

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Wednesday 8 May 2019

Ordered by the House of Commons to be published on 8 May 2019.

[Watch the meeting](#)

Members present: Hilary Benn (Chair); Mr Peter Bone; Stephen Crabb; Mr Jonathan Djanogly; Richard Graham; Peter Grant; Andrea Jenkyns; Stephen Kinnock; Jeremy Lefroy; Seema Malhotra; Mr Pat McFadden; Mr Jacob Rees-Mogg; Mr John Whittingdale; Sammy Wilson.

Questions 4117 – 4170

Witnesses

I: Sir Jonathan Faull, Chair of European Public Affairs, Brunswick Group; Larissa Brunner, Policy Analyst, European Policy Centre; Charles Grant, Director, Centre for European Reform.

Examination of Witnesses

Witnesses: Sir Jonathan Faull, Larissa Brunner and Charles Grant.

Q4117 **Chair:** On behalf of the Committee, I welcome our witnesses this morning: Sir Jonathan Faull, chair of European public affairs with the Brunswick Group; Larissa Brunner, policy analyst from the European Policy Centre; and Charles Grant, director of the Centre for European Reform. We are very grateful to all three of you for giving of both your time and your great experience to the Committee today, as we are looking at what is happening and is likely to happen in Europe and how that is going to impact on the Brexit process. We have a lot of ground to cover, so as succinct answers as possible while informing us would be much appreciated.

Can I kick off? There is a lot of back-and-forth debate about the Spitzenkandidat process and how the new President of the Commission is going to be chosen. It would be very helpful to hear from you where you think it has got to.



Sir Jonathan Faull: Thank you very much for inviting me here today. It is a big issue of which the European Council will have to take account when it gets to choosing the President of the Commission. The treaty says that it takes account of the elections. The elections are being fought again with the Spitzenkandidaten known, present and presenting themselves as such. There is no legal obligation on the European Council to follow that idea to its final conclusion. It did last time. It will depend on a number of factors, the main one of which will be the composition of the European Parliament as a result of the elections

Charles Grant: It is an open question as to whether the Spitzenkandidaten system will prevail this time. The general mood in Brussels is that it probably will not because Macron is strongly opposed to it. Last time, the Parliament managed to impose its system on the European Council despite it not being written down anywhere in the treaties because the three main Spitzenkandidaten—Verhofstadt, Juncker and Schultz—got together before the elections to say, “We will back each other and bring our cohorts in the Parliament behind a common line for whoever represents the party with the most votes and the most MEPs”, and that worked. Right after the European elections, the Parliament had a unified line: “This is what we want”. The European Council had a lot of qualms about it but caved into the Parliament, and Merkel gave into the Parliament partly because of pressure at home as well.

This time, the Parliament is much more divided. Power is not concentrated in a group of two or three people running the Parliament, and the Spitzenkandidaten do not particularly like each other, as far as I can see, and do not get on well, so they are not going to all agree to back each other to impose the Parliament’s wishes on the European Council. Unless the Parliament gets its act together immediately after the elections and says, “This is our line; this is what we want”, the European Council will play a much bigger role than it did last time.

The question is whether the exiting Spitzenkandidaten or possibly other people, other similar characters, such as Mr Barnier, who is much talked about, get the job, or whether, because of a blockage that persists for some time, in the end the European Council goes for somebody bigger, a Head of State or Government. Every Commission President since Jacques Delors has been a Head of Government, and the main Spitzenkandidaten this time are not. There is a real issue as to whether they want somebody of a higher stature or calibre than the names that are commonly mentioned in the first instance.

Chair: Mrs Merkel, for example.

Charles Grant: Her name is mentioned in Brussels, and I gather in Berlin too. She has denied she wants any job after her current job but politicians change their mind occasionally, do they not?

Larissa Brunner: On the question of Mrs Merkel, for her, domestic political considerations would also play a role, because her current



coalition is rather unstable, with a lot of discontent within the Social Democratic Party. If she were to step down as Chancellor and go to Brussels, that could potentially cause a lot of disruption. It could potentially lead to fresh general elections in Germany and to a collapse of the coalition, because it may be rather unlikely that the Social Democratic Party would approve her chosen successor, Annegret Kramp-Karrenbauer, as Chancellor. They might see that as an opportunity to end the coalition. That would also factor in Angela Merkel's thinking. Because of that, she might be quite reluctant to move and more inclined to stay in Berlin in her current position, to ensure the stability of the coalition.

There are two other considerations in the Spitzenkandidat process. It may not necessarily be an advantage this time to be German for any Spitzenkandidat, because Germans already hold a number of top posts, for example Martin Selmayr. There is also the question of whether the next ECB President could be German. The head of the European Investment Bank is also German. There are already quite a lot of Germans, so that would be a consideration. There is also the question of whether a grand coalition in the European Parliament can be formed this time between the European People's Party and the socialists. Of course, we need to await the European elections, but current polls indicate that that may not necessarily be the case. If it is not the case, it might be quite difficult to form a coalition around one of the current Spitzenkandidaten.

Q4118 Chair: What implications do you think there will be for Brexit arising from a slightly or quite differently composed European Parliament? One looks at the rise of populist parties, what is likely to happen here in the United Kingdom and in other countries. What impact, playing out through the appointment of the President, approving Commissions and so on, might that have on the European Union's attitude to Brexit?

Charles Grant: Not a huge difference.

Chair: Not a huge difference?

Charles Grant: No, because the European Parliament is highly likely to approve the withdrawal agreement if the British can ever approve it. If Barnier says, "It is a good deal; go for it", they will go for it. After the European elections, even if, as is quite possible, the populist right-wing Eurosceptics get to 25% of the seats, which is plausible, they will not be running the Parliament. The Parliament has been run for many years by a coalition of EPP and Socialists and Democrats. That will not be able to do it any more. They will bring in the liberal centralist group, ALDE, and possibly the Greens, so there will be a new and different coalition running it. It will be more difficult to run the Parliament because there will be more players involved, but the European Parliament does not negotiate Brexit anyway. All it has to do is approve the deal. It is not any less likely to approve the deal post the elections.

Q4119 Chair: The reason for my question is this. It is really the political impact



HOUSE OF COMMONS

on member states as they see those results, rather than what the European Parliament can or cannot do. Do you think member states will look at that and think, "What does that mean for us in the future when we come to face elections"? Therefore, is that going to impact in any way on their attitude to Brexit?

Charles Grant: I do not want to hog the conversation. Not hugely, because the Governments of the member states are convinced they have taken the right approach to Brexit. There is not a lot of questioning going on as to whether they should have done it rather differently. They have got what they wanted in the Brexit deal by standing together and being very united. Some differences have emerged recently, which we will perhaps come on to, but I do not think they are going to say, if a lot of populists do well in the European elections, that means there is something fundamentally wrong with the European Union and, therefore, the way they have handled Brexit. Most people do not like to admit they get anything wrong, do they?

Q4120 **Chair:** They do not, but do you think, in quieter moments, they say to themselves, "We are going to need some change in the European Union"? There is obviously a lively debate.

Charles Grant: I defer to Larissa on Germany. Certainly, within Germany, the Government still think they have got everything right about Brexit, but there are voices outside the Government that ask the questions you are suggesting, Mr Benn. In other countries too, non-governmental voices are asking, "Have we got this right?" Even in the Commission, one hears occasional voices now asking, "Did we get things entirely the right way? Should we have done something a bit differently?" I suppose there may be more questioning, but that does not mean the EU is going to say, "Let us just scrap the withdrawal agreement, rewrite it or abandon the Irish backstop". In my view, there is no way that is going to happen just because of the European elections.

Q4121 **Chair:** Sure. I was thinking more of pressures from other member states for reforming the way in which the European Union works, not just about Brexit, but the pressures that are coming up in other member states because of the changing nature of politics.

Charles Grant: As far as I can see, Mr Macron is the only European leader who has a clear programme of reform for the EU, but he has not got a lot of support from other member states at the moment. A few, like Spain and Belgium, are quite sympathetic, but Germany has not been as sympathetic as he would have wished. His ideas for a concentric circle Europe are not going very far at the moment and other leaders do not really have ideas for reform. The Poles, Hungarians and some others want a more national Government-based EU, but the EU reforms very slowly and with great difficulty. I do not think we are ripe for a period of massive reform at the moment.



Larissa Brunner: It is not difficult to find people in Brussels and in the member states who agree that the EU should be reformed. What is much more difficult is to get people to agree on what the reformed EU should look like. In a way, my impression is that the EU has treated the Brexit process rather separately from the EU reform process. My sense is that it sees Brexit as a technical issue and it maybe has not fully considered the strategic importance of Brexit. Certainly, in the public debates, that aspect has not featured very much: what Brexit means more strategically for the EU going forward, what its strategic relationship with the UK should be after it leaves.

At the moment, it has very much been contained as a technical issue. So far, most of the discussion has been about the withdrawal agreement, so quite technical issues: how to solve the Irish border question, what to do with citizens' rights, the financial settlement, and less about the bigger picture, what the future of EU should be and what future EU-UK relations should be. There is a bit more debate needed on that. Because those processes have been kept rather separate, I do not think there are a lot of spill-over effects from Brexit to the future of the EU reform process.

After the Brexit referendum, there was a lot of concern about a possible contagion or domino effect, and some people worried that similar referenda could take place in other member states, perhaps France or the Netherlands, but so far that has not really materialised at all. If you look at the rhetoric of populist Eurosceptic parties, they have toned it down a little. If you look at Marine Le Pen, for example, in France, in the French presidential elections she suddenly did not talk so much any more about leaving the euro and having a referendum on euro area membership, because of the way Brexit is going and the way it is perceived in continental Europe.

If anything, Brexit has rather had the opposite effect. Even if populist Eurosceptic parties do very well at the European Parliament elections, which is quite likely, the conclusion of EU leaders is not necessarily going to be that they have to make Brexit even harder, that they have to punish the UK or anything like that, because leaving the EU or the euro area is not something that a lot of Eurosceptic parties are really advocating for.

Sir Jonathan Faull: There is a sense that a new era is beginning, and therefore that an old era is coming to an end, and people are struggling to see where it goes. It is not very clear and these things take time, but Brexit is part of that, along with developments in the United States, Russia and China and in the economy. There is a sense that we have reached the end of a cycle. Coincidentally it is the end of a political cycle in Brussels, and therefore there will be a whole bunch of new Presidents and leaders of the institutions.

