting parallel with Canada is Canada’s relation with its southern neighbour. Canada also has a federation on its doorstep. It has no interest in joining that federation, but it has the closest relationship in terms of military links, security and intelligence links, and some interchangeable civil rights and commercial links compatible with being a sovereign country. That seems to me the fair inference to draw from the kind of referendum result that we had.

Leaving the EU and therefore leaving its institutional infrastructure has the automatic consequences of no longer being subject to the jurisdiction of the bodies that we are subject to as a full member. The EU side made it very clear from the morning of the referendum that these were the inexorable consequences of leaving. However, I see no reason why we should not aim as a country to replicate, through bilateral treaties or through domestic legislation, quite a lot of the contents of some of these arrangements where it is in the interests of both sides.

Your Lordships will be aware that the single market is not a single entity; it is an agglomeration or accumulation of lots of different responsibilities and legal positions, but some of them, it seems to me, are fairly uncontroversial. I do not think that anyone on either side in the referendum really objected to them. I would say that the real basis of the single market is the rule that says that you are not allowed to discriminate against goods or services on grounds of national origin. If anyone is strongly against that, they have kept pretty quiet. It seems to me perfectly sensible that whatever future treaty we have should continue to recognise that right.

However, the customs union is in a different category. It is very natural to say, "It was a close result. Let's go for some sort of halfway house. If half the country wanted the burger well done and half of it wanted it rare, let's get it medium". But being in the customs union and being outside the EU, it seems to me, is not a medium burger: it is chucking the burger away and eating the napkin, because it means giving the EU 100% control of our trade policy, with zero input into what that trade policy should be.

When I look not just at the governing parties but at almost all opinion in all the EFTA countries, it is striking that no mainstream party in Switzerland, Norway or Iceland is now agitating to join the customs union. I just stand back and wonder why we would want a deal that none of the other near neighbours regards as advantageous.

The Chairman: I want to come back with a more political question than I might normally ask, on which I ask you both to comment. This is also a request for you to go on to the question about the clarity of the Government's position and how much they should clarify matters, particularly when they are still negotiating. If there is, as you rightly recall, a polarity of political opinion within the country and that seems to be broadly maintained rather than it having been resolved one way or the other, is there a danger that you end up falling between both stools, with everybody getting upset and even more resentful at the political process than perhaps they might otherwise be?

Daniel Hannan MEP: That is not necessarily a bad thing, Lord Chairman. If you have a very narrow vote, it seems to me that the fair way of interpreting it is to say, "Let's see if we can find a compromise that will go too far for some and not far enough for others but which the majority on both sides can at least live with".

A number of compromises suggested themselves to me as I surveyed the result of the referendum on that brilliantly sunny Friday morning. I think we should look at some bilateral ways of keeping the single market obligations. I was in favour of negotiating to recover our position in EFTA, of which we were a founder. I think we should look for compromises in migration where we work on the basis that people are allowed to take up job offers or places to study as now, albeit without all the associated benefits and welfare entitlements, and we should also look at remaining in a number of EU initiatives that we are currently a member of.

However, no other country sees the customs union as being in that category. It is not a compromise. It is plainly worse than either where we are now or walking away completely. As indeed the Labour trade spokesman, Barry Gardiner, kept pointing out before his recent switch, if you are, like Turkey, in a partial arrangement with the EU, when the European Union strikes a trade deal with South Korea or whatever, you, Turkey, are obliged to mimic everything it does, but South Korea is obliged to reciprocate only vis-à-vis the EU, not you.

It is extraordinary that we should volunteer to put ourselves in a position where our markets are used as bargaining chips without even any notional pretence that it is to our benefit.

The Chairman: Thank you. Jude, would you like to come back on that?

Jude Kirton-Darling MEP: I would like to come back on many things that Dan has said. In the situation in which we have found ourselves, where the country is split down the middle, you would expect to see what Dan started out by saying—that a Government would try to find a compromise deal. However, what we have actually seen from the Government is a very hard line. They set out those red lines in September and October after the referendum, and that basically knocked a whole set of options off the table. Stating at every turn that the referendum result was about taking back control of money, laws, orders and trade was an interpretation of why people voted to remain or leave. Across my constituency in the north-east, where a majority voted to leave, people voted to leave for a whole variety of reasons.

I suspect that what comes back will please neither one side nor the other. Therefore, I think there should be a process in government of listening to the broad voices that are coming out. Business, the trade union movement and every economic actor, including the IFS this morning, has said that leaving the customs union would do irreparable damage to our economy. In the north-east we have consistently had a trade surplus with the rest of the EU. Something like four out of five companies—small, large and medium-sized—want us to remain in the customs union and the single market. Companies are simply not ready or prepared, and the Government have made no preparations for our leaving the customs union. So we are in quite a strange situation. We had this very close result but the Government have taken that as a mandate for a very hard-line position on one area of the most importance for our economy.

There is scope for negotiation on the customs union. Turkey, for example, is in a partial customs union covering some manufacturing, not agricultural, goods. There were sounds from inside the EU institutions and the Commission negotiating team just last week saying that, if the UK decided to be part of a full customs union with the EU, there would be an arrangement to ensure that the UK was part of the decision-making as well, because we are such a big economy.

There is a recognition on the EU 27 side that there is value in having the UK at the table and inside the customs union as a weight in the world. That would give us leverage to have an influence in deals and, as part of the negotiations, create the possibility that as a trading partner we would not lack reciprocal access, which Turkey regularly complains about.

However, the Turkish situation is very particular. We should remember that its entry into a partial customs union was part of an association agreement with a view to full membership. The idea was that it was transitioning to full membership, but because of the situation in Turkey that transition stalled and Turkey is now in a strange and unpleasant situation. If we were negotiating full membership, I suspect we would be able to get a much better deal.

Baroness Falkner of Margravine: On that point, how would you deal with the problem that Mr Hannan described of the UK's markets being part of the leverage and part of a negotiating strategy but, even if we were sitting at the table, the UK not being able to address the issue that goods would come in here without our goods having market access into the countries where the FTA was signed?

Jude Kirton-Darling MEP: That would be partly down to the terms of the negotiation with the third country. The strange situation that we are in at the moment is that there is the Government's assumption that, from March next year, we can move into a transition period where we will remain inside the customs union. Liam Fox, on behalf of the Government, is travelling around the world to get a rollover of existing trade deals.

At the same time, the Government argue that if we were in the customs union in the future, we would not have a rollover of trade deals. It is about negotiating and getting our trading partners—the third countries—to sign up to ensuring that UK companies have access to their markets in the same way as they have access to ours. It would be part of the trade deal that was concluded. This rollover of trade deals is all about ensuring reciprocal access. Therefore, it is very contradictory to argue that you have a customs union in the transition but that that is totally impossible in the long term, if you see what I mean.

Daniel Hannan MEP: I only make the point that we have always been more disadvantaged than any other member state by the common external tariff rules intrinsic in the customs union, not because of any conspiracy against us but simply because of the profile of our economy. Britain is usually unique in being the only country that sells more to the rest of the world than to the rest of the EU. Sometimes Greece joins us in

that category, so we are usually either alone or one of only two of the 28 members that do that disproportionate trade. In fact, that is true of the EEA as a whole, not just of the EU.

