



Select Committee on the European Union

Financial Affairs Sub-Committee

Corrected oral evidence: Brexit: “No deal” financial obligations

Wednesday 4 September 2019

11.25 am

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Members present: Lord Sharkey (The Chairman); Lord Bruce of Bennachie; Baroness Couttie; Baroness Liddell of Coatdyke; Baroness Neville-Rolfe; Viscount Trenchard; Lord Turnbull; Lord Vaux of Harrowden.

Evidence Session No. 2

Heard in Public

Questions 12 - 19

Witnesses

[I:](#) Warwick Lightfoot, Head of Economic and Social Policy, Policy Exchange; Dr Jorge Núñez Ferrer, Associate Senior Research Fellow, Centre for European Policy Studies (CEPS); John Springford, Deputy Director, Centre for European Reform (CER).

Warwick Lightfoot, Dr Jorge Núñez Ferrer and John Springford.

Q12 The Chairman: Good morning, gentlemen, and welcome to the EU Financial Affairs Sub-Committee public evidence session in the Committee's inquiry on no deal and the UK's financial obligations to the EU. You have before you a declaration of Members' interests. The session is being broadcast on parliamentlive.tv, and a full transcript will be taken and made available to you to make any corrections shortly after the session.

Perhaps I could begin by asking the first couple of questions. If there were to be no deal, what, in your view, would be the next steps to determining the UK's financial obligations to the EU? How might the UK's deciding not to pay a financial settlement affect the EU's no-deal contingency planning?

John Springford: In answer to the first question about the next steps to determining the financial obligations, we have to think about this as a matter of politics and of law. As has been evident throughout the Brexit negotiations so far, politics and the relative negotiating power of the two sides have been very important. If we think about the political aspects first, the difficulty which the UK would find itself in under no deal is that even the Government's own analysis suggests there will be a significant amount of disruption. It is very hard to predict exactly how large that disruption will be.

Independent analysis, as well as the Government's own economic analysis, suggests that the economic hit to national income will be large, particularly if no deal persists. The question for the UK in the context of no deal will be how we can get mitigation particularly from the trade disruption, and the other questions about the Northern Irish border.

If we are thinking about the financial obligations to the EU, we also need to think about the other contentious areas of the withdrawal agreement, such as the backstop and securing citizens' rights, although I know that is much more likely to be sorted out. It is pretty clear, to my mind, that the EU will take mitigating steps, particularly some sort of emergency trade deal, to try to reduce the amount of congestion at Dover, to ensure that goods in particular flow smoothly between the UK and the EU. Signing up to the provisions of the withdrawal agreement will be the demand.

In terms of the legal aspects, I am not a lawyer and I know you have heard legal evidence, so I will just say that no deal would mean that no international treaty had been agreed by the UK and the EU about what the financial settlement would be. There is the view that the commitments the UK made in the joint report in December 2017 might be grounds for a court case at the International Court of Justice, but it is very hard for a non-lawyer to tell you how that would work or whether that case would be taken and how.

In terms of the UK deciding not to pay a financial settlement and how it might affect the EU's no-deal contingency planning, it would have no impact on the amount of money that would be available to the member

states of the EU 27 to mitigate the consequences of no deal. That is because the countries that are most affected—the Netherlands, Belgium, France, Germany and Ireland—are not credit constrained. Ultimately, they are, but they are not now in a position where they are unable to borrow, so the fiscal difficulties they would find themselves in are not huge. The EU recently announced that it would be unlocking €600 million from its natural disasters fund in order to help mitigate the consequences, and I expect that most of that money would go to Ireland.

In terms of the rest of the contingency planning, we have had a range of unilateral measures by the EU that are designed to protect markets and the interests of companies and financial institutions in the EU from the fallout. In areas of the financial markets where they do not have mitigating plans in place, there might be problems. Insurance is one that has been raised, but they could make emergency new unilateral measures to determine that. I would expect that the UK not paying a financial settlement would have an impact on the EU's ability to say, "Right, let us do a bilateral deal", but very little impact on the unilateral mitigation measures that the EU makes.

Dr Jorge Núñez Ferrer: The first question was about determining the financial obligations. As Mr Springford correctly said, there is no legal clarity. It was never made clear in Article 50, so everything is based on negotiations. If the withdrawal agreement is not taken on board this is then left open. That seems to be the legal position. It is a matter of negotiated settlement, although the timing is not brilliant to renegotiate it. That is one of the problems.

Even if the settlement were to be accepted, there should be a recalculation because there has been a delay. Payments and receipts have been made over this time, so it would be necessary to recalculate it. This is purely on the already negotiated obligations. If nothing is agreed, there are other questions, such as what to do. Officially all is open for negotiation if there is no deal, such as timing of payments or linking the payments to further negotiation. I do not think there is a large margin for negotiation; it will not be easy to change figures. Because there have already been calculations, it is unlikely possible to go back to square one.

John spoke about the contingency planning, which is one of the issues. In April, the Commission produced a list of actions. Effectively, they looked at every sector, from agriculture to structural funds, finding ways, first, to cover any shortfall and, secondly, to act in case of troubles and problems. For this, we have flexibility instruments in the EU budget. The EU has sufficient margin, if the member states are ready to pay (which is the main point).