To answer your question a little earlier, Mr Benn, at least in the process of hearing Presidents-designate and Commissioners-designate, people



HOUSE OF COMMONS

making speeches and commitments, parliamentarians trying to tease positions out of them, we will know a lot more about what people want. It may not tell us a great deal more than we know already, but programmes for five years will have to be set out by the people who are going to be in charge of implementing them.

Q4122 **Chair:** Finally, and very quickly from me, will a British Commissioner be appointed?

Charles Grant: Yes. The treaties say that member states appoint Commissioners. It is a legal requirement on the British to do so.

Sir Jonathan Faull: There is a legal provision for a Commission smaller than one composed of nationals of all member states, but it has never been used. It would open a whole Pandora's box. The general assumption is that, if the United Kingdom is a member state, it has the full rights and obligations of a member state except for the article 50 procedure, which is very much specific about what it does and does not do. For all other purposes, it remains a member state.

Chair: That is really helpful. Thank you very much indeed.

Q4123 **Mr Bone:** Up until 29 March, most people in this country thought that the article 50 process meant we would leave on 29 March, whether there was a deal or not. The Prime Minister had vaguely talked, in public and private, about maybe extending for a few days or weeks if there was some technical reason, to get things signed off. That was the understanding, and it was also thought rather difficult to get the European Union to agree unanimously to any extension.

That has proved to be false. It was done exceptionally quickly by the Prime Minister going to Brussels and signing a letter. We now have a situation where we have got an extension, as I understand it, to 31 October, with relatively few conditions, as far as I can see, attached to that. The Prime Minister has gone and signed up to that, and we have had no vote or debate in Parliament on it. The Government changed the primary legislation so that we now have a negative SI procedure. We also learned recently, at the Liaison Committee, that when the Prime Minister said no deal was better than a bad deal she did not actually mean it. It was some abstract thought.

We know that the European Union now understands our position to be that we have to have a deal. We would never go along and say, "We want to come out on a no-deal basis". That is pretty clear. Of course, while we can say that, the European Union has in its power to grant an extension past 31 October if necessary. I suppose this is what I would like your view on. Given that we have such a weak hand in this, saying that we will never accept a no-deal situation, do you think there is a likelihood that the European Union will put conditions on any extension, and what would those conditions likely be?

Sir Jonathan Faull: So far, the discussion about conditions has revolved around the question from the EU to the United Kingdom: "What do you



HOUSE OF COMMONS

want an extension for, and what are you going to do during the period between now and the expiry of the extension you want?" As October becomes ever closer, unless the withdrawal agreement has been approved by then, that question will be asked again. As Charles Grant said, the EU position, which is likely to endure, is this: "We have agreed with the Government of the United Kingdom a withdrawal agreement and we are waiting for that to be approved by the British Parliament", by this House. "We have a political declaration, which can be discussed further, which talks about the possible future relationship to be negotiated once the United Kingdom has left".

All of that will remain the case after the summer if we are still in this position. Any discussion that will, no doubt, then emerge—"Was that extension long enough? Is more time needed?"—will give rise to the same questions again: "Why is more time needed? What do you want?" No doubt, the question would come back from the British Prime Minister to the European side: "What can you change to give us what we want?" Those are the debates that have been going on for a very long time already. You are quite right that the article 50 procedure was written on the basis that two years should be enough. Well, it turns out that it was not in this case.

Q4124 **Mr Bone:** The Prime Minister went and asked for an extension. Parliament asked her to ask for 30 June, and we finished up with 31 October somehow. There were no conditions. It was not like paying any extra money or having restrictions. Do you think we would just continue as a member in full, and they would not impose any additional conditions on us?

Sir Jonathan Faull: It depends how our rather strange continued membership in this period goes. It depends how all the individuals behave, to be honest, and whether a stable temporary relationship is established, which people can continue to live with while whatever decisions remain to be taken are debated and taken. If the relationship turns out to be a very difficult and rough one for whatever reason, perhaps conditions and duration of possible further extensions will become a hot issue again.

Q4125 **Mr Bone:** Could I ask your colleagues whether, if we got to that situation, they think the EU would ever say, "Sorry, that is it. You are going to come out on a certain date with no deal?"

Charles Grant: Yes. That is basically Mr Macron's view. If the British Government ask for a further extension in October, it is likely but not certain that the EU will agree. You just need one EU member state to say no. Before the last European Council in April, Mr Macron was saying that he wanted only a short extension. There are two separate issues here, which get confused.

One is the tactics used by the EU to bring this matter to a conclusion. There is a tactical difference between Mr Macron and most member



HOUSE OF COMMONS

states. Mr Macron says, "If you want to get the British to make up their minds, you have to show them the cliff edge approaching so they revoke, pass the withdrawal agreement, go for no deal or whatever. Get them to make up their mind". The other position, of Mrs Merkel, Donald Tusk and most member states, is that if you give them a very long extension—most of them want it to go until next spring—Eurosceptics in the UK will get scared that Brexit might not happen, and they will vote for the withdrawal agreement and pass it. There was a tactical difference between France and Germany, or between France and most member states, on this issue.

There is a quite separate division, which has similar memberships of each camp but not quite the same: "Should the British actually stay in the EU or not? Do we really want the British in the EU?" Mr Macron apparently takes the view, as do the Spanish and some others, that the EU might be better off without us, because we are infecting the EU with our weird Eurosceptic politics; we might send funny MEPs saying funny things to the European Parliament; we might disrupt EU business. Indeed, I am told, at the last European Council, nine Heads of State or Government cited a tweet by Mr Rees-Mogg here, where he more or less said—I cannot remember the exact words—"If we stay in the EU for a bit longer, we should cause trouble on the inside". They actually cited that.

There is a strong school of thought that the longer the British stay in, the more they can mess things up from the inside, and therefore they should not stay in too long at all. Others still hope, like Mr Tusk, for the British to change their mind in another referendum. While Mr Macron is very isolated in his view on the tactics of the extension, on the issue of whether the British really should stay in, he is not so isolated. For example, the Spanish were for a long extension, but as far I gather would quite happily see the British leave the EU.

Q4126 Mr Bone: Do you agree with that analysis?

Larissa Brunner: Yes, I mostly agree, although I am a bit less optimistic that the EU will automatically grant the UK another extension at the end of October. As Charles Grant said, you only need one single country voting against it, because you need unanimity for that in the European Council. It matters not only what countries think and whether they think there should be an extension, but also how strongly they feel about that issue. If you have one single country that feels very strongly that enough is enough, and that there has to be an end, whether it is for tactical reasons or whether it is because they do not want the UK to revoke article 50, even if you have a lot of countries that would be open to an extension but do not necessarily feel very strongly about that, it is very much conceivable that those countries will basically concede to the country that has a very strong opinion about it.

So far, the EU 27 have been remarkably good at maintaining unity and finding compromise and consensus, and I think preserving that at this stage of the negotiations is the main priority. If that means following the



one country that has a very strong opinion, that is something they might be willing to do.

As Charles Grant said, there was a divide at the last European Council meeting, but how the next few months play out is going to be quite important in shaping attitudes, because the EU told the UK that it should use the extension wisely. If there is the sense that this is not really happening, there might be more who might question the point of a further extension. There might be some people shifting from the tactical school of thought that you need to give the UK time to make a decision, to Macron's school of thought that the UK needs a cliff edge. It is going to be quite important how the coming months play out and whether there is the sense in the EU 27 that there is some progress. I do not think that another extension is a foregone conclusion at all. There is still the risk of a no-deal scenario.

Q4127 Stephen Kinnock: Good morning. I just wanted to drill down a bit further into what Charles was saying there about changing attitudes within the EU towards the United Kingdom. I am afraid I am going to put you all on the spot a bit to give us a sense of where the member states actually are. There is a view that Portugal, Ireland, Poland, Hungary and Donald Tusk want the UK to stay in the European Union. They would like the UK to either revoke or to have a referendum and remain, and all the rest want us out because we have become toxic, a virus in the European body politic. If we were to have a referendum and remain, potentially ending up with a hard-line Eurosceptic as Prime Minister, but within the European Union, at some point in the future, we would simply be back to where we are now, and that would potentially wreck the European project. I would be very grateful if you could give a sense of where the numbers are in the EU on that question.

Sir Jonathan Faull: There is bemusement, sometimes amusement, and people are fed up. Across Europe, certainly in institutional Brussels, this has gone on too long. This stable, rational, pragmatic country seems unrecognisable to many watching us. There is no going back, and certain things are irrevocable. There have been changes and we do not know where they will necessarily end up, but people have given up on the idea that people are going to wake up with this never having happened, article 50 will disappear and the UK will go back to what it was before, which was a sometimes awkward but largely constructive member state. The balance of power in Europe has been disrupted and will be considerably disrupted when we leave.

How it works out in practice—a Europe with France and Germany as, without the UK, the two remaining sides of what was the dominant triangle—we will have to see, but every single country is now thinking seriously, as we are moving, one way or another, into the final phase of this, about its future relations with this country and what that means for the way it thinks about its membership of the European Union. It is not as simple as a list of countries on one side and a list of countries on the



HOUSE OF COMMONS

other, because, yes, countries have a durable interest, but they also have a political shifts going on and there will be different views. These are all democracies being expressed.

There is still enormous sympathy for the predicament of Ireland in all this. The unity of the 27 has been remarkable, but to be honest we have made it very easy for them. Forgive me; I am going to talk about cricket for a minute. The bowling has been pretty easy for the batsman, the batsman being Brussels, because they have been able to say, maiden over after maiden over, "We are waiting for the British to tell us what they want". They are united around a solid, legal position, which they struck pretty early and have stuck to. There is some vindication in opinion polling that the contagion effect has not worked out as people feared, because we have made such a mess of it that Eurosceptical ardour has, in fact, diminished across European countries. It does not mean that Euroscepticism, populism or nationalism have gone away, but it means that people thinking about their national fate outside the euro, or outside the European Union altogether, are thinking a lot harder than they used to about what it would really mean in practice.