Norway and Switzerland are much more EU dependent in their exports than we are. One or two of your Lordships may remember this being an argument in the original entry negotiations in the 1975 referendum. One of the arguments that was deployed heavily at that time was, "If we join these new tariff arrangements, prices will go up, particularly food prices". That is indeed what happened.

Of course, there have been some reforms of the common agricultural policy since then, and things are not as bad as they were in the 1970s. None the less, if the OECD is to be believed, the common agricultural policy keeps food prices about a fifth higher than they would be globally. This has always impacted disproportionately on countries that would naturally do most of their trade outside.

As for the supposed contradiction that Jude mentions, clearly it is in our interest to have as smooth a process as possible and that therefore in the cases where the EU has extant trade deals—I think it has 37, or some—

Jude Kirton-Darling MEP: Sixty-seven.

Daniel Hannan MEP: Okay. Well, 37 are extant and up and running and ratified, but a lot of those are, as you know, with San Marino, Montenegro and stuff. It has three already up and running with biggish countries: South Korea, South Africa and Mexico. It is now getting Canada, and by the time we leave it may have Japan.

It seems a very sensible approach on the part of the UK to say, "For now, let's roll that over, but on the basis that we will be able to liberalise further, because we never had what trade negotiators call the defensive interests that a number of our continental partners had, particularly in agriculture and in heavy industries".

I am struck by the fact that the Canadian Prime Minister has said publicly what I think the leaders of a lot of these countries are indicating privately, which is that that is exactly what he intends to do. Justin Trudeau said in terms, "We are happy effectively to roll over the terms of CETA with the UK on the understanding that the two sides will then get around to making further liberalisations".

Q23 **Baroness Verma:** How would you compare, both in form and content, the UK Government's model for the future relationship with that set out in March 2018 by the European Council guidelines? Are they compatible? What would you identify as areas of common ground, if there are any, or areas where there will be disagreements and inconsistency?

I bring that back to what you have just said, because when you answer me I want to look up where Canada features on the scale of trade that it actually does and with the rest of the world.

Daniel Hannan MEP: Sure. If you put the two documents side by side, there is more congruity than the headlines would suggest. There is agreement on a lot of the basic principles: avoiding a hard border in Ireland; reciprocal rights for those of each other's citizens who have already moved; and not only a comprehensive free trade deal, which we keep forgetting the EU keeps saying is a name on its side, but flanking arrangements on security, intelligence and so on.

A lot of that is there and I suppose very naturally has not made headlines. I worked as a journalist before I was elected. I worked for eight different editors, and I do not remember a single one of them ever saying, "Write a story about the stuff we're agreeing on". It is not the way in which the dynamic of what we used to call Fleet Street operates.

I am tempted to accept at face value the claims that were being made on the record by the Brexit Secretary and off the record by some in Brussels that some three-quarters, or 80%, of the work has been agreed. But obviously there are some differences, and I think the main difference has to do with where the two sides see the balance between rights and responsibilities. I sometimes listen to people in the EU institutions, and they seem to want us to have the obligations of Norway but the say of Canada. Obviously that would not be acceptable.

Equally, I can see that our negotiators would like the opposite, which will not be acceptable to the EU. I suspect that the eventual deal will be somewhere in between the two.

Jude Kirton-Darling MEP: To reply to the question, some of the rhetoric is similar—both sides talking about a free trade agreement—but the contents of what is foreseen are quite different. On the EU side, it is very clear that the EU 27 position is effectively for a CETA-style trade deal. On the UK side, the FTA position is for a far deeper deal. The Norway versus Canada comparison is quite clear.

The strongest common ground is undoubtedly on security and some of the other pillars in the agreement. There will be an agreement with several pillars of co-operation.

The strongest disagreement is on trade. I was a bit bemused to hear Dan say that there is a lot of agreement on there being no hard border in Ireland. Michel Barnier is today in the Republic of Ireland talking about the need for the UK Government to demonstrate clarity in their position on the Irish border. That, certainly in relation to the trade question, is essentially the make-or-break issue. It has repercussions for significant sectors in the UK, so we should be clear that, according to what was agreed in December, the agreement is that if no alternative is put forward by the UK there will be no hard border on the island of Ireland and no hard border in the Irish Sea, and there will be regulatory alignment, which basically covers the single market in a significant number of areas, and the customs union.

That is an area of massive disagreement if you look at the Government's red lines around the single market and the customs union. The way I see it, the two negotiating teams are in their trenches, with the UK side saying, "We have these red lines in relation to the single market and the customs union", and the EU side saying, "That discounts you from anything other than a Canada deal".

Why is that significant? It is significant, because the area that is the most important and is largely left out of the Canada deal is services. We know that our economy is primarily service-based, so leaving the customs union would be disastrous for our manufacturing and for services linked to manufacturing, but leaving the single market would be really catastrophic, according to many of the forecasts for the service sectors.

The golden chip in all this is financial services. That is the difference between Canada and Norway. In effect, the difference between the two models on the table is how financial services are dealt with.

Does that answer your question?

Baroness Verma: It does. Thank you.

Lord Woolmer of Leeds: You have tended to identify areas of disagreement, unsurprisingly. In the end, if there is to be agreement, or otherwise, it will require compromise. Do you see any evidence of a willingness to compromise on either side? If compromise were to emerge, what are the most significant areas where compromise is needed?

Daniel Hannan MEP: I think there has already been movement on the UK side. There was movement on budgetary issues. There was movement on migration issues. There has been movement in practice on ECJ jurisdictional issues in at least some fields.

It is worth stressing in relation to the issue that, as you correctly say, is currently the most difficult one, the Irish border—your Lordships will all know this, but it bears repeating because it does not seem to have penetrated, certainly in Brussels—that the UK has said over and over again from the beginning that there will be no infrastructure on our side of the border. So this whole argument is about how we help the EU to avoid infrastructure on its side of the border.

There are various ways in which that can happen, and it seems to me that the most realistic one is to have a deep, full, comprehensive FTA between the UK and the EU as a whole based on the acceptance of each other's standards. That might solve the issue in a way that customs union membership does not. The easy way of demonstrating that is to point to the one place that is in the customs union, which is Turkey, and to point to the borders between the EU and Turkey. They are heavily policed and in some places militarised.

So being in the customs union is not some magic wand that does away with the need for frontier checks. The EU's borders with the EFTA countries are far less obtrusive than its border with Turkey, and we could

take that further both through technological advances and by having a deeper agreement on reciprocity. The customs union is a complete red herring here. As the EU itself has accepted in its internal memos, British membership of the customs union does not obviate the need for border checks in Ireland.

Lord Woolmer of Leeds: But I asked whether there are areas of compromise. You have rigorously set out your unwillingness to see any compromise.

Daniel Hannan MEP: I accept that the Government have already compromised in some areas. I would go further in two big areas. First, as I said earlier, I am quite in favour of our rejoining EFTA, of which we were the founder member in 1962. That would significantly address a lot of the outstanding issues.