The budget itself would not get into trouble from a formal point of view. No legally binding ceilings will be broken even if there is a shortfall, so there are ways to cover that shortfall. The way to do it is there, so it is for the member states to agree to cover the shortfall, to reduce some items, to increase other ones. There is nothing that is impossible or that

cracks in case there is no UK contribution. The procedures are well documented. The Commission has different options available.

There are also specific funds that can be activated, e.g. the European Globalisation Adjustment Fund and so on, but those will need adjustment. You cannot use emergency funds for environmental crises for Brexit-related purposes. Some member states do not like to use these instruments for other purposes, so they have to change the rules on this. It is unpleasant, but possible to handle the change.

No payment would simply be pushing the question to the next stage, which is any other agreement after no deal, and the amount will be there to be negotiated. The negotiations will not start from zero. The EU negotiators will say, "We calculated this amount, so let us start from there to discuss". It makes it a bit more difficult for the UK, because there is this precedent, i.e. an agreement by the Government before, so it will be harder to renegotiate.

Warwick Lightfoot: I take a slightly different position from John. The way the economic consequences of a departure without an agreement with our European partners have been framed as an argument and analysis, just as the argument was framed during the referendum, is, in my judgment, misdirected. There are several instances in the last 30 years where the economics profession, particularly in public sector official forums, has not covered itself in glory. One is the whole analysis of the merits and demerits of the construction of the eurozone itself, starting with the Delors report in 1989, where economists at the IMF, at the OECD and in central banks tended to use a Nelsonian telescope, not seeing the signal giving very clear orders. That has blighted public discussion of monetary economics in the eurozone and more widely.

The way some central banks and economists looked at the efficiency of financial markets in the run-up to 2007 is an enormous blot on the profession itself, which has been well rehearsed. Economists working in the organisations quite close to home have also done a great disservice to the profession. The best guide to this is a speech given by Paul Romer, the former chief economist of the World Bank, where he talked about economics being misused, technical models being calibrated in a defective manner with defective assumptions, defective specification of the equations, reading in far more than you could, and a complete failure of the identification problem.

What is essentially a political argument about sovereignty and the nature of our relationship with our continental neighbours in the United Kingdom has been distorted into a series of tendentious and, in my judgment, misleading glosses on cod economics. I really do not believe that we are about to embark later in this autumn in an event potentially generating losses of output greater than in the great depression. I really think that, *prima facie*, this is implausible. That is my first observation about the way we approach this whole issue.

Secondly, you asked a very specific question about where we would stand with our obligations if there was no deal. My instinct here is that there were very good reasons why someone might vote to remain in the European Union, and perfectly good reasons why you might choose to vote to leave the European Union. I do not think, being careful about it, that the United Kingdom's net contribution to the European budget would have been one of the deciding factors. It is quite modest in terms of United Kingdom public expenditure, overall national income and international transactions that might affect our capital account.

In my view, we will have obligations when we leave the European Union. It is very important to see what our liabilities are. It is very important to see what assets might be shared between us, coming to a net figure. We will want to honour that in full. In addition, if it turns out that our partners in EU institutions have additional costs that may not be our responsibility but that arise out of us leaving, for example moving an agency or an office from London to another part of the European Union in the future, I do not think we should be in any way awkward about saying that we will help with that additional cost.

Chairman, I wonder if you will allow me to make several observations about public credit. There is some discussion about our approach to this, which, apart from exaggerating the economic and financial importance of it, betrays a lack of understanding of the full benefits of being a good credit. The United Kingdom on the whole has been a good credit, and the classic statement of this was given by Alexander Hamilton in the report on public credit that he sent to the US Congress in 1790. To paraphrase—I will give the quote to your colleagues afterwards—he said that countries that pay down and honour their debts in an orderly way, like individuals in their private lives, will have a good credit, will be able to borrow cheaply and will find no difficulty in mobilising funds when they need them. If you do not do that in an orderly way, you will pay more and sometimes not be able to borrow at all.

In extremis, an example of having a good credit was given in the very awkward and dark days of the Second World War, when the royal Dutch Government in exile, in London, ran out of money. They went to the Treasury and said, "We've all the gold and foreign exchange reserves, but we've kept them to reconstruct the Netherlands when the fighting is over. We don't want the public to think that we're dipping into our reserves to live in London while we're here". The Treasury did not like giving them the money, because they had a number of Governments quite happy to tax them for their general living standards, but Lord Keynes sent a memorandum that said, "Normally we would have to say no, but for the Netherlands, its history, its credit, what it did in the 17th century and the way it has honoured its debts, we can lend to it". Even in the most difficult circumstances, if you have a good credit, people will still carry on lending to you.