There is a debate behind the unity of the 27, and that debate will come to the surface even more as we move into the second phase of working out the future relations between this country and the European Union, and then as the rest of the European Union moves into a new phase with a different balance of power structures between its member states and the Brussels institutions.

Q4128 Stephen Kinnock: I was not able to pin you down to where the member states sit. I will just give my list again. Poland, Ireland, Hungary, Portugal and Donald Tusk are the only member states, and an individual, that want the United Kingdom to stay in the European Union. Ms Brunner, would you agree with that list?

Larissa Brunner: I would prefer not to be pinned down. I agree with Sir Jonathan Faull that it is quite difficult to give you a list with a set of countries on one side and a set of countries on the other side. Of your list, I would agree that Donald Tusk would probably like the UK to stay. It would of course make life much easier for Ireland. Regarding the other member states, there is a variety of opinions. It is not as straightforward as saying that, for example, Germany wants the UK out because, even within Germany, there are some people who would like the UK to change its mind and some who would probably prefer the UK to be out. There are quite a variety of opinions.

What matters is not only what the countries want but how strongly they feel about it. Would a country like Hungary really stand up to the other 26, fight for its position and use its political capital on the Brexit issue? I am not sure that Brexit is necessarily that important to most member states, with the big exception of Ireland, of course, and possibly France, because Macron seems quite invested in it in a very different way. Other than that, most member states have different concerns. Countries like



HOUSE OF COMMONS

Hungary and Poland have their own issues with the EU and, in that context and in the context of the rule of law questions, I am not sure they would spend a lot of political capital on Brexit, fighting for and defending a position that may go against the consensus. Even if countries would prefer the UK to stay in, I am not sure they would necessarily be passionate allies.

Charles Grant: I have heard a senior official cite the counties you have just named, Mr Kinnock, but I have heard another senior official say, "No, that is completely wrong. Apart from France, they almost all want to keep us in". The truth is that we do not actually know and they have not taken public positions. As Larissa has said, opinions are divided in, say, Germany, and there are different views from different people. Most of them have not had to take a public position.

What has changed in the last six months is that even those countries that would like to see the British stay are so fed up that they are not prepared to bend over backwards and pull out their fingers to help them stay that much. I would cite the position of Sweden. I believe the current position of the Swedish Government is this. On balance, they would like the British to stay, but they are so fed up with the inability of the British to make up their mind about what they want that the main priority now is to prevent this whole Brexit mess from contaminating and polluting the EU. "We must put the position and the interest of the EU first, and safeguard it from this potential pollution from the British. We would like you to stay, but what matters are the tactics of making sure this deal is sorted out one way or the other quite soon".

The Swedes had a little bit of sympathy for Macron on the length on the extension. They did not support him in the end but they had some sympathy for that reason. The prevalent view of most member states now is "get this sorted", whether or not they want the British to stay. Many of them do not take strong views on that.

Q4129 Stephen Kinnock: One of the arguments we hear from those who are campaigning for a second referendum or to revoke is that the United Kingdom could then be within the European Union, leading the reform of the European Union and leading a new strategic direction for the EU. Given the events we have seen since June 2016, how would you rate the chances of the UK remaining in the EU and leading reform?

Sir Jonathan Faull: There have been previous attempts to place the United Kingdom at the heart of Europe in a leading position, with mixed results. I do not say that sarcastically. The UK has had a profound impact on the politics and direction of the European Union. As I said earlier, as an awkward but constructive member state, it has done that and done it reasonably effectively.

If the things you describe, Mr Kinnock, came to pass and the United Kingdom somehow remained a member state, one constructive path for it to pursue would no doubt be to say, "We have learnt a great deal from



HOUSE OF COMMONS

the extraordinary process we have been through in this country, and have come to some conclusions or ideas about the way in which the European Union should change and operate differently”.

There may well be positive echoes from around Europe. We are not the only Eurosceptic country in Europe. We had perhaps the biggest cocktail of difficulties, resentments, misunderstandings and hostilities because of history, geography and all sorts of other things. But, if you take each individual ingredient in that cocktail, you will find other countries across Europe with similar concerns, so adroit leadership could indeed, in what I think are very unlikely circumstances, allow the United Kingdom to take something positive from this experience and help the European Union move forward.

Q4130 Stephen Kinnock: Ms Brunner, I wonder if you agree with that. For example, let us take President Macron’s open letter, which he published in a range of newspapers, where he set out key directions for what he thinks about the reform of the European Union, which is very much about deepening EU integration, defending our liberty, protecting our continent and rediscovering the spirit of progress. Is it remotely realistic, given what we have seen from this country and in this country since 2016, that this country would somehow remain in the European Union and team up with President Macron to drive that reform agenda forward?

Larissa Brunner: Based on what we have seen since June 2016, to me, it would seem rather unlikely. Based on the past three years, it seems to me that the priorities of the UK would be elsewhere, for example on limiting free movement somehow. From Macron’s perspective and the perspective of many other member states, that would undermine the four freedoms and the integrity of the single market. It would seem to me that the priorities of the UK might be to explore more options for membership, and a concept of differentiated integration might come into play there: this idea that there should be something in between membership and non-membership, that there should be different models that allow countries to take part in some part of the EU architecture and not in others. To me, that would seem a more likely direction for the UK to focus its reform efforts on.

It is also worth saying that Macron’s proposals are quite controversial among a lot of EU member states. He has not quite got the reception that he may have hoped for, especially from Germany, which has been rather lukewarm. In the end, reform processes in the EU are very often slow steps. They are often driven by necessity and different crises. In a way, it is integration by accident or integration through crisis. You have a crisis and then you have to come up with a solution. Because it is sometimes easier and more effective to come up with an EU-wide solution than 27 or 28 national solutions, you go for the EU-wide solution and then you have integrated a bit further by accident.

That is quite often the way that EU integration functions. It usually does not function according to this grand master plan. I am not sure to what



HOUSE OF COMMONS

extent the UK, in moments of crisis, would be willing to support EU-wide solutions.

Stephen Kinnock: Thanks very much. Charles, I do not know if you want to add a final word to that.

Charles Grant: I would like to add a couple of points. I am a little more pessimistic than Sir Jonathan about Britain's ability to lead a reform process in the EU, because Britain's reputation, its soft power, has been so damaged. Whatever the outcome of the Brexit process, people just take Britain less seriously than they did. We would have to stand on the naughty step for a couple of years before we had as much influence as we used to have. In the past, we had a lot of influence on enlargement, trade issues, single market issues and foreign and defence policy, and in the long run we could have influence on those areas again, because the north European free-trading countries look to Britain for leadership on those areas. Because the British are leaving, the Dutch have set up a new alliance, a so-called new Hanseatic League, to campaign for these issues in the absence of Britain.

Strangely, although Macron wants a more integrated Europe, we are an obvious ally for him in achieving some of his vision, because his fundamental view is that he wants this integration, variable geometry or concentric circles, as Larissa differentiated it. He wants the eurozone to integrate significantly and he thinks it cannot survive in a healthy way without a lot more centralisation of decision-making, and he may be right for that reason. He also says that countries should not have to join the euro if they do not wish to. Let there be a second circle of countries in the single market with no commitment to join the euro, and then a third circle for countries such as Britain, Montenegro, Moldova and Macedonia, which want a close relationship with the EU but do not want to be full members.

If Britain decides to stay in the EU, we would be an ally for Macron in looking for that concentric circle model, with Britain not being obliged to join all the circles. He does not have a lot of allies in that at the moment. I think the Spanish and the Belgians are allies; the Germans are rather sceptical about it. The Poles and the Hungarians are strongly opposed because they think they would be made second-class citizens of the EU. Potentially, there could be a convergence of interest between the Macron vision and the British one, if it decided to stay in the EU.

Q4131 **Sammy Wilson:** I come back to an earlier answer that you gave, Mr Grant, about the potential for the United Kingdom to be a disruptive force while it remains a member, as a result of either direct policy—you have mentioned the tweet from Jacob Rees-Mogg—or simply Britain doing what Britain has always done in Europe, which has been that it does not wish to see further integration or deepening of the European institutions. Either way, is there a disruptive potential there, for example, when it comes to budget negotiations? If you look at the plans the Commission has for deepening Europe—whether it is protective Europe, competitive



HOUSE OF COMMONS

Europe, fair Europe, sustainable Europe or influential Europe—all of that will involve more European interference, European-generated laws and European spending. Is there a potential there for the British Government, even pursuing what the normal policy of the UK Government would have been in European affairs, to be disruptive in the future? If that is the case, what actions can Europe take to prevent that kind of disruption?

Charles Grant: I would argue that the potential for disruption is more about style, mood music and rhetoric, and less about substance. Some of the top officials in the EU got together to ask, "If we grant an extension to the British until next spring, what potentially could they do to put a spanner in the works?" The answer was not much. There is not a lot of key legislation going through that requires unanimity. The annual budget is approved by majority vote, so the British cannot block that. They can block the big seven-year budget cycle, called the multi-annual financial framework, but that is not going to be approved and need approval of members until probably next spring or more likely the summer. Until then, the British cannot too much damage there. The one answer they came up with was the Ukrainian sanction renewal every six months, the sanctions against Russia because of Ukraine. The British have the potential to block that, but they would not block that because the British generally take a pretty tough line on Russia.

Some of these top officials thought, "There is a limit to the damage they can do on the substance". That is why the line of many Governments was "let the British have an extension until next spring". The current line of some very senior Commission officials is "give them an extension until June 2020 but not beyond". Beyond that, we would have the multi-annual financial framework being approved and the British could perhaps disrupt that significantly if they wished to. The disruption that people really fear is the disruption of rhetoric and having a British Prime Minister or British MEPs going around shouting, screaming and being impolite. That is what they fear more than vetoing legislation.

Q4132 **Sammy Wilson:** The willingness to grant a longer extension is more likely to be influenced by the potential that the UK could have, either deliberately or simply by following the policy that we would always have been following anyway.

Charles Grant: They can live with the behaviour of the British Governments over the years, and they did learn to live with it. Although the British blocked integration, you are quite right; we are actually quite constructive in many other areas, like building the single market. I agree with what Larissa said earlier, that come 31 October the EU will probably have to consider whether to grant a further extension. If the British are perceived as having been very disruptive in the preceding months, particularly at the level of rhetoric, as Larissa says, one or two member states may say, "That is enough; ça suffit. Let us block a further extension". If the British are perceived to have behaved in a more constructive way, it will be harder for Mr Macron or others to say, "Let us not grant them an extension".