On the red line of the control of borders, of course, taking back control, to me, can only possibly mean that foreign courts no longer determine who can live here and who can be deported. But once you have taken back control, there is absolutely no reason why you, as a sovereign Parliament, should not agree an immigration policy based on the principle that EU nationals—and, I hope, nationals from friendly countries in the Commonwealth and elsewhere—have a presumption that they can take up jobs. Unless they are criminals or something, there should be an assumption that they can come here from elsewhere if they have a job offer, and similarly a place to study, and that they can take it. Those would be two big moves towards a middle position.

The Chairman: Jude, could we have your take on the general question of the future relationship and specifically on the issues that you have just been challenged on?

Jude Kirton-Darling MEP: On the question of where the scope for compromise comes from, I go back to my analogy of the negotiating teams being in trenches. Ultimately in that situation, one side has to get out of their trench, and that will allow the other side to get out of theirs. I suspect that the UK accepting that it will remain part of the customs union will open up the negotiations regarding the key offensive interests of the UK around services. That is essentially part of the trade-off on trade policy, and it is the message that we are hearing from off-the-record sources in embassies around Brussels: that if the UK accepted remaining as part of the customs union, that would be seen as a major contribution to the negotiations and the EU would then make an equivalent move on its side. Listening to the way this is playing out, financial services would be one area where the EU would start to move.

This is about hard-core negotiations. There is a lot of posturing involved, but that posturing also demonstrates to the other side of the negotiations where there is room for manoeuvre. I tend to agree that what comes out at the end of the sausage machine of the negotiations will potentially be a deep and comprehensive FTA, but that would be possible only if there

were a shift from the UK side in relation to the customs union. That is my gut feeling from the negotiations so far.

Q24 Baroness Wilcox: What are the principles underlying the European Parliament's resolution on the future UK-EU relationship, and is the UK doing enough to engage with the European Parliament?

Jude Kirton-Darling MEP: There are three broad principles. The first is that the European Parliament collectively sees itself as the democratic voice of the European project. Therefore, the unity of the EU and of the European Union going forward is a core principle that the European Parliament collectively has underpinned.

Secondly, the European Parliament has made it very clear that there should be no special treatment of the UK and that there should not necessarily be a new version of a trade deal, but equally there should be absolutely no punishment or retaliation. Sometimes in the UK press you hear that Brussels is punishing the UK or doing this to harm the UK. I do not hear that at all in the debate in the European Parliament. I do not think that is part of the European Parliament's view. Among colleague MEPs, the atmosphere is far more one of sadness that the relationship is on the rocks rather than one of retribution. That comes through in the European Parliament's positions.

The third key principle underlying the European Parliament's position is the very strong demand for a level playing field. There are major concerns in the European Parliament that the real agenda behind Brexit is a very neoliberal one, pushing for an island off the EU that could deregulate with regard to social, environmental, consumer and other regulations. Tax regulations are very much part of that debate. Therefore, in the long term, the UK would become an unfair competitor to the rest of the EU, pulling regulatory standards down for everybody. Those are three underlying principles.

Do I think that the UK Government have engaged adequately with the European Parliament? That is a very easy question to answer: no. Both Cameron and May have been invited to address the plenary in Strasbourg, and it is very common for Heads of State or Government to do that. Macron was at the last plenary. At Strasbourg we have had Merkel, Hollande and other leaders addressing the plenary. I think that Merkel comes at least twice in every five-year period, but we have not had a British Prime Minister address the plenary since Tony Blair, although maybe Gordon Brown did so. Dan, you have a better institutional memory than I do.

Daniel Hannan MEP: I was there, yes.

Jude Kirton-Darling MEP: That is very noted in the Parliament. We do not even see Ministers in the European Parliament. We see a lot of civil servants but, with no disrespect to those civil servants, that is perceived by elected politicians from other countries as sending the servant rather than the master. So there has not been enough engagement.

Daniel Hannan MEP: I just make two points on the question of equal treatment with neighbouring countries. I do not remember the European Union ever saying to any neighbouring country—to Norway, Serbia, Macedonia or Switzerland—“Unless you join the European Union, we’re not going to have a mutually beneficial conversation about trade”. Nor do I remember these punishment clauses being inserted suggesting, “If you don’t do what we like, we have a mechanism”—

Jude Kirton-Darling MEP: You should read more trade agreements.

Daniel Hannan MEP: There was one that Barnier put in and then said that he had taken out, but it was then snuck back in. That was unprecedented and something that we have not had in the EU before.

On Baroness Wilcox’s question about engagement with the Parliament, you will not be surprised to hear that I disagree with Jude. I am not sure that Prime Ministers making speeches to plenary is the best way of engaging. Your Lordships are all aware of the dynamic that kicks in when groups of people show off to each other. People often argue themselves into a more strident position than they would have done in one-to-one meetings because they are in the plenary session. So I do not think it would be wise at this time for British Ministers to encourage that process, but a British Minister talks to MEPs in the background at almost every session. Most recently, Lord Callanan himself, a former Member of my House and now a Member of your Lordships’ House, was there at the plenary session before last.

I do not think it is remotely likely that the European Parliament would reject a deal that had been approved by the Council. That is a vanishingly unlikely prospect. That, by the way, is the only role that it has. I sat in a Committee on Constitutional Affairs of the European Parliament at the end of last year where they called in a lawyer and asked, “Why can’t we have a bigger say? Why can’t we be formally involved in the actual negotiations?” The poor lawyer said, “I’m just a lawyer, but this is clearly what Article 50 says: that your only role is this”. They shouted at him, saying, “We’re terribly important. We ought to be involved”. But when the moment comes—

Lord Teverson: Are you saying that you are not important?

Daniel Hannan MEP: I am just reciting the meeting that took place. The Article 50 process gives the Parliament a final stamp. It does not give it a direct involvement, much to the annoyance of my colleagues.

Lord Teverson: I know that. I was just surprised that you suggested that the Parliament was not important.

Daniel Hannan MEP: My colleagues did not like the way the law was written and took it out on the bearer of the news. In theory, they could reject the deal, but I will tell you why, for grubby political reasons, I think that is hugely unlikely.

This country is very unusual in having a kind of primary system to select its candidates for the European Parliament. It happens in a few other places but not many. The usual pattern in most political parties around Europe is that the party centrally—very often just the leader of the party—nominates the entire list, often very late in the day so as to ensure maximum loyalty from people up until the point of selection.

Given the timing of the Brexit process, you have to ask yourselves whether it is likely that a number of MEPs would defy their national leaders, who presumably had just signed off on a deal, on the eve of deciding whether they were going to be on the list for the next session. In the past, I have heard a lot of posturing from my MEP colleagues, who say that they are going to reject the deal with the Americans or the deal on the Lisbon treaty, but, when the time comes, it is very unusual to see MEPs voting against their national leaders.

Q25 Baroness Suttie: In the resolution in March that you adopted, the European Parliament recommended an association agreement for future EU-UK relations. How would such an association agreement work, and do you think it is viable—not least politically viable—in this country?

Daniel Hannan MEP: An association agreement is a fairly broad term. Lots of different countries that are at various stages in their move towards full membership have had one, and they are not identical. So, yes, I do think that, as a broad heading, an association agreement, which Guy Verhofstadt reiterated to be his preferred model, is a viable option.