My third general point is an awkward thing for everybody in the room, including me and certainly Lord Turnbull. The United Kingdom has quite a

good record in international markets and in the gilt market, but not an unblemished one. I once had the misfortune when doing business of having to talk to a US Treasury official, and we transacted the business very successfully. At the end, he said, "Now tell me: when is the United Kingdom going to give back all the money you owe us?" I said, "We've never missed a principal or interest payment in the gilt market". As I was saying it, something came up at the back of my mind—schoolboy history, the default on US debt in 1934 arising out of the First World War. It was the inter-ally debt. It caused a lot of difficulty in the 1930s, and those difficulties carried on in the way the US Treasury regarded Britain sometimes in the 1950s. It also caused trouble for the United Kingdom when we wanted to borrow dollars in the New York bond market in the 1970s.

A very interesting paper was presented to the Economic History Association about two years ago, pointing out that it had a very, very, long reach because bond markets and financial markets have very long institutional memories. Unfortunately, this Treasury official had worked in the department of the Government Accountability Office, whose job it is to add up all the debts that have not been paid to the United States and the interest owing. It was just my luck to encounter him one afternoon at the end of a very satisfactory conversation.

That is a lesson to us. We have a good record, but it is not wholly unblemished. We do not want the transactions we have in leaving the European Union to do anything to further diminish that record, because there will be a lot of interest in the United Kingdom leaving the EU. It is going to be of interest to credit rating agencies and bond markets. We should be very careful to get a sensible agreement on what the bill is and to settle it. I would be mindful of being a bit on the generous side rather than on the nit-picking side. Does that help you with where I am coming from?

The Chairman: Yes, it does. It is rather worrying that Treasury officials have such long memories.

Q13 Lord Turnbull: I agree with you, Warwick Lightfoot. This £39 billion is a flea bite, really, in that public debt is £1.8 trillion. It is nothing, really, but both sides have raised it to an issue of great importance. I fear that the Commission is probably guiltier than we are. They are saying, "We're going to lose 15% of our budget. This money is entirely due to us". The non-payment of this may or may not have a credit effect, but it must have some effect on the way they negotiate with us in the real negotiation, not the 26 pages but the future trade agreement. Given that we have not paid, do you think they will say, "We need to get on and agree this, because we need the money", or will they harden their hearts because they see us as bad people to do business with? What will be the impact of withholding this money on our ability to negotiate in the real negotiation to come?

Warwick Lightfoot: You put your finger on a very awkward matter. This is why I am mindful to be on the generous side as I try to settle these

debts. I am mindful that it is very awkward for the institutions of the European Union until the financial perspective, which ends at the end of next year, is concluded, because one party to it is leaving. Because the EU institutions cannot easily borrow in their own name for a running deficit, it makes life quite difficult for them. We should be open to making the payments between now and the end of the financial perspective, because it will cause a bitter taste; it will cause distemper, and the issues are relatively trivial.

I do not want the UK to get into a position where, when people study it, they say, "It owed some money and handled it in a very, very cavalier and mean-spirited way". It is one bill that we can easily afford to pay. In life, there are times to have a first-class row and other times not to. Likewise, if you are Chancellor, there are times to take huge political risk and put an unpopular tax through, provided that it raises large amounts of revenue. On a highly tendentious matter for a de minimis sum of revenue, it is not something you would do. That is the spirit in which we have to approach this.

Lord Turnbull: We do, on both sides.

Warwick Lightfoot: It is very difficult for us to deliver the Commission. The EU will not be operating as a narrow profit maximiser of economic welfare. It will have a political agenda that may cause it to act in a somewhat awkward manner, but we should try to be generous and reasonable. The last thing we want to do is get through some international dispute mechanism, because very few of us ever think that litigation is a good idea. It is highly uncertain and expensive.

These trivial arguments over small—in public finance terms—sums of money can be very salient and cause a lot of distemper and bad temper. The sooner you can get it settled and done, rather than coming back to it and it turning into an infected ulcer, the better it will be.

Dr Jorge Núñez Ferrer: I fully agree. It would be better to settle it, for both sides. The EU budget is quite trivial as an amount in the picture of everything. It is actually even trivial, on paper, to cover it from the EU side, but it is very difficult domestically. You know how difficult it was here to discuss whether the UK would reduce the rebate even slightly. In Parliament, there was a row, a fight. I remember the negotiations with Tony Blair—there was an agreement with the enlargement—and how much noise was made over a very trivial amount. The same happens on the other side, so it is difficult to put it in the budget. Germany would have no problem raising that level of financing for domestic expenditures. The moment it proposes to give it to the EU budget, it is much murkier territory. It is the same on both sides.

There is a memory in the EU of the UK rebate and the tensions on the budget. This has likely a strong political influence. Given the impacts from having a disorderly border, supply chain problems and disagreements on a lot of other factors, I would avoid being distracted by the EU budget to be honest. It is my recommendation to clear it as soon as possible. If

there is something like no deal, it is even more important to clear it off the table. I do not think it gives any negotiating power to withhold this money and say, "Oh, we're going to negotiate piece by piece", because then the other side will react by saying, "Okay, then we implement these contingency measures".

The EU can cover it. They have a reason to do it. It is unpleasant, but they will feel that the problem came from here (the UK). That does not help to sort out access to the single market or problems with borders, which are much more serious, financially and in every other area of common interest.

While the EU budget is unfortunately politically very sensitive, it is—compared to other issues—not really significant.