Q4133 **Sammy Wilson:** Apart from not granting an extension, what other actions can the EU take if it perceives that Britain is being unnecessarily disruptive?

Charles Grant: There is not a lot you can do. The Wightman ruling—and Sir Jonathan Faull will know more about this than I do, being a lawyer—said that, if a country wants to revoke article 50, it can do so unilaterally. Relating to that, the ECJ said, “But so long as they remain a member state they have all the privileges and obligations of a member state”. The French idea that, if we want an extension, we should not have a Commissioner or we should be excluded from some meetings does not work legally. So long as we are a member state, there is a limit to the conditions they can put on our continued membership.

Sir Jonathan Faull: There are various types of disruption. There is rhetorical disruption; there is breaking the law. If the disruption takes the form of breaking the law, the European Union has legal mechanisms, including fining mechanisms, at the end of the day, if a member state persistently fails to meet its obligations. As a member state, it would continue to have rights and obligations, rights certainly, but obligations too. The system would break down if you go right to the very end of that process and the United Kingdom takes disruption to the extreme and says, “I am simply not going to obey your judgments; I am not going to pay your fines”, but then you become an outlaw in the international community. That is a decision to be made. I hope nobody goes anywhere near that.

Q4134 **Sammy Wilson:** One other factor that is bound to influence any further extensions is the challenges that the EU is facing at present. Could you maybe outline what you see as the main challenges that the EU has to address at present, and how continued UK membership or continued discussions about withdrawing and our exit from Europe are likely to impact on Europe’s ability to face up to those challenges?

Charles Grant: To list them very briefly, there is the possibility for trade war against the United States. The EU is rather divided on how to handle Trump’s threats to impose tariffs on car exports. That issue is dividing the EU and it is a very serious matter indeed. There are the article 7 rule of law issues between the EU and Poland, Hungary and other central European countries, and the EU’s apparent inability to persuade Poland and Hungary to do very much to improve their respect of the rule of law.

There is the migration crisis, which is in abeyance, but has not been solved on a long-term basis. There are fewer refugees and illegal immigrants flowing into the EU than before, but that is because of contingent factors that may not endure forever, like the deal between Turkey and the EU, and the situation in Libya. There is the eurozone crisis, which as President Macron rightly argues is having a rest for now but will come back at some point and bite the EU very badly unless fundamental reforms are made to the eurozone. Those are issues that worry member state Governments more than Brexit in many respects.



HOUSE OF COMMONS

Q4135 Sammy Wilson: In the view of the panel, how important do you see closing down the whole Brexit issue as being for the EU, in light of the other challenges? How much time, energy or attention is it absorbing and taking away from those issues?

Sir Jonathan Faull: It would obviously free time for leaders and the administrators to deal with those issues. They are spending a great deal of time on this. On the other hand, it does not really answer the question: "What do we do when the British have left". Mr Kinnock has left, but to him I would say it is everybody's view, in all the member states, that these are all issues that require European attention. These are issues that individual countries can better face together than alone. The United Kingdom's departure would take out a very powerful voice in the world on all those issues, where, as Charles said, the UK has had a considerable influence over the years. They will have to regroup without the UK. They will be watching what the UK does alone on these issues, and I hope interacting intelligently with it, but it will be a different European Union, facing the same problems requiring continental scale and scope, which is why the European Union was created in the first place, and there will be a gap, because we will have left.

Q4136 Mr Djanogly: I think it was Mr Grant who said that, if there was an influx of anti-EU parties coming in, it would not have much of an impact on Brexit at all. Can I just extend that? Outside of Brexit, do you think a big influx of ultra-nationalist parties would have a political impact on the EU, or, more fundamentally, would it have an impact on the institutions of the EU?

Charles Grant: I think it will change the mood, rather than the substance. My own view is that European integration is essentially dead, in the sense that we have had it from the Single European Act until the Lisbon Treaty, one treaty after another every five years or so, giving more power to the institutions. That sort of integration is not going to happen, possibly, ever again because the difficulty of getting a new treaty through ratification in 27 member states is just too great. Many of those member states—or four or five of them—would hold referendums, and we would all guess what some of the results would be. That form of integration, I think, is more or less finished, and the European elections will remind people of that fact.

Another impact of the elections will be that, if the right-wing nationalists do well, centre-right parties will become more right wing, a bit more populist and nationalist. We have seen this in Spain, and it did not the Spanish PP much good. We have seen it in France, and it may not do them much good. We have seen it in the Netherlands, Denmark and Austria, where a number of centre-right parties are becoming a bit less centre and a bit more right, and that will be one impact of the elections. There is the issue of Commissioners. Italy is a country we have not mentioned yet, but Italy is almost the biggest headache for many EU bureaucrats on the eurozone issue, because it is going to break the budget rules, and it has very strong views on the migration issue. Italy



may try to appoint a Commissioner who is not a great believer in European integration—let us put it that way—and other countries may do the same. That could potentially cause problems, although most member states will appoint mainstream Commissioners.

Q4137 Mr Djanogly: Sir Jonathan, this is a political impact we are talking about so far. Could there be an institutional impact? Could these people undermine the Union at all?

Sir Jonathan Faull: They are there already. The European Parliament already has a reasonably large contingent of Eurosceptics, populists, nationalists and so on. It will be bigger but, as we all said earlier, the most likely outcome of the elections is that there will be a stable coalition between traditional parties, the European People's Party, the Socialists and Democrats, plus perhaps liberals and Greens, depending on the coalition discussions. The Governments are Governments and remain in place, and it is the Government and the leadership of the European Parliament that will end up designating and approving Commissioners and Presidents in all these institutions.

The rhetoric and mood may change, and the reluctance to reopen treaties may remain, but I do not think this will lead to radical change. After all, radical change probably requires treaty change anyway, which opens a whole Pandora's box, as Charles says, of ratification processes. It was part of the story of the pre-referendum negotiations between the European Union and this country, where treaty change was ruled out as impractical because it could not be done in time, which limits the scope of what can be done, but that is the way things are at the moment.

The treaties will remain as they are. The leadership is likely to come from orthodox, traditional parties in the European countries. There is a big question mark about Italy, where the Government have evinced the traditional parties in that country; we will see. People have to be designated approved and given jobs and, as I think we are all saying in different ways, an era has come to an end and Brexit is part of that coming to an end. Whatever the outcome of the current Brexit turmoil, it is going to be different, but it will become different slowly.

Q4138 Mr Djanogly: We have been concentrating on the implications of this from the UK perspective, in respect of the terms of our withdrawal, but can I just clarify that you also think that there will not be implications in terms of negotiations for our future relationship?

Larissa Brunner: Do you mean the rise of Eurosceptic parties?

Mr Djanogly: Yes.

Larissa Brunner: Ah, okay. I am not sure it will have a lot of implications because, as we said earlier, the European Parliament will have to agree the political declaration, it will have to agree any eventual deal, but if it is recommended then it will probably do so. In that case, I



HOUSE OF COMMONS

would not really expect a lot of resistance from the European Parliament to whatever the future EU-UK relationship is going to look like.

Again, I do not really buy into this idea that a rise of Eurosceptic parties would create a sense among EU leaders that they have to be tough on the UK and somehow punish the UK. Certainly from the EU 27 perspective, it looks like that is not really needed because of the disarray in the UK, so, in a way, the UK is already doing quite a good job at punishing itself, if I may phrase it that way. But it could still impact co-operation a little bit if there is greater pressure in the member states to consider other models of integration. For example, to consider more models of differentiated integration, which goes back to what Charles Grant said about different visions of reform for the EU. If there is greater pressure within certain member states to look at, for example, concentric circles, to look at options that are somewhere between full membership and non-membership, then possibly that could make the EU a bit more willing to consider those options.

Q4139 Mr Djanogly: You are saying that an extreme nationalist group may be more in favour of concentric circles.

Larissa Brunner: Not necessarily, but if, in a given country, there are Eurosceptic parties that are advocating for something less than EU membership and are very successful, that could pull other mainstream parties in that direction. Therefore, that country might become a bit more willing to consider such options.

Q4140 Mr Djanogly: On a slightly different tack, who would you say are likely to be the frontrunners for the next Commission President and which would be the most favourable in the UK's interest?

Larissa Brunner: It is very difficult to say. I am not sure whether the Spitzenkandidaten process is going to survive. There is a lot of scepticism about it; Emmanuel Macron does not support it. If we assume that the European People's Party is going to become the largest group, according to the Spitzenkandidat process Manfred Weber should become the next European Commission President, but what does not work in his favour is that he is German. As I said before, there are already quite a number of Germans in high-level jobs, so that could be politically a bit difficult. He is also not very well known outside the Brussels bubble. He has never really held high office; he has never been a Head of Government or Head of State.

Q4141 Mr Djanogly: How does he view the UK?

Larissa Brunner: I have not seen many comments from him on Brexit and the UK. I am not sure that is a priority for him at the moment and something that he has very strong opinions on.

Q4142 Mr Djanogly: Is that a concern, Sir Jonathan, that it is not a priority for him at the moment?



Sir Jonathan Faull: It reflects reality. It is not the all-consuming issue on the other side of the channel that it has become here. It has been very easy for people to slot in behind generalities: "We support Mr Barnier, who is doing a grand job. We have done the agreement and we should all be congratulated for having an agreement. It is now up to the British to approve it in accordance with their own constitutional arrangements and we are waiting for that to happen". We have made life very easy again for continental politicians, who do not have to have strong positions. They can simply echo platitudes: "It has all gone very well on our side and it is a pity the British are not up to the task" or something like that. It does not help very much, but it is a very prevalent view; it is embarrassing.

Charles Grant: I cannot answer your question directly, but on my last visit to Brussels, last week, the names I heard most mentioned were Weber, Vestager, who is another Spitzenkandidat for the liberal ALDE group, Barnier, who is not a Spitzenkandidat but is a strong contender, Merkel, Lagarde and Rutte. Rutte is talked of as Council President and as Commission President. In terms of what is good for Britain, Vestager, Merkel, Lagarde and Rutte, all being economically liberal, to some degree or other, and quite sensible people, as far as I can see, would be relatively good for Britain.