I come back to what I said right at the beginning. It seems to me that a narrow vote is not a mandate to walk away, even if that were desirable, which I do not think it is. So some kind of country membership and some kind of associate status is an option.

Funnily enough, this is something that the real federalists in Brussels used to favour up until the Brexit referendum. Guy Verhofstadt, Jacques Delors and Valéry Giscard d'Estaing were always saying, "We need to find some kind of associate membership that allows Britain to be in the single market but outside the political institutions". Human beings are subject to becoming affronted and subject to the groupthink that I mentioned in my previous answer. Since the referendum, people who used to push for this have sometimes become a bit huffy, but I remain of the view that it would be the fairest way of reflecting not only the referendum result here but the continuing joint interests of the two sides.

Baroness Falkner of Margravine: Are you saying that you and Andrew Duff are on the same page?

Daniel Hannan MEP: Yes. Actually Andrew Duff was in favour of doing this long before Brexit.

Baroness Falkner of Margravine: He has made a submission to this Committee.

Daniel Hannan MEP: He has written pamphlets about it. His argument is that the best way to get a political union in Europe is to find a status for Britain where it is subject to the economic obligations that go with free trade but is outside everything else. If anything of that sort, even as a major step towards that dispensation, had been agreed in February 2016 when David Cameron undertook the negotiations, I have no doubt that he would have won the ensuing referendum with a big margin.

Baroness Armstrong of Hill Top: It was not about Europe to many people.

Jude Kirton-Darling MEP: Starting from that last point, I would just put on the record that everything that David Cameron asked for in those negotiations, he got. He did not necessarily ask for very much, but he tried to spin it as a lot.

Coming back to the association agreement question, the important thing is the European Parliament's position. Using the term "association agreement" is basically a way of keeping all the options on the table. Association agreements cover everything, including being a member of the European Economic Area and EFTA. The Turkey customs union agreement is part of an association agreement, and there are ones like the Ukraine association agreement. It is a very broad-brush legal term in relation to the European treaty.

Importantly, an association agreement also allows evolving relationships. I suspect that we will want pillars of ongoing co-operation post Brexit. Different pillars are under discussion in the final agreement, whether they are security policy, co-operation on trade or cultural co-operation. An association agreement allows an evolutionary relationship, which is crucial.

This comes back to the fact that the European Parliament is leaving all options on the table, because it is not clear exactly what the UK Government side want in the negotiations. We, as a Labour group inside the socialist group in the European Parliament, have been very strong in saying, "Don't box yourself into a corner in a way that can happen in negotiations". Something in the negotiations might move and you do not want the European Parliament necessarily to have created a false red line that creates a blockage.

I want to come back to something that Dan said about the European Parliament and the final vote. A lot has happened in the last four years since I was elected to the European Parliament. I have followed EU trade policy for 15 years—first, inside the trade union movement and, now, as a member of the European Parliament's Committee on International Trade. There has been a massive evolution in the role of the European Parliament in trade negotiations. TTIP, in particular, opened up the role of the European Parliament. It is interesting that the Brexit Steering Group, which is effectively the self-organised group inside the European Parliament led by Guy Verhofstadt, is using the possibilities created in the

TTIP negotiations to be as close to the negotiations and as close to Barnier's team as it is possible to be from the outside.

Barnier takes his lead from the EU 27 Governments, but at every point he also tests the water with the European Parliament and the big political groups in the European Parliament. There is a real fear in Brussels that the European Parliament could reject a Brexit deal. I do not think you should underestimate that. The timing will be important, especially if the negotiations go to the wire and you see a vote in the European Parliament in the few months before the European elections.

Strange things happen when people campaign at home. In contrast to what Dan said, the European Parliament has rejected international trade deals, including the ACTA deal in that exact period because a feeling that was whipped up in different member states got MEPs in campaign mode excited. Therefore, you have to be very careful about how the European Parliament is dealt with.

That is why government engagement with the Parliament is absolutely crucial. It is interesting to make a comparison with the Canada deal. We had Chrystia Freeland, the Trade Minister from Canada, in the European Parliament's Committee on International Trade three times during the negotiations and the ratification. We had Trudeau in plenary. There was an intensive diplomatic effort by the Canadian Government aimed at the European Parliament, because they feared that the CETA deal could be rejected by the Parliament. We see none of that from the UK Government, despite the fact that the vote will probably be in a period that will be quite volatile because of the European elections.

Q26 Baroness Browning: A lot of what I was going to ask you has probably been answered, because it is mainly about the European Parliament. I think, Ms Kirton-Darling, you spelled out right at the beginning how the European Parliament seeks to protect the principles in the way it comes to conclusions.

Do either of you sense any tensions between the proposals and the models that are coming forward? The Prime Minister has said that basically not everybody is going to get everything they want. Is there no flexibility in the European Parliament, particularly in light of the fact that you have just told us that you think there is the possibility of a rejection in the vote at the end?

The Chairman: At this point we are exploring the relations between the Council, the Commission and the Parliament, rather than our own input into that.

Baroness Browning: Do you see any inconsistencies between the Parliament and the Council?

Jude Kirton-Darling MEP: I described the shift in trade policy and the way the European Parliament now interacts with Commission trade negotiators, and that is very different from the position even five years ago. The mainstream body of the Parliament, of which I am a member as

a member of the socialist group—I should say right out that the ECR Group is not included in the Brexit Steering Group inside the European Parliament—is interacting hand in hand with Barnier and very closely with the Commission. There are daily relations between our representatives. Each political group has nominated a representative to co-ordinate, and those relations are very close.

I see no tension between the EU 27 negotiating team and the European Parliament negotiating team. There was a tension ahead of the December agreement, mostly in relation to citizens' rights, because right from the off the European Parliament had made it clear that it saw its primary role as a defender of European citizens, British citizens elsewhere in the EU and EU citizens living in the UK. The Brexit Steering Group certainly seemed to be pretty pleased by the direction and influence that the European Parliament had over the December agreement. Now, some issues in the withdrawal agreement are being discussed, but those have fallen down the line. The Ireland question is the next big area where you see the Parliament and the Commission working hand in hand. So I do not see a tension there now.

Daniel Hannan MEP: I agree with what has Jude just said. The interesting question, Lady Browning, is whether there is a gap not between the different Brussels institutions but between, on the one hand, the Brussels institutions and, on the other, the 27 national Governments. There, I think there is more of a difference in emphasis and objectives.

In a way, the problem that the UK faces—or that any country in such negotiations would face—is that, although ultimately the treaties make it clear that we are dealing with the other 27, there is an imbalance of time and resources that allows the permanent Brussels bureaucracy to award itself a bigger role than is strictly foreseen under the treaties. I have seen this happen many times, as I am sure Jude has. I think particularly of the negotiations in the run-up to the European constitution and then TTIP. People in the European Parliament and the other EU institutions were able to elbow their way into a bigger share of the process than is strictly supposed to happen, because they did not have countries to run. They were not distracted, as Merkel and Rajoy and so on are, by having full-time, hectic domestic schedules. In a way, that has been our challenge: trying to tilt the balance back towards dealing with the other 27, who I think are much more interested in a mutually beneficial outcome.