John Springford: I agree with both Warwick and Jorge. There has been a tendency to think that politics happens here on the Westminster side, and that the EU is homo economicus in the way that Warwick described. That is a real misunderstanding of the EU strategy. There is an assumption that the EU is not really strategic, that it is essentially pursuing narrow tactical goals, and that is wrong.

The strategy that the EU is pursuing is to defend its legal order, and we can see that through all the contentious elements of the withdrawal agreement. When it comes to the money, the legal order they are trying to protect is the argument that the EU budget and commitments made to it were made under EU law while the UK was a member of the EU. Therefore, it has to bow to EU law, even if it is a departing member state. The strategic attempt to protect the EU legal order is so important, because they worry about Eurosceptics domestically. They worry about rule of law issues in Poland and Hungary. They also do not want to provide countries that want to leave the EU with get-outs from the commitments they made as EU member states.

My final point is about whether solving the money would generate enough good will that you could then move to negotiations about some sort of emergency trade deal to unblock the problems at the borders. It is absolutely right that you should do it. The problem is that the other provisions of the withdrawal agreement also matter. If you are thinking about this as a strategic defence of EU law, thinking about citizens' rights is very important.

It is also about protecting Ireland, which is a remaining member state, the interests of Ireland, and making them higher than the interests of the United Kingdom. I would think that the provisions of the backstop and commitments to keep the Irish border free of infrastructure and associated checks will also be part of that demand. We should not necessarily imagine that by paying the money we would be able to quickly get relief or mitigation.

Warwick Lightfoot: John is absolutely right. This is a political issue. It is a political issue for us, too, but it is very important that we pay our bills

and maintain our international credit standing. We should do that because we think that we will have two to tango and it will turn out nice. We should do this in any event, in our own public interest.

Q14 **Baroness Couttie:** Accepting that we have at least some financial obligations to the EU, would that sum in the case of no deal be different from the £39 billion negotiated in the withdrawal agreement, taking into account that we have been in the EU for longer than originally anticipated, and therefore that number has come down a bit?

Dr Jorge Núñez Ferrer: Yes, of course. First is the recalculation. There are a lot of parts. When one looks at the history of the £39 billion, it started from £100 billion. Calculations went in every direction, I have to say. At a certain point I did not even know where the numbers were coming from, to be honest. Then it got fixed and the methodology is quite clear: there are payments for specific expenditures, itemised settlements and so on.

If there is no deal, the first thing would be to calculate whether the period until December will be covered, or only until 31 October. One of the Commission's proposals, if there is no deal whatsoever, was to at least finish this year, to avoid a lot of trouble on both sides, because many projects will find themselves cut off on the spot. When that proposal was made, it was for a May exit and that would have allowed a bit more adjustment time. Today this "buffer period" is just a month or two and thus no longer very useful.

I see real troubles reopening the box and going through all the numbers again. It will not help solve any of the other problems, because those are about fundamental principles: freedom of movement, goods, capital, the customs union. These are serious principles. The budget is just creating a lot of tension and opportunities for radicalising public opinion, because in a newspaper it does not matter if you speak about £100 million, £1 billion or £3 billion. For most people these figures are big, whatever is put there. Focusing on if and what the UK has to pay is a way to cause trouble even for an agreement to find border solutions of any kind.

I understand that announcing that the UK will pay may have an impact here, with a negative reaction. But I am looking at it from the EU side, thinking that you will have reactions from the EU if you do not pay. It is important facing issues such as Northern Ireland, not to be distracted by a fight over a billion here and a billion there. I do not think the figure can change significantly. Even if it changes from £30-something billion to £20 billion, what does it mean? Maybe there could be an agreement with the Commission so that everybody saves face: a small change here, a small change there. Ultimately, the quicker it is done, the better. That is my personal opinion.

John Springford: When trying to answer this question, it is quite helpful to think about how the EU budget is structured. If this happened, you can imagine what the argument would be. In the remainder of 2019, after 31 October, and 2020, to the end of the budget, the farm spending money,

and some cohesion fund and structural fund spending, that would have come to the UK will not happen because the UK is no longer an EU member state. But part of the Brexit deal that was negotiated by Prime Minister Theresa May included that money, because we had a transition that was going to take us to the end of the MFF.

If the UK was going to leave with no deal and not receive any money from the EU budget but still be liable for the money that was going to be spent within the EU in 2019 and 2020, that is where the argument would be. That is somewhere between €10 billion and €15 billion. The much larger part of the bill is not that; it is the *reste à liquider*, which is the commitments that have been built up over time. Think of a Polish motorway that has been agreed but has not yet been constructed. The money is then discharged. All those commitments were made while the UK was still a member, so Jorge is right. You could imagine there being an almighty row as a matter of justice about a relatively small part of the Brexit bill. Actually, if you are thinking about it from an EU point of view, the commitments the UK made as a member state should be discharged, and that makes up the largest portion of the money that it claims it is owed.

Warwick Lightfoot: It was extremely difficult to score the liabilities, and to some extent the assets. There was potentially an element of “make it up as you go along”. Given that they managed to reach some sort of agreement, I would not be looking to wind that up. Obviously, as each month passes, you make your contribution to the financial perspective that ends in 2020, but the benefit of drawing a line under it and moving on, from the UK’s point of view, is very substantial indeed. The danger of irritations with our former partners and continuing neighbours is quite high.