Sir Jonathan Faull: A footnote on the Spitzenkandidat thing is that you have not mentioned Mr Timmermans, who is the Dutch socialist Spitzenkandidat, First Vice-President of the Commission. If the Labour Party does reasonably well in the elections and, therefore, boosts the socialist group in the European Parliament, if the Hungarian Fidesz party leaves the European People's Party, the socialists and democrats, according to opinion poll projections, are not very far behind the EPP in the race to have the largest number of members. So there could be, albeit indirect, a rather considerable British influence if the Spitzenkandidat thing holds up, and there is no reason why it should or should not at this stage. It is part of a great politically correct matrix of big/small, east/west, north/south, old/new, gender balance.

There are a number of big jobs open at the same time and the Commission President is a big one among them, but it is part of that matrix. There used to be a tradition, as Charles said, and still is, that you have to be a former Prime Minister to be a member of the Commission. Since Jacques Delors, they all have been, but that is only a convention and there is no need to do it; Mr Weber has not even been a Minister.

The reason for that view, by the way, is that the President of the European Commission is a member of the European Council and attends the European Council meetings. Therefore, it helps that he has been a member of the European Council in his or her previous capacity, because he or she will know the people, the way the place works and so on, but it does not have to be followed.



Q4143 Mr McFadden: Good morning, everybody. Charles, I want to start with something you mentioned about 20 minutes ago, which is the possibility of a further extension. I want to ask you all a couple of questions about the next phase of this. Since the beginning, the EU was quite clear—or you could say rigid—that this had to be done in parts: that you would have the withdrawal agreement first and then the future would only be negotiated after the UK had already left. We are told this is what the treaty says, so this is how it has to be. The obvious problem with that is that it forces everyone, in a way, into something of a blindfold Brexit situation, because the future is not clear until the UK has already left.

If we are in a world of extensions now—and we have already had two small ones—is there not a logic to say that this transition period, which has been talked of now for a couple of years and is set down in the current draft agreement, should be used to negotiate the future while the UK is still a member? In terms of rules and obligations on the UK, there is no difference at all between the two. The only difference is that the UK loses its seat in the decision-making fora during that period. Is there any prospect, if the UK comes back and applies for a further extension, in October, that the process might be recast, in any way, like that?

Charles Grant: I have not heard that mooted, but it is an interesting question. I have heard it said at a senior level that, although we say—we being the EU—that the withdrawal agreement is immutable and we will not change one dot or comma, in fact, the more these extensions continue the more it will have to be changed in certain respects. Not the Irish backstop, but all the provisions for money will need to be reopened, because if Britain stays in longer the budget issues come to the fore. Also, all the arrangements for the transition might need to be rewritten or at least extended. The withdrawal agreement will have to be renegotiated, to some degree, if the extensions continue probably beyond October, but I have not heard people suggesting that the sequencing be changed in the way you suggest.

Q4144 Mr McFadden: Do you have any thoughts on that?

Larissa Brunner: I do not think it is a completely blindfolded Brexit. Let us not forget that there is the political declaration on the future relationship. Of course, it is not legally binding so it could be changed and, at the moment, it is quite vague, but my sense is that the EU would be willing to make it more precise. If the UK decided that it wanted to go for a specific model, whether it is closer to the Norway-plus relationship, the Canada-plus relationship or something in between, my sense is that the EU would be quite willing to expand the political declaration and put in a clearer vision of what the future EU-UK relationship would look like. From the EU's perspective, that would probably be preferable to extending, because any further very long extensions would come with a number of risks for the EU that we have already talked about. If the UK wanted to change the political declaration, that might be welcomed in the EU.



HOUSE OF COMMONS

Q4145 **Mr McFadden:** Sir Jonathan, on this phrase “blindfold Brexit”, people have looked at this political declaration and described it thus. Do you think it is really all still open and up for grabs, or can you see, reading those 20-odd pages or whatever we ended up with, what the future is going to look like?

Sir Jonathan Faull: I agree with what has been said. A lot of work could be done on the political declaration if the political will were harnessed on both sides, but this country still has to answer the question: “What do you want?” They will go back to the very beginning and say, “We hear about taking back control. We hear that the Irish border has to remain open. We hear that the Irish border is no different from other British borders with the European Union because of the territorial integrity of the European Union. How do you square those various circles in your future relationship with us?” That is an important starting point. It is not an artificial one, as has been suggested from time to time. It was clearly coming from the very beginning; a lot of people chose to ignore it. We have to go back to that and all the other issues.

The 27 will say, I think, “We are willing to start within the bounds of article 50, but there are ways of making progress on the framework of the future relationship”, but we have not got beyond Mr Barnier saying, “These are the things on my shelf; which one do you want?” and the UK saying, “Well, it is more complicated than that. It will have to be something different and sui generis”. That engagement has not happened yet. Here we are, beyond two years. It could have been discussed but it has suited people over there to say, “We are waiting for the British to make the first shot”, as the French say. It is convenient for everybody to park this issue while waiting for London to sort itself out. That is not very helpful.

Q4146 **Mr McFadden:** That is what I am driving at, in a way. If we are in this world of at least two small extensions now, between now and October, this period should be used to give everybody, on both sides of the channel, greater clarity about what the future holds. In a sort of mechanics way, this was done with the Commission in the driving seat, Mr Barnier very much in charge. The mantra from the member states was that they were behind a unified position, and it stayed a unified position all throughout phase 1. If we get into phase 2 of this and the question you have just posed about what kind of relationship you want on that Barnier stairway of different flags or something else outwith that, do you think that that structure will stay the same; the Commission will be in charge; there will be unity behind that or, because this is where you really get to the commercial interests of different member states and so on, do you think we are looking at a more open and fluid process when it comes to negotiating the future?

Sir Jonathan Faull: It will need considerable forceful leadership to break it open, because that is the rut we are stuck in. It is the rut we were stuck in from the day after the referendum, where the road not taken was to say, “We had a referendum. This is a major political event in



HOUSE OF COMMONS

European politics. Let us sit down and talk about the future". The mantra from Brussels immediately was to say, "article 50 has to be used. That is what it is there for. You wanted it, by the way, HMG. You wrote it in", so the line was "no negotiation without notification". That went out from Brussels and the line held in all 27 countries. British ambassadors, the Prime Minister, Ministers, no doubt, went to European capitals and were received politely and told, "You remember article 50. That is what you have to do. Go to Brussels, please".

Meanwhile, back here, we had the resignation of the Prime Minister. We had a new Prime Minister, who said, "Brexit means Brexit" and was under enormous pressure to make the article 50 notification as quickly as possible.

On both sides, we all rushed into this process and it proved unworkable, because we could not do it in two years. Should we have known all that we know now? Probably not. It seemed a long time at the beginning, but it was not. But the real debate, frankly, has not even started about the future relationship between this country and its continent. Given the state of the rest of the world, that is a very serious failing. Whether time can be found within the bounds of the language of article 50, within the scope of extensions, to have that debate now, we do not know, but it needs to start. It should have started some time ago and it needs to start pretty soon.

Q4147 Mr McFadden: In the article 50 letter the Prime Minister sent triggering the clause, I think I am right in saying that, four times, the UK Government said it was their position that negotiations on the future should take place alongside the negotiations on the divorce. Do you think it was a mistake for the EU to be so rigid about saying no to that?

Sir Jonathan Faull: Well, "alongside" happened, in the sense that the political declaration was under discussion at the same time as the withdrawal agreement. The political declaration had to bear the weight of the future relationship and the very rigorous lawyers all said, "We cannot have trade negotiations with a member state. We have to wait until it is a foreign country before we have trade negotiations". That is technically true, but you can have all sorts of scoping and pre-negotiation discussions about the future.

Then history turned out to be what it was: the Irish backstop became a big issue; there was a general election. We know what happened in the general election; we know the makeup of this House. It all became very difficult and the result of that is that we have not had the conversation, as far as I can see, about what the future trading relationship is going to be. There is no consensus here, again, as far as I can see, and I live there, and they have not yet had to begin to develop a consensus, because they have been in the comfortable position of saying, "We are waiting for the British".

Q4148 Mr McFadden: Do you have anything to add on this? How do we get



clarity on the future and how do we use the extension period to do that?

Larissa Brunner: I really agree with Sir Jonathan Faull. The EU has been in a relatively easy position. I also think that the sequencing approach made sense, from the EU's perspective, at the time, because, in a way, it weakened the UK's negotiating hand and it put the UK under a lot of time pressure.

At the beginning of the Brexit process, there was a lot of concern about the EU 27 not being able to preserve and maintain unity, and about possible divisions among the EU 27. One key objective of the EU 27 has been to preserve this unity and, from that perspective, it makes sense to turn the whole Brexit process into something very technical; take the big political question and break it down into a lot of very technical sub-topics. That is probably one of the factors that helped maintain the EU 27's unity so, from that perspective, it makes sense.

The problem is, as Sir Jonathan Faull said, there is still this bigger political question to be asked, which has not been asked yet. There has not been a lot of debate in the EU about what the longer term EU-UK relationship should look like, also considering the many challenges the EU faces. To the list Charles Grant mentioned earlier, I would add the EU's external relations: its relationship with the US, where the UK has traditionally served as a bridge; its relationship with Russia, where the departure of the UK may also be felt within the EU, as the UK is one of the voices calling for a tougher approach; the relationship with China.

In that context, it is really important for the EU to define its future relationship with the UK and make sure that Europe—and by that I mean the continent—can continue to speak with one voice, such that you do not have the EU saying one thing and the UK saying another. That bigger political question really needs to be asked very soon.

Charles Grant: It may have been a mistake, perhaps, for the EU to insist on its hard line on the sequencing. Lord John Kerr, who wrote article 50, says that his interpretation of article 50 is that you should negotiate both at the same time. In a way, it is an academic question, because the UK took two years to work out roughly what it wanted from a future relationship in the Chequers plan of June last year. In a sense, we may blame the EU for imposing the sequencing on us, but we were not really capable of coming up with any plan of our own.

Also, as Larissa says, the EU itself is probably more likely to be divided on phase 2 of the negotiations than it was on phase 1. The interests of the 27 are quite divergent on the future relationship and it will be hard for them to work out a common line very quickly.