Q27 The Earl of Kinnoull: Following on from that, you have kindly given us evidence on what is going on intra-institutionally. We have had some comments on what is going on between the institutions of the EU and the EU 27. If you do not mind, I was going to ask Jude first, but I would be interested in your answer on that.

Secondly, the third bit of the prism is of course what is going on between the EU 27 themselves. So far—I would argue that this has been to Britain's advantage—the 27 have maintained speaking with one voice, but there are a number of obvious tensions. Have you seen any evidence of that single voice cracking in any way?

Jude Kirton-Darling MEP: Surprisingly little, given how fragmented EU debates can sometimes be. Before I was elected, I spent my working life on trade policy and employment law.

On employment law development, there were really big splits between member states. We have just seen one in relation to posted workers. On Brexit, we do not see those splits at all. Just last week, a British business organisation said to me, "This is actually the most positive thing. If we thought it was complicated negotiating with the 27 EU Governments with one voice, it would be triply or quadruply more complicated to negotiate if they fragmented and you had to negotiate with several different factions of government".

Therefore, I think that the EU has been incredibly united. You have only to listen to the more pro-British Governments. Just a couple of weeks ago, we heard the Danish Prime Minister taking a very hard line about the four freedoms of the single market and the fact that you could not cherry pick, and we have heard the Dutch say similar things. That unity has really come out.

The Chairman: May I interpose for a moment? Do you think that that formulation includes attitudes to the Irish border? The EU 27 position on that has been seen as fairly solid.

Jude Kirton-Darling MEP: Yes.

The Chairman: Is that masking greater sensitivities or differences on that issue?

Jude Kirton-Darling MEP: No. It has been very interesting to see how the other 26 countries have stood pretty much unified behind the Irish Government's position. What has been said to us, and is being said to us in meetings in the European Parliament, is that inside the EU 27 the basic agreement is that, if a deal can be done by the Commission, the Irish Government and the UK Government on Ireland, the other Governments will basically support that deal, because the Northern Irish peace process is something that other Governments in the EU recognise the value of. They do not want to jeopardise it or to be the ones who are perceived to be jeopardising it.

Some of the discussion in Westminster is still very introspective. We do not get that perspective from the EU 27 Governments in our domestic debates. We still have a perception of UK foreign policy and negotiating with Europe along the lines of the "Yes Minister" speech, where we try to set off the Germans against the French to get what we want in the end. Foreign policy and the attitude of those Governments have moved on. They are really committed to maintaining a common front right up to the end of the negotiations, and I have seen no evidence of any fragmentation there.

Daniel Hannan MEP: I agree. I think I answered the noble Lord's question about Ireland and the unity of the 27 earlier. Is there not some

brinkmanship going on here? The UK position, broadly speaking, is that if we have a comprehensive, deep trade agreement based on mutual recognition, that will in large measure address these issues, whereas some in the European Commission say, "Isn't this a vehicle to keep Britain in the customs union?" You can see why keeping Britain in the customs union is advantageous to the European institutions, although obviously I do not think it is advantageous to us. Which one will come out in the end? It is a question of how far people want to take the risk.

Jude Kirton-Darling MEP: If that were the case, the UK Government could put something down in written form so that everybody could see exactly what their proposals are in relation to how it would be dealt with in a deep and comprehensive FTA—

Daniel Hannan MEP: They have done so twice.

Jude Kirton-Darling MEP: —but that has been completely missing.

Daniel Hannan MEP: I disagree. There have been two proposals. You may not agree with them, but it is not fair to say that they have not been put forward. One is for a customs partnership, the other is for taking advantage in trends in technology that are already transforming how borders work among advanced economies around the world.

I come back to saying that the UK Government, right from the beginning, made clear that they would not raise any infrastructure on their side of the line, so there is a limit as to how far we can go to solve somebody else's problem, if you like, short of seeing what the eventual overall deal will be. That is why we are having these talks the wrong way around.

Q28 **Baroness Falkner of Margravine:** What economic upsides do you see as a result of the successful conclusion of the negotiations? In other words, what do you think we will get at the end of this road?

Daniel Hannan MEP: The world has moved on immensely since our last referendum, let alone since the treaty of Rome itself. The share of the global economy represented by the European Union is falling virtually by the day—

Baroness Falkner of Margravine: —represented by the West overall, not just the EU.

Daniel Hannan MEP: Yes, but it is falling much faster in the EU than in Australia, the US or Canada. It is quite striking, particularly in the years of the 21st century. The advantage to Britain as a global nation that has links of language, law, migration, habit and history to every continent, to every archipelago, is to be able to reorient its trade policy in a more global direction. This will be a gradual process. I suspect that, after all the brinkmanship and all the talking, the day after Brexit—if you ask me to make a forecast—will look quite similar to the day before. That is the day when divergence can begin. On the day we leave, we will still have 45 years of EU regulation on our statute books, but that will be the day

when we can begin to disapply things and to reorient in a different direction, both in regulation and in trade policy.

Looking back a couple of decades from then, people will wonder what took us so long.

Baroness Falkner of Margravine: You do not see downsides.

Daniel Hannan MEP: Of course I see downsides. There are upsides and downsides to everything. On balance, I see the EU as a conveyor belt going in the wrong direction, and I see Brexit as the act of stepping off that conveyor belt. You can step off more or less gracefully, but after a while the only thing that you notice is that you are no longer on it.

Baroness Falkner of Margravine: Okay. A final quick question to you. If we remain in a customs union and are therefore curtailed from doing trade deals with other countries, do you nevertheless accept that it is perfectly possible to trade with other countries without FTAs?

Daniel Hannan MEP: Of course, we are doing that.

Baroness Falkner of Margravine: We are doing so right now.

Daniel Hannan MEP: Yes, of course. What we cannot have is trade deals with them.

Baroness Falkner of Margravine: So a customs union per se does not prevent us from trading with the rest of the world.

Daniel Hannan MEP: Of course it does not. It prevents us from signing trade deals under which we can go much further in mutual recognition of services and professional qualifications. As I say, it locks us into a trade policy that until now has very understandably been focused disproportionately on the agrarian and industrial interests of the continent rather than on a service economy like ours.

Jude Kirton-Darling MEP: I should put my cards on the table and say that I campaigned very actively to remain in the EU. I have yet to see any evidence that leaving the EU will provide us with an economic boost. Every government and academic study about the implications of the different Brexit scenarios suggests that the UK economy would take a hit. There may be discussion about how deep a hit it would take. Certainly a hard Brexit outside the customs union and the single market and without an FTA would hit the north-east hard. The Treasury figure was that it would be 16% of GDP. That would take us back to a pretty bleak time in the 1980s.

Therefore, part of what I see as engaging in discussions with you and with the Commons is damage limitation and trying to get to a situation where the damage is as little as possible. Ultimately, we have to be realistic. Your trade relationships are always better and stronger with your neighbours because of geographical proximity, and the EU and the EU countries are still our major trading partners. So the conditions of that

trade relationship long term will still decide what the economic impact will be.