I would not like it to get to an argy-bargy in an international tribunal, because it would cause a lot of distemper. There are fights to have and fights not to have, and we probably should try to settle at roughly where it is now. We should not be too clever about getting it done. There are plenty of other things we should be concentrating our minds on across the whole public policy agenda, rather than being hooked on this.

- Q15 **Lord Vaux of Harrowden:** One of the EU’s proposals is that we continue to contribute to this year’s budget until the end of the year, and indeed potentially to the end of the MFF period. We have already seen funding from the EIB into the UK drop by around 90%. If we chose to go down that route and pay those amounts into the budget for that period, to what extent would we expect to see EU funding to the UK decrease, and what could we do about it?

Warwick Lightfoot: My approach would be to aim for the UK to meet the Government’s guarantee that the structural funds, the farm payments, the science funding is all maintained. We should certainly make sure that the net contribution, which is very important for the stability of the EU’s financial perspective, is maintained. We will maintain the programmes that we would do in any event normally, and help our

partners by making a contribution over the coming 18 months, so that people do not find themselves caught short of cash in what is a very awkward way of resolving it. Here it is very easy for us to resolve anything, just as it is in the Netherlands or Germany: you have your own domestic bond and tax markets, and you do whatever you want. Within the EU's constrained arrangements, it is much more awkward, but that should be possible to do without being too awkward with our partners.

Dr Jorge Núñez Ferrer: From the point of view of the reducing receipts, it is rather inevitable. You also mentioned the European Investment Bank. By treaty, the holders of the capital are only the member states, so not EEA members or anybody else. That is a problem. It would be nice if members of the European Economic Area could also be holders of capital and be active parts of it. This is a bit restrictive, but it is part of the treaty, which makes it very, very awkward. If you asked me, I would say it would be great if the operations could remain untouched.

From the moment the EIB realised that the UK share of the capital will go away, it started to consider that it is not possible to operate to the same extent as before in the UK. The pressure on the EIB to expand in other member states is important, and it is asked to take more risks and go to more difficult places. It has thus difficulty maintaining the operations in the UK at the same level. The UK is one of the principal beneficiaries of EIB lending, because the EIB has been a bit risk averse and the UK was very good for the operations.

The situation is changing for them. They have a problem. Participation in the EIB capital is completely separate from the rest. It is part of the treaty. Unless they change the treaty and say that other non-EU members can be part of it, you will have your capital back. This means that, the UK can still get lending from the EIB but it is under different eligibility, and will not be the same size or importance. There is nothing we can do about that unless they change the rules, and a lot of people are thinking about that. However, it is absolutely not something that one can do in two months, and there will be a problem on the EIB side.

For Horizon 2020 programmes, it is extremely hard for us (EU research institutes) to prepare a multiannual project and have the UK partner. Because of this deal or no deal uncertainty, we have no clarity of continuation. If one partner with specific objectives and work disappears from one day to another, it means enormous trouble for our accounts, for us and for our relationships, so it is very unpleasant. I love to have UK partners and I have very good contacts here. I am presently discussing the next tender with one, as we have a call very soon, but I do not know what to say. I would love this person to be in; he is a brilliant researcher, but I do not know how to fix it. In two months we do not know where we will be. If I submit a tender, I may have the tender rejected saying I have a partner I cannot have, or we may lose points, so it is really hard.

Then, of course, as institutes avoid UK institutions due to the uncertainty, the funding to the UK has started to go down as a result. This is simply because there is no clarity on what happens in a three-year programme.

It might also be a five-year framework contract, where you get calls for tender over the period. Thus, we do not know what to do with a partner who may not be eligible from one day to another.

There are ways to involve third countries and partners, but they are different, you subcontract; you do different kinds of subcontracting. We can even have people from Israel in a Horizon project, but their role is limited. There is no possibility to lead, so UK institutions lose their leadership opportunities. It is quite unfortunate, especially in the Horizon area, because the UK was a really important participant in it, and it is a loss for everybody to have this trouble. I am sure the UK will go in again in other ways, but it is not going to be the same.

On the question falling receipts during the period before leaving, this is an issue. In agriculture it will not fall during membership, as the funding is fixed, so the farmers get a specific amount of money for as long as the UK is a member. But it causes problems with other contracts and multiannual programmes. Rural development is a multiannual programme. Regional projects too cannot even be prepared for something that will finish in one year, so the UK will be seeing its receipts falling just because of these deadlines. This is unavoidable.

There can be discussion on the net, as part of the package. It can be recalculated. The Commission will look at it closely. It is possible to say that we will not get the same amount. As long as the figures are clear, this can be solved but we cannot avoid a kind of winding-up of expenditures in the UK in the process towards Brexit.