Q4149 **Mr Whittingdale:** First, can I go back to what Mr Grant said earlier? You said that you thought the prospect of further integration was pretty much dead. Is that widely recognised in the Commission, because it does not seem to have dawned on Mr Juncker, for instance, recently?



Charles Grant: No, it is not widely recognised. There are still some federalists in the EU—mostly in the European Commission and the European Parliament, but only one or two Governments, like Belgium and, in some ways, the French Government, although France has a rather particular view on this—who believe that the future is much more integration. The Commission takes the view that everybody should integrate together and everybody should be forced to comply with the view that there should be much more integration, on the eurozone and other areas too, majority voting on foreign policy for example. Most member states do not take that view. What is rather unique about Macron's view is that he wants to integrate, but only with a smaller number. He wants the eurozone to become an entity in its own right, a smaller, tightknit group. He also wants the Schengen area to become smaller too, by kicking out Poland and Hungary. That is another story.

There has not been widespread recognition in the institutions that EU integration is dead, but the European elections will, perhaps, lead to some recognition of what is just the reality: that most Governments, most electorates and most national Parliaments in the EU do not wish to see a transfer of a lot of powers to these central institutions.

For pragmatic reasons, like keeping the eurozone afloat, there may require small treaties among eurozone members, which we have had a few of already in the last few years: not big 27 countries getting together for a flagship Maastricht treaty type event, but a small intergovernmental treaty of the size we had for the European stability mechanism, for example. There will be a few of these smaller ones done as and when is necessary, but there is an awful lot you can do within the existing treaties. When I say, "European integration is dead", I mean that the treaty-based integration is dead. There is a lot you can integrate through laws. The European arrest warrant was not in a treaty. Sir Jonathan helped to negotiate it. It was just a law passed to allow rather strong powers to be given to the EU for mutual recognition of extradition procedures. There is a lot you can do without treaties and there may be more integration in that respect.

Q4150 **Mr Whittingdale:** Do you see a kind of variable geometry coming about as a result of groupings within the EU deciding to go further without necessarily having to get the agreement of other member states?

Charles Grant: Treaties do allow variable geometry and so-called enhanced co-operation already with smaller groups, but you do have to get the approval of the others to do it. I suppose you could conceivably have countries doing things together without getting the others' approval, but that would be quite a radical step forward.

Sir Jonathan Faull: I agree with what Charles has said, but it depends on what you mean by "European integration". If you mean a grand treaty signed by kings, queens, presidents and so on, yes, we are in for a period where we will not have much of that. Will there be further steps that people can describe as European integration? Of course there will. The



HOUSE OF COMMONS

general sense—and this is way beyond Brussels—is that, on the euro, on Schengen, we have played a first half, cannot go back, but have to move forward and the more difficult second half is ahead of us. The euro, wonderful thing, in my pocket, comes out of a machine and people have got used to it, but managing it collectively in economic and fiscal policy terms is extraordinarily difficult. That is a big challenge, but attempts will be made, some of which will succeed, to do that.

It is the same with Schengen. Getting rid of the internal borders people have got used to. Managing the external borders together requires solidarity, money, an understanding that the borders of the landlocked countries are, in fact, in the Mediterranean and elsewhere. That is all very hard, but efforts will continue to be made, again, some of which will be successful, to move forward.

As for addressing climate issues, regulating the new digital economy, a lot of that will continue to happen in Brussels. Financial regulation will continue to happen in Brussels and the steps made can be described as further integration, if you want to. But I agree: large-scale set piece treaties, grandiloquent usually, are unlikely to be seen for a while.

Q4151 Mr Whittingdale: It has been argued, in the past, by a number of people in Europe that if the single currency is to be sustained it is going to require further integration, in terms of fiscal, centralised agreement. From what you are saying, the countries that are in favour of moving towards integration are unlikely to be those that probably require that kind of direction in terms of fiscal policy. How does that square? Is there still an ambition to extend the Commission's power in terms of oversight of budgetary policy against all member states and how could that be achieved if it were not by a treaty?

Sir Jonathan Faull: It does not necessarily have to be the Commission. The Commission will want it to be the Commission. It is there; it is equipped; it is resourced for it, but people sometimes invent other institutions or other ways of doing things. The overwhelming political interest in continuing to make progress is usually only really present after a crisis, unfortunately, and that will continue to be the case. How you do it institutionally, if you have to work within the framework of the existing treaties because a big treaty change is not in the offing, is technically difficult, but I spent many years negotiating what is called the banking union for banking supervision and resolution following the financial crisis in 2007-08, and it can be done. It may be imperfect, some of it has not been tested yet and I hope it is not for a very long time, because that would mean another crisis, but the European treaties as they stand today, and the law-making powers of the European institutions, already provide considerable means of dealing with new issues as they arise.

I think we are saying the same thing, Charles and I: what look like small steps of further European integration will continue to be made, if you want to call them European integration, because the need for them is there and the means for doing them will be there. The politics will change



HOUSE OF COMMONS

with Brexit, different majorities, different balances, but there is very little appetite for grand institutional development.

Q4152 Mr Whittingdale: Can I ask one separate question? This Committee has met, on a number of occasions now, both Michel Barnier and Guy Verhofstadt and, indeed, recently, Martin Selmayr. In all our conversations, they have been very amicable. There has been a note of sadness at the decision that the UK has made to leave, but nevertheless an assurance that we wish to remain close partners and friends. I do not know if you have seen the reports of the BBC documentary being broadcast tonight, which is the inside account of some of those on the other side of the negotiating table. Have you seen those? It shows Mr Verhofstadt's staff calling the Prime Minister "pathetic" and "insane", and then going on to use very strong language about, particularly, members of my party who support Brexit.

It has led to an editorial by the *Sun* in typically robust language about Mr Verhofstadt particularly, and others. This gives an impression that, whereas these divorce proceedings started out relatively amicably, with a wish for both sides to reach a mutually satisfactory agreement, they are becoming increasingly acrimonious and this programme is certainly going to add to that. I just wonder how you view the process. We know that Mr Verhofstadt and Mr Barnier read the British press. How is this going to influence the negotiations if this level of acrimony has crept in?

Sir Jonathan Faull: I certainly know Mr Barnier well and I would be very surprised if he were anything but impeccably polite and courteous; he always is.

Q4153 Mr Whittingdale: I do not expect him to be rude back. I am asking whether this is going to allow us to continue to make progress in negotiation if both sides are so entrenched.

Sir Jonathan Faull: It is regrettable but not surprising that two years and counting of a very difficult process should leave people irritated and, perhaps thinking they were off the record, saying things that they should not say. Politics—I do not need to tell you: you are the politicians; I am not—can be a robust business, but I think the overwhelming sentiment is still one of sadness and regret that this has happened, plus a certain amount of soul searching about what could have been done to avoid it and a very strong desire that relationships be recreated on an even keel, because the European Union and the United Kingdom are destined to live next to each other and have a great deal in common. Britain is a European country, after all. We have said this before today. The sooner we can get on to that, the better, but we are stuck in a rut at the moment.

Larissa Brunner: I agree.

Charles Grant: Mr Verhofstadt is not one of the key players in the Brexit negotiations; that is the first point to make. He thinks he is. He is one of the Parliament spokesmen on Brexit, the key spokesman, but he does not



HOUSE OF COMMONS

run the negotiations. The negotiations have been relatively amicable, in most respects. There is a great deal of respect for British officials on the EU side, for their technical competence. There is quite a lot of hostility to the political class across all parties, because there is a feeling that the British political class just do not know enough about how the EU works, that they failed to come clean to the British people about the trade-offs involved in Brexit and what the realities are. The fact that British politicians keep coming back to the so-called Malthouse compromise again and again, although the EU says it is quite unacceptable, is, on the EU side, seen as an example of the British political class failing to accept reality and that has created some hostility towards the British political class.

Q4154 Stephen Crabb: Can I return to the panel's remarks in response to one of Pat McFadden's earlier questions? You all spoke about the need for an honest debate and discussion about the future relationship and the choices that will need to be made. In the absence of that honest debate, and given how divided and constrained our body politic is and is likely to continue to be, which will prevent us taking some of these hard decisions in future, do you think it is a perfectly likely outcome that we move into a new steady state in terms of our relationship and membership of the EU, where there are successive extensions; it becomes a rolling extension; we carry on as a member of the EU with one hand on the door handle of the exit door, but with a diminishing likelihood of ever walking out of it?

Sir Jonathan Faull: No. That is not sustainable over a long period of time. The EU likes to operate, and probably has to because of its nature, in neat categories of what people are doing and how they are doing it under the law. To create that half in, half out, not very steady-state relationship would be very disruptive for the way the EU operates. The overwhelming sense is that this needs to be settled and a new relationship needs to be born. The time taken to do that has proved elastic and may prove elastic again, but it cannot go on forever.

Charles Grant: I agree.

Larissa Brunner: I am not very optimistic that we are ever going to get to the steady-state phase, because, regardless of the outcome of Brexit, there is going to be more uncertainty, regardless of whether there is going to be no deal or a deal, whatever it looks like, or whether the UK decided to remain in the end. Any deal will involve political and economic trade-offs. If you went down the Norway-plus route, for example, the UK would have to accept freedom of movement of people; it would make contributions to the EU budget and so on, and essentially become a rule-taker. That might be quite difficult to sell in the UK domestic political context.

If you went down the Canada-plus route, there would be quite a high political cost, because it would probably be based on some sort of free trade agreement that would cover goods but not services. For the UK, as a service-based economy, that would have quite a high economic cost, so



HOUSE OF COMMONS

there might be a pull towards a closer relationship. Again, because of those trade-offs, it would not be satisfactory to anyone. There would be forces, on the one hand, pulling the UK towards a closer relationship with the EU and, on the other hand, there would be those who might advocate for a complete cutting of ties. I am not very optimistic about whether we are going to get to a stable steady state at all.

Q4155 Stephen Crabb: If this phase that we are in and are likely to continue to be in for a period of months, if not more, is deeply unsatisfactory to the EU, do you get a sense that it shares any responsibility at all for the fact that this stage of Brexit has not been resolved yet?