Even in the case of an EFTA, there could be a downside. Other downsides are the potentially negative impact of touching the Good Friday Agreement, and having lived in west Belfast when the IRA ceasefire came in in 1995 I think we should be very careful about the progress in peace that we have made in Ireland and how we deal with it in the long term. So there are potential downsides.

On the upsides that are presented by pro-Brexiteers such as Dan, such as in our trade with the rest of the world, I just look at other European countries and what they do today. Look at Germany's figures on trade with Brazil, with the US or with China; it is not held back or constrained by its EU membership. It trades five times more in some cases with those economies than we do. It is a question of how we invest in trade promotion, how we ensure that our SMEs can find trade opportunities. There are lots of parts of trade policy that are not trade deals. Trade deals attract a lot of attention, but actually trade policy is far broader than that.

Baroness Falkner of Margravine: I know a thing or two about the German economy. Do you accept that the UK economic model, which is primarily about trade—80% of our trade is the trade in services—is very different from the German model, which is mainly manufactured goods and frankly machine tools and heavy duty goods? Do you accept that difference? Perhaps that is the reason: Germany has a different model of trade from us.

Jude Kirton-Darling MEP: Absolutely, but that also has a Brexit impact in that the internal market for services is far from a real internal market and far from fully developed, but it is far more developed than the alternatives in existing trade deals, and it is way more developed than falling backing on WTO standards on trade and services.

Given that as an economy and a country we rely on services for our economic backbone, there is a real question in my mind about moving away from something that, all right, is not perfect, but what is perfect in this world? Everything has a flaw. Certainly in the trade in services in the EU, if you take the conveyor belt analogy—a conveyor belt moving towards more integration—if you look at the proposals for a digital single market, for a third package on electricity and gas services, and for a financial services package in each area of the service economy, there is legislation moving the internal market forward.

For me, there is a real question, as a service economy, about moving outside.

Daniel Hannan MEP: I think we could be a lot more ambitious. I was very struck by the Treasury report saying, "Here's how much we'd lose if we left the customs union, and here's how paltry the gains would be if we had FTAs with the US and so on". All the methodology had done was

basically take TTIP as its starting point, work out our share of that and say, "This will be how much we gain if there is a UK-US FTA". It did not look at what for me would be an ambitious trade agreement, one that started from the proposition of mutual recognition: that what is legal in their country is legal in ours, and vice versa.

Now, it is fair to say that there are few such trade deals in the world, but they exist. The outstanding one is the one between Australia and New Zealand, which—it is not quite this simple—begins from a presumption of reciprocity and then creates a mechanism by which challenges can be made. So instead of asking how to deregulate pharmaceuticals, food and finance, it says, "Whatever your regulator approves, we automatically accept that unless there is a good reason not to".

If the UK were to do something like that as a service-based economy not just with Australia, New Zealand and the US but with countries around the world, that model would be completely different from the one in the European Union, which is based on standardisation rather than on mutual recognition, and I think that there would be immense gains there.

Q29 Baroness Armstrong of Hill Top: The problem with your argument is that nobody else is arguing that, and the Government are certainly not arguing that. My questions were meant to be about the customs union, but I think we have been round and about the customs union and we are not going to get much more from you on that.

I specifically want to ask about Northern Ireland and the Irish Republic. Mr Hannan, you said that this is a problem for the EU and not for us—that we simply would not put in any border or any infrastructure around the border, and that that would apply to people, goods and services. Do you envisage a different border with the EU generally, or do you think that that should be the way a border operates with any country?

I wonder whether you have talked, as we have, to some of the countries that have a border but a different arrangement. We had representatives from Switzerland and Norway appear before the Committee. They said that you have to have a variety of instruments, and neither of them knew how you could do it without some form of photo recognition either at or near the border—away from and not actually at the border.

We know from our history but also from talking to people in Northern and southern Ireland that it would draw the attention of the bad people and would therefore be a real threat to the agreement. Far from having agreed all this, we still seem to be a long way from a clear agreement, with not much agreement in the Cabinet as to how they are going to do it. I would like to have your views on what you think would work if we were outside a customs union.

Daniel Hannan MEP: First, there is a certain semantic incoherence about this. When people talk about infrastructure, they mean very different things. What most people would understand by border infrastructure is booths, checkpoints and barriers. Your Lordships are all aware that nobody is proposing that, but I do not think that that is widely

perceived out there. When people hear “hard border”, that is what they imagine, and there is a certain irresponsibility when we are inexact in our language.

If we want a border in the sense that a demarcation of jurisdiction is going to continue to exist, what is needed? If we want it to be an unobtrusive border and one that does not impact on people’s lives, how do we do that? Borders regulate the movement of people and goods. I hope this is uncontroversial, but the movement of people has been taken off the table. All sides have agreed that the common travel area will remain in place and that there is no need for checkpoints, so we are talking about customs.

Baroness Armstrong of Hill Top: How do you deal with the other people who are neither Irish nor British?

Daniel Hannan MEP: We are in an archipelago with a limited number of ports of entry into the British Isles, and under the common travel agreement we already have sight of each other’s data. Our immigration policy is not based on stopping people at borders. You can come here without a visa from Nicaragua or Nauru, and the idea that you would not be able to come from the Netherlands is silly. So there would be no need to check people at the Irish border any more than there is a need to have great camps of people at Heathrow or whatever.

The argument and the talks are about what you do with differential customs rates and how you prevent exporters selling tariff free into the UK and then crossing the border and getting into the EU. That argument, if I may say so, is outdated. It is based on an old-fashioned idea that the paperwork is not done online and in advance.

If you have had the Norwegian and Swiss customs people here, they will have told you that 85% of border crossings between Norway and Sweden are unmanned. I cannot give you the exact figure for Switzerland, but there are certainly plenty of places where you walk or cycle across without anyone being there. A lot of the infrastructure there now is what I would call legacy infrastructure. It comes from an age when technology was not so advanced.

Cameras are fairly ubiquitous on roads all over the UK. I suggest that if anyone argues that cameras are an absolute deal breaker—that you are allowed to have them everywhere else but not near the Irish border—they are not interested primarily in the Irish border issue. I think they are trying to find a reason to make a problem out of the whole thing. I cannot see how it is somehow unacceptable to have in that part of the UK the same basic photo recognition that we have everywhere else.

Baroness Armstrong of Hill Top: I invite you to read the evidence from Sweden and Norway.

Jude Kirton-Darling MEP: There is physical infrastructure in both Norway and Switzerland. You may be able to walk or cycle across—

Daniel Hannan MEP: It is being removed.

Jude Kirton-Darling MEP: No. You might be able to walk or cycle across the border, but that is because both those countries are inside Schengen. I do not think that the Government's position is that the UK and Ireland should join Schengen. The fact that the Republic of Ireland will be an EU member state and Northern Ireland will be part of a non-EU member state also has implications for the movement of people. It is not clear to me that there is an absolute consensus that the common travel area does not come into conflict with us leaving under a hard Brexit.

Part of the red lines which the Government have set out is our ability to control our own borders, and that will be one of the external borders of the United Kingdom. It is another of the Government's contradictory positions. The argument that it can all be dealt with by technology and advance paperwork has been—I am trying to think of a diplomatic way of putting it—disregarded by industry and by all the experts in border control. Many of the proposed technologies do not exist. Many are at the theory stage and might be available in the future but certainly not in the next few years.