- Q16 Viscount Trenchard:** Mr Lightfoot, you may think that this would be nit-picking, but I go back to the question of the EIB you have just talked about. Mr Ferrer, you said that it would be difficult for the EIB to continue to operate on the same basis, but my understanding is that the UK's capital has already been replaced by calling in capital from the other 27 member states pro rata. Further to that, two other member states have made additional subscriptions: a substantial one from Poland and a smaller amount from another state. It seems to me, given that the UK's receipts from the EIB have already fallen by 90%, that the EU 27 is already benefiting substantially. I see no reason at all why the EIB cannot continue to operate on the same basis that it has to date.

There is a very strong case that, within the financial settlement, if any renegotiation were to take place, the question of the settlement of the EIB should be re-examined, particularly when you see that the EIB itself, in making the current offer for the 60% of shares in the EIF that it does not already own, is proceeding to offer the other shareholders a fair basis, including their share of the retained earnings. It seems to me that this is a matter of principle. Perhaps the pensions question could also be disaggregated, because it seems that we are being treated very differently on exit from when we entered the EU. First, does Mr Lightfoot really think that these are both nit-picking points? They are important points of principle.

Warwick Lightfoot: First, I was greatly helped by the excellent letter Lord Trenchard had published in the *Telegraph* two weeks ago. I hasten to add, although I know Lord Trenchard, he had not drawn it to my attention. I genuinely read it for real while I was away in Devon in August. It lays these things out very well indeed.

My gut instinct is that you need a round envelope of £35 billion to £40 billion. You need to agree that as a settlement, and I would not go raking around in it too much. I am sure you have right on your side entirely, but there comes a point when you just need to reach an understanding that you can agree on a figure and move on. I do not think we will probably ever get a reliable, accurately arithmetically measured figure that we can all agree on. We are going to end up with this compromise ballpark figure, and my instinct is to stick to where we are and move on.

Dr Jorge Núñez Ferrer: The question is interesting. The EIB has effectively had new instruments and new funding put in. There is the famous Juncker plan, or the EFSI plan, of guarantees. At the moment, the EIB is under strong pressure in the EU to change its way of operating in general. A lot of things are happening, concerning the role of other banks and the EBRD in the future. The EIB is not particularly interested in reducing activity in the UK, but it is wondering what the outcome of Brexit will be.

There are slight differences when the EIB operates inside the European Union and outside. I know, because I am working on a project that is outside. One problem is that the EIB does not have exactly the same procedures or rules on a project inside and outside. There are tensions emerging from this. The EIB wants to improve the rules, but starting in 2021 (which does not help my project). There will be a lot of discussion on the future. One of the possible engagement areas for the UK Government is to clarify the role of public financial institutions, such as the EIB and the EBRD, and how they collaborate and work together. The EIB is not the only one in town, and there is a lot that can be done. It is a difficult area. I have been looking at it for some years, but lately it has become very complicated.

The European Investment Bank is also increasingly under the scrutiny of the European Parliament as the budgetary control body. Through the Juncker plan, it got into EU budget control procedures. The EIB was operating very freely before; now it is using the EU budget, which changes the scrutiny. One has to not forget these changes, because this will also determine what is going to happen in the future. Now the EU has announced a future climate bank; the EIB may be becoming a bit desperate. There are a lot of pressures on the bank, which are influencing its behaviour, but not necessarily because it does not want to operate in the UK. It is looking at its whole portfolio and at the future. This may be an opportunity to engage and reformat the operations of the European Investment Bank.

Brexit has had an effect, because they have seen that the UK is moving out. The board of directors has Economy and Finance Ministers of the member states. It influences what the EIB is going to do. If one member state leaves, it changes the dynamic. There are differences between investing in a member state and outside. There are different people who operate, so it causes disruption. Can the EIB invest the same amount in the UK as before? Yes, probably. It depends on the projects that are proposed, but it is not the same any more. There is a change, based on the position of being a member or non-member, in the way lending is done.

John Springford: Could I comment very quickly on whether it is possible even to have a negotiation about the European Investment Bank in particular? One question circulated before the meeting—I hope I am not pre-empting anything—was whether it was possible to disaggregate aspects of the negotiation over the money from each other in a negotiation after no deal.

It is worth thinking about how the negotiations occurred during Theresa May's negotiation. The EU tried as hard as it could and was successful in ensuring that nothing is agreed until everything is agreed. That was one of the key principles through the negotiation. The reason for that is obvious, in the sense that a concession that the EU made could be taken to the bank. It would then have some force of law, and the more contentious issues would not necessarily be dealt with. You might end up with no deal, with some aspects that are beneficial to the UK having been sorted, and some aspects that are not beneficial to the UK not having been sorted.

That dynamic will be in play in any negotiations over the money after no deal. It will be quite difficult to say to the EU, even if you have a pretty good case, "We have a lot of capital tied up in the EIB. May's deal did not allow us to have receipts from future lending done using our capital". With all these arguments, the EU would not be willing to accept that that particular part of the money negotiations could be taken out and dealt with by itself. They would force everything to be done together; I am sure of that.

Dr Jorge Núñez Ferrer: The discussion about the future of the EIB is not about negotiation; it is about discussing it at other levels. It is a question of the EIB itself, defining its future, and then a question of researchers, people and countries deciding how things should be done. It is not a formal negotiation about the future of the EIB. This is not part of the deal with the UK. The EIB is an independent institution, and there are discussions within the EU on how to change it. It is the same with the discussions about the role of the EBRD in the future. It is important that all the important parties discuss it at the level of experts, banking and finance. It is not a political withdrawal issue. It is much more important than that. It is a different level of international financial banking.