Charles Grant: Within the Commission, there is not much sense of self-criticism and in the key Governments, like France and Germany, not much either. As I said earlier, there are important voices, certainly in Germany and a number of member states, asking, "Have we got things a bit wrong? Should we have backed the Irish to the hilt in the way we have?" There are questions being asked by business lobbies and politicians, but not the key people running the Brexit talks. They think they have got it right. They have not yet decided how to handle the future relationship. That is a matter to be discussed at the moment, how to negotiate the future relationship. There will probably be some equivalent of taskforce 50, a central co-ordinating body within the Commission, but unlike with the first phase, the withdrawal agreement, they need the expertise of DG Trade, DG Justice or whatever for the particular bits of the negotiation. They will farm out bits of it to particular directorates-general, but there will be a central co-ordinating body similar to taskforce 50, run probably by a politician similar to Barnier, I would guess.

Q4156 Seema Malhotra: Sir Jonathan, if you will forgive me, you have made a couple of sporting analogies and the first one almost seemed to be an apology to Ms Brunner. I just want to reassure you that there are a lot of women playing sport who do not mind sporting analogies.

Sir Jonathan Faull: No, I meant because she is German and therefore unlikely to know about cricket. It was nothing to do with her gender, please, for the record.

Seema Malhotra: I will also, for the record, say that we are trying to encourage more women to play cricket in my constituency.

Sir Jonathan Faull: But your constituency does not extend to Germany, I think.

Seema Malhotra: Not yet.

Sir Jonathan Faull: Do not go there.

Q4157 Seema Malhotra: If I could come back to a comment that was made about tweets of members of the Committee that are talked about, I understand that other tweets are also talked about, because there



HOUSE OF COMMONS

continue to be the two broad views that we have not, in some ways, moved on from two years ago, and the recognition that Britain is still divided. I had an interesting comment to me recently from a high commissioner in the UK who said, "Outside the UK it seems like such a mess". He said, "I come here and I feel like I have understood why there is so much still going on, because of the roots of what was behind and part of the causes of Brexit", which is an ongoing debate.

To come back to this point about whether there is a way in which we might shift the conversation, I want to also pick up on your point, Mr Grant, about the view that political parties are not coming clean with the British people and that there are important trade-offs. Could you say a little more about what you think needs to be said that is not being said in the current climate, bearing in mind we also have EU elections coming up and we want the public to be informed about some of the deeper issues? What would you say needs to be said more about the trade-offs?

Charles Grant: The basic trade-off that has been obvious to the EU since this Brexit business began, which the British political class has not really been honest about and even the Prime Minister has not fully been honest about, is that, if you want to have a close economic relationship with the EU, you have to be a rule-taker and give up a lot of sovereignty. If you want to have your sovereignty and be an independent country making its own decisions, there will be a lot of trade barriers with the EU, which will have a significant economic cost to the country's economic well-being. That is the basic trade-off and you still do not even hear the Prime Minister say that, let alone other Ministers.

Q4158 **Seema Malhotra:** Does it surprise you that the Prime Minister is not saying that to the British people?

Charles Grant: I can understand why she did not say it to the British people, because when she became Prime Minister she wanted to convince those people who had been leavers that she was committed to their cause and was going to try to promote it. If she then came up with an argument or a line that would appear to be sympathetic to the remain camp, that would have spoilt or damaged her ability to lead a Tory Party in which leavers are a very strong influence.

Q4159 **Seema Malhotra:** There is a view that is looking beyond the immediate into a more medium term. We have had a general election that has shifted to slightly more of a remain balance in Parliament. We had the local elections last week where, arguably, the bigger gains were the Liberal Democrats and the Greens, which are a stronger remain voice. Though there still may not be clarity about where the public stands on Brexit right now, at some point there will be a change in the governance of Britain; there will be a general election. Is this being talked about at all, as to whether the chaos that we see is chaos but, fundamentally, Britain is still the same country, and there will be a point at which we come through this process, and the EU needs to plan for that in terms of how it deals with Britain when Britain comes through the period it is



currently in?

Sir Jonathan Faull: It is difficult for me because I am British but I live there, but what people tell me is that they are discovering a country they did not fully understand, because they go to London and go back. They have discovered devolution; they have discovered the complexity of Northern Ireland; they have discovered a political system very different from most of theirs, where Governments govern, Oppositions oppose, which makes the creation of a consensus difficult. They discover—and what you said bears that out—that the country is divided, political parties are divided, Parliament is divided and that has made it very difficult for a consensual position to emerge. As I said earlier, that has given a sense of probably false comfort that hard thinking is not necessary on the other side, because we are waiting for the British.

They know, of course, that there are elections. They look at our opinion polls and wonder about who might be a future Prime Minister, but they can only deal with what they have. They have their own political difficulties at home, so they may be prepared to wait, which is why we have had the extensions we have, until things settle down. But I do not know how much of an effort they think they can make, not being particularly self-critical, as Charles has said, at least in institutional Brussels. They are not quite sure what they have to do to break the logjam. They are still expecting something to happen here.

Larissa Brunner: In terms of the future relationship, there may be a hope among some on the EU side that the withdrawal agreement is passed, we get into the transition period, the transition period is extended, a general election takes place and, at that point, there is going to be some sort of political change in the UK. Then there might be a shift towards a closer relationship with the EU, possibly along the lines of a Norway-plus model. There are certainly some in the EU who would hope for that because, after all, a close relationship is in the best interest of the EU as well. But, as Sir Jonathan Faull said, I do not think the EU sees much scope for influencing that process. It is very much waiting for things in the UK to happen.

Q4160 **Seema Malhotra:** In a sense, waiting for things to settle down in the UK is as long as a piece of string at the moment. It may be relatively short; who knows? But there is the sense that the EU is wanting to move on. It is generational. The *Ten Issues to Watch* report that the European Parliamentary Research Service published in January this year talked about the future of the EU as one of the key themes and we know there are differences, whether that is going from the five key themes that the Commission published, Verhofstadt talking about the order of empires, Timmermans saying the European Union could break up, the Polish Prime Minister talking about the need for more flexibility and free nations. There is an internal debate and, while Brexit is much more located here now, this is still part of a mix. There are still some fundamental questions about the EU and how it is going to sustain its future that not looking at



the causes of Brexit would have a negative consequence for. Do you think there is a genuine view to try to understand the causes of Brexit as much as there is a focus on the deal and the practicalities of Brexit?

Charles Grant: Not as much as there should be in the Commission. You cited some member state politicians, and some member states understand that Brexit is a symptom of a bigger malaise affecting the whole European continent. There is a view in the Commission, not by everybody, that the British were the pebble in the shoe and, once you remove the pebble from the shoe, we can go back to the good old days of European integration. The more reflective members of the Commission would not take that view, but that is a view one hears in the Commission. The Commission is less self-critical than other parts of the EU.

Q4161 **Peter Grant:** Can I go back to a comment you made earlier on, Mr Grant, where you described the two different tactical approaches being adopted in the EU? Generally speaking, in international negotiations, the deal is that Governments or their representatives negotiate the deal; each Government is implicitly undertaking to get that deal through whatever parliamentary process is needed. From what you described, to me, you are describing a situation in which the European Union simply does not have confidence in the Prime Minister to get this deal or any deal through Parliament, so the European Union is effectively having to take some involvement in managing the parliamentary process. Does that lack of confidence go far enough to cause a much larger problem? First of all, is it only Theresa May who is seen to be the problem? Would there be an expectation that a different Prime Minister could get that deal through or could get a different deal through?

Secondly, this is maybe for the other panel members as well. Those who now openly promote no deal, which nobody campaigned for at the time, promise that in place of a withdrawal agreement and political declaration we will have dozens, if not hundreds, of bilateral agreements with the European Union on trade, on customs, on medicines licensing and all the rest of it. All of them will have to be negotiated by a similar process, which has failed to get the withdrawal agreement through Parliament. To what extent is the experience of the EU in seeing a negotiated deal not get through Parliament for the withdrawal agreement likely to colour or prejudice the UK's ability to negotiate future deals either with the European Union or, indeed, with the rest of the world, if they look at one of the biggest peacetime deals in our history and the fact that our Prime Minister negotiated a deal that she was never going to be able to get through?

Charles Grant: On your first point, I do not think people on the EU side believe the problem is Theresa May. They have had a lot of respect for her and her tenacity. They are now fed up with her, because she promised she could deliver the deal and she could not, so they do not trust her on that issue any more. They blame the British Parliament. They believe, rightly or wrongly, the British Parliament is incapable of getting its act together and working out what it wants. They do not believe the



HOUSE OF COMMONS

current talks between the two big parties are going to go anywhere. They believe it is highly likely that we will get to the end of October without anything being sorted out. Their faith in the British political class to sort out this mess is minimal.

On your second question, on no deal, they believe that if we do get to a no deal, which is possible, but they think more by accident than design, the British will not put up with it for very long. The economic and political consequences will be too serious and, within a few weeks, we will be back asking to negotiate some sort of deal. In any case, if there is no deal, obviously there will be mitigating measures taken by both sides to reduce the damage.

The EU's starting point for even talking about these measures is that the British must accept something very close to the Irish backstop, they must accept a certain degree of budgetary payments and they must protect the rights of EU citizens living in the UK. If we get to a no-deal scenario, the EU's condition for talking about mitigating measures is that large parts of the withdrawal agreement must be effectively adopted anyway by the British. They think they hold all the cards on that and the British will have to give in.

Larissa Brunner: I agree with that. In a no-deal scenario, the EU thinks that the UK is going to be under so much pressure to accept whatever is on the table. If that is a stripped down version of the withdrawal agreement plus a barebones free trade agreement, because realistically that is the only thing that could be negotiated within a few weeks, I think the EU thinks the UK is going to accept that.

Sir Jonathan Faull: Perhaps to take it in a slightly different way, they are mostly countries used to having difficulties in getting parliamentary majorities. Several of them are federal in structure and, in many of them, there are up to a dozen different parties represented in Parliament and there are big issues where it is hard to find majorities whatever the composition of the Government. They did not expect that to happen here, but, okay, it has happened here as well.