How you deal with the Irish border is a fundamental question of whether we are inside the customs union and have some respect to single market rules or whether we accept that there will be a border in the Irish Sea rather than on the island of Ireland.

The Chairman: I am keeping an eye on the time, because a major vote is approaching in the Chamber. Baroness Kennedy, do you have a quick point that you want to make on these issues?

Baroness Kennedy of The Shaws: I want to tease out what Daniel Hannan has said with regard to people being off the table and the fact that we are not going to worry about the movement of people. Only the other day we had a debate in the House on an amendment that I was pressing on the Government. It was accepted that the movement of people issue could be problematic, because there are very easy crossings between Northern Ireland and southern Scotland, such as from Stranraer to Larne—I say this as a lowland Scot—and of course there are other opportunities, too.

There are unionists in the north of Ireland who feel deeply affronted to be treated any differently from other British citizens. I want you to think again about your suggestion that people come in to southern Ireland as part of the European Union, under which they are allowed to move freely, and then move up to Northern Ireland under a common travel area. If you do not monitor people, how do you stop those who are not entitled to use the common travel benefits that I have, for example, when visiting Irish relatives? That was a promise made in 1923. How do you do that when other people are going to make use of it?

Daniel Hannan MEP: As you correctly say, it has been in place since 1923. It is a deal that currently incorporates EU member states, the Irish

Republic and the UK, and non-EU member states, the Isle of Man and the Channel Islands, and it functions on that basis now. Yes, of course, someone could in theory fly from Gdansk to Dublin and then drive up to Newry, or they could just fly to Luton, because we do not stop people coming in. That is based on a misapprehension of how our immigration policy works.

When I said that this issue was off the table as all sides have accepted it, I meant that in the talks that we have already had, Michel Barnier and the UK side have said, "Okay, we're all agreed that the common travel area will remain in place". That seems uncontentious to me; I do not know of anyone who does not want it to carry on.

Baroness Kennedy of The Shaws: May I suggest to you that there is evidence that people are already having difficulties because of racial profiling. There have been examples of that. I really do think that you are living in a fantasy land if you think that this is all off the table. I am afraid that it is still very much on the table. We had evidence in this Committee only a fortnight ago from a very distinguished economist from Cambridge, who indicated to us that in her view, with the nature of globalisation as it is, the future is trade blocs. We pointed out the possibility of having something similar to the trading arrangements between Australia and New Zealand, which are creating their own trade bloc, and she suggested that we are going to end up moving from one trade bloc to another. Is that the future as you see it?

The Chairman: That is a fascinating question, but you may want to respond to the Committee about it by correspondence.

Daniel Hannan MEP: Perhaps I may respond very briefly, because it is such a fascinating question. Australia and New Zealand would never dream of forming a customs union. If it were true that being part of a big bloc were necessary for a nation's success and prosperity, China would be wealthier than Hong Kong, Indonesia would be wealthier than Brunei and, for that matter, the European Union would be wealthier than Switzerland. The way forward is through free trade agreements, not through customs unions.

Jude Kirton-Darling MEP: I agree that, given the way that the dynamics are going globally, countries are coming together in blocs. The danger is that some who have pushed for Brexit intend us to leave one bloc and move to another across the North Atlantic. I think that is the ambition of some hard Brexiteers. My fear is that we will end up isolated and not included in any bloc. In the worst-case scenario, we will basically be the global rule-taker when we have been—we should put this on the record—the leading member state in EU trade policy, effectively setting global rules on trade policy. For us as a country, it would be a sad shift to move to being a rule-taker from being a rule-maker.

The Chairman: We move to two final questions, to wrap up. Looking at the clock, I think we can accommodate both to the convenience of the Committee. I would like Lord Crisp to lead off on the next line of

questioning.

- Q30 **Lord Crisp:** Let me wrap up two questions in one go. The first is to ask what you see as the likely timetable for reaching an agreement on the future UK-EU relationship. More specifically, what areas do you expect to be covered in the political declaration on 18 October, and indeed in what detail?

Jude Kirton-Darling MEP: The anticipation certainly in the European Parliament and in Brussels circles is that it will be necessary to conclude the negotiations comfortably in October, with the potential for a bit of time after that, but not much if you want to avoid the turmoil of the European Parliament elections. That dictates how much detail will be in the political declaration. There is still so much to negotiate and so much that remains outstanding, as I think I have set out, and it will depend how much clarity there has been by that point.

The big danger that we MEPs have been trying to highlight is that we will end up with a political declaration that is not very detailed, going into what is effectively a blind transition where we have no vote at the table and no voice in the process. The incentives from the EU 27 side are different because we will no longer be covered by the solidarity clause in the treaty. We have to be very frank that in the rest of the EU Brexit is not the issue at the top of most politicians' minds. We will go off into a kind of zombie transition period with very little detail of what is to come out at the other end, and we will potentially end up in a very long, blind transition period that will be rolled over and rolled over. There is nothing more permanent than a temporary arrangement.

Daniel Hannan MEP: I agree with Jude totally, both on the timing and on the likely danger. You will have gathered from my earlier remarks that there are things that I would have done differently. I think we were premature in triggering Article 50 and that we were wrong to rule out EFTA a priori. Given where we are now, that is exactly the danger. There are those in Brussels who would love the idea of Britain effectively remaining bound by all its obligations but losing its vote and its voice. Once that comes about, even if only as a notional transitional period, there will be those who say, "Well, let's leave it like that until future notice".

- Q31 **Lord Jay of Ewelme:** I have one tiny comment on Ireland. The evidence that we have had from others, the Norwegians included, is that an electronic solution will indeed be there in the future but that it will take years to get there. I still find it impossible to see how we can be outside the customs union and have a frictionless border. That is still an as yet irreconcilable issue for the Government to resolve.

However, can you say a little more about what issues you think will remain to be resolved after we have left, assuming that we leave on 29 March 2019? You have said a little about this.

Jude Kirton-Darling MEP: Potentially everything and potentially less than everything. At the moment it is very difficult to say, because both

negotiating sides are in a trench position on the red lines and on Ireland. It could be that we will get to the end of the negotiations and all the issues will be outstanding. I suspect that for some people that will be a more comfortable position, because you can kick the can further down the road and avoid having to pick a side on some of the big decisions, such as on a frictionless border or the customs union. If you can kick that can further down the road, you can potentially hold your party together in some cases. So there is a real danger of ending up with still a lot on the table.

I am not sure of the parliamentary protocol involved in referring to other Select Committees elsewhere in this building, but I think that the Select Committee on Exiting the European Union in the Commons put into its last report the idea of extending Article 50. I think that has to be kept on the table as an alternative in order to be able to make sure that we do not end up in a zombie limbo. I struggle to say these words, but I agree with Dan that we triggered Article 50 too early, before we had prepared to do it, and that has basically left us in the position that we are in now.