Q17 **Baroness Neville-Rolfe:** Going back to the specific programmes, particularly for research, education and culture, there has been running

concern throughout the Brexit debate about their future. In the no-deal scenario, what would be the likelihood of continuing engagement in those? Would the EU be prepared to look at means of mitigating the difficulties of the UK becoming a third country to ensure continued participation?

John Springford: The answer to that question has to be no, and it is worth thinking about the Swiss case. In 2014, Switzerland had a referendum and voted to impose quotas on immigration from the EU. As a retaliatory measure, even though the referendum gave the Swiss federal Government three years to try to negotiate a settlement with the EU, the EU immediately suspended two-thirds of Switzerland's participation in the Horizon 2020 programme. The Swiss have been in the process of renegotiating their relationship with the EU in any case.

The EU wants new rules in the parts of the single market that Switzerland participates in to be updated much more rapidly into the Swiss legal code. It also wants EU citizens living in Switzerland to have stronger rights and to have stronger enforcement mechanisms to ensure that the Swiss abide by those rules. There is a lot of concern in Swiss universities that if that new treaty is not passed they will be shut out of the next Horizon programme, which is due to start in 2021. It seems very likely that, in the event of no deal with the UK, the EU would react in a very similar way to that with Switzerland and say, "Absolutely not", to any participation in the Horizon programmes.

As a final thought, I note that there was a Commission proposal for a regulation in January to allow participation in Horizon 2020 to continue as part of the no-deal mitigation plans that were passed by the Council in March. Ultimately, that regulation did not make it through, although mitigation for Erasmus students, and some funding programmes for peace in Northern Ireland and Ireland for border communities, made it through. I would see it as impossible for the UK to be part of Horizon 2020 if it went to no deal and there was no subsequent agreement covering the provisions of the withdrawal agreement.

Baroness Neville-Rolfe: What made them relax their position in relation to Erasmus? What kind of argument could be constructed to get them to move more positively on something like that?

John Springford: I do not know the exact argument, but I can imagine what it was. If you have Erasmus students either in the UK from the EU side or vice versa, whose time at university straddles no deal, you are potentially leaving some people stranded without funding. When it comes to the UK and Horizon 2020, there is a government guarantee that there will be compensation for projects already in place. The difficulty with Horizon is that the UK has been such a big beneficiary of so many projects because of the quality of its universities, so it would be a very tough sell.

Warwick Lightfoot: John is absolutely right. His answer illustrates one of his earlier comments about Europe's approach to its legal order and

political agenda. Even with Switzerland, they wished to entrench the single market further into the domestic purview of Switzerland. This goes to the heart of the withdrawal agreement, no deal and the rest of it. The difficulty with the White Paper published last year and the withdrawal agreement the Prime Minister negotiated was that too many aspects of domestic policy were going to be caught within the legal order of the EU, which would interact with our own domestic law in unexpected ways and make things very difficult.

I would like to talk about some of these cherished programmes. A large number of the people who come to see you and say they are very concerned about them are lobbyists for public spending. They very much enjoyed taking certain aspects of public expenditure outwith the domestic argy-bargy of the United Kingdom and having them decided in the European forum, because they believe they are more protected from investigation by departments in their spending rounds and the Treasury.

This happened with the environmental payments to farmers within the CAP. For many, many years the Treasury, the Foreign Office and the collective aspects of the Government tried to make sure that those payments were not put into the CAP, until one night Mr Gummer came back and announced he could not do anything about it and they had been put into the CAP. The reason the farm lobbies wanted them there was that they knew they would no longer be exposed to the Chief Secretary giving them a rake-over each year. One reason why many scientists and leaders in science in this country want to have science within Horizon 2020 is that they genuinely believe it is outwith the reach of the Treasury and investigation.

The Erasmus programme has had a number of problems in the United Kingdom. You remember that the United Kingdom voted against it at the European Council in 1987—this is from memory. We so disliked it that we litigated against it in the European Court of Justice, and we lost in a bizarre judgment that said that Erasmus had something to do with vocational training, which it most certainly does not.

In fact, you want all the payments to the farm community, Erasmus and the science programmes to be scored against efficiency, economy and effectiveness in opportunity cost across public spending. If you had the choice in a spending round, would you carry on maintaining Erasmus spending or would you look at the Augar report and say that the money should be perhaps put into FE colleges in St Austell and Knowsley? You have seen aspects of UK public expenditure taken outwith the normal process of investigation and political debate.

If you read the columns of *Nature* and *Times Higher Education*, you will see that Horizon 2020 is a tendentious programme. It does not allocate resources on the basis of Haldane principles: "What is the best science?" It is often based on who you know and where you fit within the bureaucratic framework, and on getting collaboration between countries that might not otherwise have the opportunity to work with another university.