Trade agreements are particularly complicated for the European side, because they usually contain components that require national ratification. In the case of the great Kingdom of Belgium, where I live, that includes regional parliamentary ratification. We all got to hear of the Parliament of Wallonia in Namur, which blocked the agreement with Canada, which nearly everybody else had agreed and signed up to. Even today, it is provisionally only in force because I think the Italian Senate has still to ratify it.

Trade agreements are controversial. The European Commission is a very good, experienced trade negotiator. It does the technical job well, but the political ratification process is complicated and it is used to that. The EU-UK agreement or, perhaps, dozens of EU-UK agreements will, no doubt, prove complicated as well and may take some time. This brings us



back to the whole justification for the Irish backstop, because what happens during the period between definitive Brexit and the entry into force of the new relationship? We do not know how long that will take and everybody says they want the Irish border to remain open, so we have the backstop argument.

Q4162 Richard Graham: When we all look at why getting the withdrawal agreement Bill through Parliament has proved so difficult, it seems to me it comes down to the problems created by the structure of the negotiations. If citizens' rights were going to be dealt with upfront, there was always a problem with that, because the EU does not have the competency, the power over most of these decisions, which are still at the national level, so that was going to be frustrating for us. If then we were going to deal with Northern Ireland first, that was going to be satisfactory, because without a future destination you cannot deal with whether there would be a need for border checks.

That then leaves you with money, financial obligations and a feeling over here that agreeing on what looks like a pretty big bill without knowing what the future benefits are going to be, again, feels uncomfortable. Do you think, in retrospect, that there is any appetite in the EU for really understanding the nature of that frustration here with structuring the negotiations in that way? I know you have touched on this earlier, but very briefly, Charles Grant.

Charles Grant: As I said before, there are some hints of self-criticism coming even from within the Commission, although not those directly involved in the negotiations: "Did we get this all right? Did we handle things in a perfect way?" You hear gentle hints of this now. As I said before, even if the EU had said, "Let us do both at the same time"—arguably, you have quite a strong logic to what you say, that it would have been better to do, as the withdrawal agreement might have been more palatable if we had a detailed trade relationship negotiated—that would have required the British Government to decide what kind of future relationship it wanted and it has not been able to do so. It sort of came up with the Chequers agreement, but then some members of the Government left the Government because of the Chequers plan and the EU rejected it anyway. In theory, you are right; in practice, I am not sure it would have made much difference.

Larissa Brunner: I would agree with that. From the EU's perspective, it made sense to focus on the issues of separation first in order to maintain unity among the EU 27, because the next phase of the negotiations is going to be much more divisive. Different countries will have different priorities. They will have different individual wish lists of what they would like the Commission to achieve in the negotiations on the future EU-UK relationship. That could have undermined EU unity at quite a critical stage, and to prevent that was one of the main objectives of the EU. From the EU's perspective, it made sense.

Q4163 Richard Graham: It kept their unity, but possibly at the cost of making



HOUSE OF COMMONS

it harder to get through here.

Larissa Brunner: I am not sure, because I would agree with Charles Grant that, in practice, it would not have made much difference.

Sir Jonathan Faull: I tend to agree with both my fellow panellists. I certainly believe that two years were predictably not going to be enough to do both things, because of the need, on both sides, to have a serious thinking process, first of all, about what the future trading relationship would look like. For the political reasons I outlined earlier, I understand why both sides jumped on to article 50 as soon as possible and felt compelled to, but that created an infernal deadline problem, which we have not found a way out of yet.

Q4164 **Richard Graham:** If we look at the current issue of the day here, which is really all about customs union, customs arrangement, customs partnership, it feels very much as if the consequence of the withdrawal agreement frustrations on both sides has created an easy opportunity for populists to really focus on two slogans: "Leave means leave" and then painting any continuation of the relationship as "Brexit in name only". On the other side, we have failed to illustrate why compromise and continuity of relationship matters, even if everybody understands, at a personal level, that divorce without arrangements on children, home, finance and pets almost always ends in tears. What do you all think that the Government could still do to try to better bring alive the benefits of the practical relationship and, in particular, the customs union?

Charles Grant: Whatever you think of the rights and wrongs of the customs union, and there are pros and cons, it is hard to really see it as Brino, because it would not affect most of the British economy. Most of the British economy is services and we would be outside the single market for services. We would also be outside the single market for goods, so there would still be a need for regulatory checks for compliance with single market rules on goods, animals or plants going across borders. It would reduce the friction for manufacturers; that is quite important. There would be less friction for supply chains, but it does not do a lot for most of the economy.

Q4165 **Richard Graham:** Goods are 50% of exports.

Charles Grant: That is true, so it is quite good for exports to be in the customs union, but it does not remove the need for border checks for compliance with single market rules.

Q4166 **Richard Graham:** If you were advocating continuity of relationship in some form of customs partnership, how would you best sum it up in one sentence if you were trying to persuade a frustrated British population?

Charles Grant: I would say customs checks at the border, particularly for compliance with rules of origin, would be a real encumbrance to manufacturers in Britain and, if you could get rid of those checks through joining a customs union with the EU, in which the EU would give you a



consultation mechanism if not a vote, it would be very helpful to manufacturers.

Larissa Brunner: If I had to sum it up, I would say something along the lines that any outcome has trade-offs and, in the case of a customs union, the benefits might outweigh the potential costs. As Charles Grant said earlier, it is really important to make it clear that there are trade-offs involved between economic costs and political considerations, like political sovereignty, and perhaps that has not been made clear enough.

Sir Jonathan Faull: I agree. We have to move away from slogans, because they hide reality rather than enhance it. Charles mentioned plants and animals; there are plants and animals being checked between Larne and Stranraer, two ports in this country, as we speak, no doubt. Life is complicated; trade is complicated; customs is, in a way, however emblematic and difficult it has become, the easy but incomplete answer to a lot of questions. It is, in a way, yesterday's problem. Customs duties and tariffs have gradually, largely because of the UK in the EU, been eroded over the years. Modern trade is regulated by regulation. It is the way that modern states protect consumers, financial stability and the environment. For all the things they want to protect, they do so by regulating goods and services. That is the obstacle to world trade that people have spent years trying to overcome and the European Union, not completely successfully, has found services liberalisation to be very important and very difficult, so it has lagged behind the other freedoms of movement in the European Union, let alone internationally.

This is not a one-line answer to your question, but a political explanation and discussion of the trade-offs has to explain that, to take a simple slogan like "Brexit means leaving the customs union", frankly, it does not, because there are countries outside the European Union in a customs arrangement with the customs union, so, quite technically, that is wrong. There are various things that need to be discussed and then decisions need to be taken about them, about the future trade relationship between this country and its nearest neighbours. Frankly, humbly, I have to say that slogans and tweets do not capture the full complexity of the problem.

Q4167 **Richard Graham:** Sir Jonathan Faull, on that point, it is quite a technical question. The major concern, for many people here, about a customs partnership or union is around the implications of the common external tariff and whether that would mean that, once the EU has negotiated future FTAs with other nations, it would have full access to our markets without us necessarily having access to its markets. If we lowered our customs tariffs to, say, zero for the EU, that would then apply, under MFN rules, to everybody else in the world, therefore giving us, effectively, an independent trade policy that did not amount to anything very much. Do you have any words of comfort on that?

Sir Jonathan Faull: Not really. It is the nature of a full customs union that you have the same tariffs at your external border vis-à-vis the rest



of the world. There can be other customs arrangements, and the word has been used but never defined, that fall short of that and there can be and, indeed, there are consultation arrangements to be put in place between the customs union itself and those associated with it. There may be scope for discussion and negotiation but, at the heart of it, the customs union idea is that you have freedom within and a common posture vis-à-vis the rest of the world.

Q4168 Chair: All three of you made reference to the fact that it took a long time for the UK Government to work out what it wanted. Supposing a miracle happened, from the point of view of those who want Brexit—

Sir Jonathan Faull: To pursue the sports theme, see Anfield last night.

Q4169 Chair: A miracle, indeed, yes. Supposing an Anfield-style miracle were to happen, from the point of view of those who favour getting on with this, and a deal was done and the legislation went through. Do you think the EU thinks that the UK side is ready for phase 2 negotiations, for the trade-offs, as you put it, Mr Grant, that will have to be made? Is it the perception of the EU side that, suddenly, the UK will say, "Okay, yes, we want this, this and this"?

Charles Grant: The perception is that we are far from ready to get our act together, which comes back to the question of the extension we touched on earlier. If the UK has a plan, like "Let us have a referendum", "Let us have a general election" or, "Let us have a completely new approach, because we have got our act together and we have decided what we want", the EU will have no problem with rolling over article 50. Even Mr Macron would say yes to that. The problem is that they think we are not yet in that position and we do not have a plan.

Q4170 Chair: Is there any discussion about the future of free movement among the other member states?

Larissa Brunner: I have not seen any discussion of the principle. There has been some discussion about certain aspects, such as child benefit. For example, if a Polish individual lives in Germany but his or her children live in Poland, should they receive German child benefit? They are quite technical aspects. I have not seen any serious discussion about the principle of free movement, because my sense is that it is seen as a largely positive thing. Even though there are some concerns, on balance, it is seen as a largely positive thing.

Sir Jonathan Faull: I agree. There is no mega high-level discussion about the principle. There are endless rows about it; there is litigation; it is a hot issue in the internal politics of some countries, both emigration and immigration, tending to focus on from outside the EU rather than fellow Europeans, but it is not, today, a major issue. To give a simple example, one of the provisions agreed in the pre-referendum agreement between the UK and the EU was that there could be indexation of child benefit based on the location of the child. A Polish worker, for example, in the UK with children in Poland would receive child benefit at Polish rates



HOUSE OF COMMONS

not at British rates. That has now been imitated, I understand, by Austria and the Commission is challenging it.

The debate rumbles on, but nobody is saying, as they might have said at any time—I do not know—in the last 10 years, “It is time to think again about what free movement means in a union of 28 very different countries, following the enlargement of the union and following the economic crisis. Do we want to look again at some of the principles and rules that were established in a completely different era?” Nobody is saying that.

Charles Grant: Most mainstream politicians in most EU countries do not question the principle of free movement. There are some exceptions, like in the Netherlands I know mainstream politicians who do, but most of them in most countries do not, in my view.

Chair: On behalf of the Committee, can I thank you very much for coming today? That has been a really useful, informative and interesting session. Thank you.