Daniel Hannan MEP: I do not struggle in the least to say that I agree with Jude. It seems to me a perfectly natural thing that people should agree, regardless of their positions. She is perhaps more pessimistic than I am about the likelihood of all this stuff being left unresolved. It is certainly the chief danger, but I would not underestimate the logical reasons on both sides to find a deal.

We want to have prosperous customers next door. We have an interest in the continuing well-being of the EU. We do not want to leave in a way that makes life harder for it and one hopes that that logic flies both ways. On the day we leave, we become the EU's single biggest export destination and, if we treat it as a single bloc, it is ours. I suspect that there will be an impetus at the very least to agree the most basic issues that exist among friendly countries—aviation, exchange of information and basic free flow of goods and some services. The danger, as Jude correctly says, is that that is left aside.

Perhaps I may be allowed a 20-second comment on Ireland. The head of HMRC is constantly being quoted, because he has repeatedly given evidence to this Parliament in which he says that there is no need for a physical border, because companies can make customs declarations just as they presently make tax declarations—of course, Northern Ireland and the Republic of Ireland have different rates of duty. What is much less reported is that his Irish counterpart has said exactly the same thing to the Dáil, so it is not quite true that the experts say that we need a hard border.

The Chairman: We have the Minister on his feet. If we slightly shortened this discussion and moved to our final line of questioning, that would be appropriate.

Q32 **Baroness Neville-Rolfe:** Can we look ahead to what the institutional structure might be to underpin the future UK-EU relationship after Brexit?

Dan, you talked about the UK being the EU's best friend and closest ally, and you referenced Canada and the US border, which I thought was interesting. Do you see new intergovernmental or interparliamentary mechanisms between the UK and the EU institutions and/or between the UK and individual member states?

Daniel Hannan MEP: Yes. If I had been in charge of these negotiations, what I would have done most differently would have been to try to create a precedent for every other country that either cannot or does not want to join the EU but wants the closest feasible alliance with it.

The first reaction to the Brexit vote on the other side at a quasi-official level came from the Bruegel think tank, which the Europeans say is not just any old think tank; it is funded by the member state Governments and it has a semi-official status. It proposed what it called a continental partnership. It said that a way should be found for Britain to be in the trade and economics bit but outside everything else, with some compromise on immigration where it has free movement of labour but takes back elements of control. That seems an interesting proposition.

The Bruegel institute said, "If we can do this with the UK, this will become a template for every other country that either we do not want to join or that does not want to join us. It will eventually become a template for Turkey, Ukraine and—who knows?—maybe one day Israel and Morocco. We can have a large nexus based on free trade within which a much smaller group of countries go for political union".

In any of these negotiations, it is always better to talk about constructing something rather than deconstructing something. I would have liked us to propose that kind of arrangement, having had initial conversations with some of the other European countries that are not in the EU or that do not want to join the EU. I suspect that a few years down the line we will get to somewhere like that, but it would have been a little more amicable had we gone in with that at the top of our agenda.

Jude Kirton-Darling MEP: I suspect that we will end up with concentric circles of European co-operation. We already have that to an extent, and the UK will find itself in one of the circles or in a new circle.

I guess there is an outstanding question about the institutional frame around that. It has not received very much attention in the political debate in Brussels so far, but I know that it is about to be one of the subjects in the Brexit negotiations. It will be about dispute settlement, because if you are trying to set up that kind of system which other countries can join, you have to have some arbiter of the rules, which means that there has to be some form of court.

We have said that we do not want the Court of Justice. We have also said that we do not want to be part of EFTA, so the EFTA court is out as well. Would we look to establish a new court system? How would that interrelate? There are lots of questions about that. That is occupying quite a bit of thinking at the moment; it certainly is in the UK

Government departments and on the EU negotiating side. The depth of the relationship that we want means that it cannot be state-to-state dispute settlement. There are lots of questions, which have to be teased out more.

As to what our institutional relationships look like as parliaments, and for you as Members of the House of Lords, we have no good examples, to be brutally honest. In the European Parliament, we have interparliamentary delegations for every trading and diplomatic partner around the world. My practical experience as a four-year, about-to-be-retired MEP is that none of them has a deep enough relationship for the kind of relations that we will need down the road. I say that even in the case of the interparliamentary relations with the EFTA countries. It is very superficial. I just do not feel that it has the weight or the depth of what we would need to ensure that there was adequate parliamentary scrutiny of the relationship, which is a key part of interparliamentary delegations, or that the relationships would be maintained and strong enough across the board.

There needs to be a bit of thinking about what can be developed. Joint committees will certainly be part of an agreement. TTIP was the most advanced agreement from the EU's perspective when it came to institutions. It was very controversial, but there was a proposal for a regulatory council, which would have overseen all regulation, ensuring mutual recognition of standards. The big controversy was that there was very little parliamentary scrutiny; it would all have been the regulators, with stakeholder engagement.

The question of who is the stakeholder engaging in your regulatory setting became part of the controversy around TTIP. Lots of institutions will have to be integrated into that new framework agreement. If, from the EU's perspective, that is a model for other countries, it would have to be a framework that the EU 27 are happy to extend, which may limit the opportunities for the UK.

Baroness Neville-Rolfe: Lady Brown has the last question, but I just wanted to say that, with countries such as China, economic and financial dialogues are important in building joint ambition. If you have any thoughts about how we might move forward on that in a creative and ambitious way, we are keen to hear them.

Jude Kirton-Darling MEP: Part of that comes back to the earlier question about how the UK is engaging with the European Parliament now. If there was proactive engagement from this House and from government with the European Parliament, you would start to build the relationships on which further contacts come. I suspect that we will have to boost the staffing and capacity in all our embassies across the EU. Maybe that is an upside that I did not mention: potentially many jobs will be created in the FCO and the DIT in missions around the world to create those dialogues.

Q33 **Baroness Brown of Cambridge:** I think you have mostly answered the

question that I was going to ask. This is a quick question for Daniel Hannan. You have made a comparison with Canada's relationship with the federation of US states. Are there any intergovernmental mechanisms or structures in that relationship that might be a useful model for what we might need in the future?

Daniel Hannan MEP: To start with the most uncontroversial one, there is defence and security—the intelligence sharing and so on. We have a huge advantage with the EU, beyond what the US and the Canadians have. We can go further. These will be the first trade talks in the history or trade talks in which the two parties are beginning from a position of zero tariffs and regulatory equivalence, so we can go much further than has happened in NAFTA.

Baroness Brown of Cambridge: We have almost no time before a vote in the House is called. Is there a specific answer to the question, rather than the defence and security agreement?

Daniel Hannan MEP: It is not an exact parallel but, on the broad headings of citizenship, movement, trade, security and defence, I think that we could parallel all those things. In many cases, because we are starting from a position of closer integration, we can go much further.

The Chairman: Jude, do you want a last word?

Jude Kirton-Darling MEP: No. I think that Dan is labouring the point about Canada and the US. There has been a lot of discussion about the limits. The future of NAFTA is in question. There are no examples currently for what we are aiming at.

The Chairman: Given that the Division is now called in the Chamber, I hope I can persuade members of the Committee—Stakhanovites as ever—to go to come back after the vote and finish some private business. To the witnesses, I formally thank you for giving us your evidence today.