You alluded a moment ago to the transaction costs of proceeding with it. This is very complex. The transaction costs arise because it is a bidding process. Apparently, if you have a bidding process, unless 30% of the bidders get something out of it, the transaction costs are too high. Some 20 years ago, it was running at 25% or 26%. In recent years, it has been running at something like 17% or 18%. *Times Higher Education* has often had articles in it saying, "Well, this is a very expensive process for universities across Europe to actually pursue".

I understand that on its own terms it has not always been successful in encouraging research and development that leads to practical applications of research, partly because UK universities have been so good at taking a disproportionate amount of research for things that would not confirm to that. When it comes to patents and so on, it has been quite disappointing. I would like to see science funding through Horizon put through the normal National Audit Office and Treasury mincer in order to that we are getting value for money out of it and to look at how we can do it better.

It has also led to the crowding-out of domestic science programmes in countries across Europe. Former Chief Scientific Adviser Bob May, who wound me up, got me going and got me to take an interest in this, explained to me that in some European countries they say, "It's all being done through Horizon now, so we'll not do our own domestic science programmes". He also pointed out that there have been quite serious problems in what Horizon will and will not do. It does not like anything to do with genetic investigations. The scientist in Cambridge who is investigating the genome of wheat cannot get any European funding, because they will not do anything to do with GM, genetic engineering and so on. It is a programme that thoroughly deserves a good going over through our own audit departments and the Treasury in the normal way, and then we would welcome it back here.

If we wanted to carry on being involved in the programme, it made sense, we all wanted to do it, the cost was reasonable and it represented value for money, as I understand it, it would be slightly easier to do it now, because we will be outwith the European budget. Every time you got additional funding through the science budget, the net public expenditure cost was higher than the pound you got. It worked out that an additional £1 coming through Horizon meant a loss of Fontainebleau abatement of £2.

It is a very technical thing, and I understand that it goes right back to the original Fontainebleau agreement. For every marginal extra European pound you get, you lose £2 of abatement. In programmes where additionality is also involved, the ratio to the UK Exchequer goes to 1:3. It is part of the nightmare of the Fontainebleau arrangement.

The Chairman: I was wondering whether to declare my interest as a member of the council at UCL, which is not only in receipt of Horizon 2020 funding, which does result from time to time in practical outcomes, but in receipt of funding from the EIB. I do not think I will bother.

Q18 Lord Bruce of Bennachie: This follows from what you just said. It is all very well saying that we should do it all differently, but for a lot of people this is what we are doing and it is about to stop. It will take a long time to reassess it, even if that is the right way to go. The question really is which UK organisations are going to be adversely affected by the loss of funds at the end of October that are not covered by government guarantees.

To pick up on Erasmus, Mr Springford made the point that there is a short-term carry-over of the programme precisely because students were already committed, both here and elsewhere in the EU, but it stops after two years. There is no agreement as to what happens after that. One of the practicalities is that you cannot have a UK Erasmus programme. You either have the Erasmus programme or you have some other kind of programme. It is not just about the UK Government putting in a guarantee, other than a guarantee that we are going to negotiate a continuation of the programme or try to develop something completely different.

Similarly, my friend here is a sheep farmer. If the sheep market collapses because of the tariffs and what have you, what guarantee could they have? The Government have said nothing about that. It is more a matter of what you understand the Government to have actually guaranteed. As I explained earlier, the universities are basically saying, "We have no guarantees at all about Erasmus beyond two years", so any student enrolling now will not know whether their planned third year overseas with Erasmus is possible and will be funded.

What is your actual understanding of what is covered by guarantees? Is it just that the Government have said, "We will", "We might", "We could" or "We should"? What guarantees really are there?

John Springford: I looked up the Government's guidance. The list of what they have guaranteed is broad but not particularly detailed. I echo the concerns that are embedded in your question. The Government have guaranteed structural and investment funds for the 2014 to 2020 period in the UK. Payments will continue after that as projects started within that period come to fruition.

They say the payment of awards where UK organisations have successfully bid directly to the European Commission on a competitive basis, while we remain in the EU, for the lifetime of the project, will be guaranteed. But the question is this: okay, if you have been involved in a collaborative project under Horizon, you may receive some money, but are you going to be shut out of that project as a UK researcher? How is that going to work?

Lord Bruce of Bennachie: Those are things that the UK Government cannot guarantee.

John Springford: No, they cannot, exactly. Erasmus students will be protected. For the payment of awards under successful bids where UK organisations are able to participate as a third country in competitive

grant programmes from exit day until the end of 2020 or for the lifetime of the project, where EU programmes are open to third countries and there is no requirement, like Horizon, to have an association agreement, as with Switzerland or Israel, that may be okay. For those where you must have some sort of agreement in order to participate, that will be problematic.

The final point is about farming. The UK government guidance guarantees the current level of agricultural funding under CAP Pillar 1 until 2020. I then did some more digging and found that it also covered Pillar 2, which is for rural development and environmental projects, as opposed to farm payments. I suppose that is good for farmers, but back in June a National Audit Office report expressed exactly the same concerns as you. It is not clear to farmers yet how that new subsidy system will operate. Because there will be market impacts from no deal particularly strongly in agriculture, it is not apparent how the subsidy system will interact with that disruption and the potential price changes for agricultural products that will ensue.

Warwick Lightfoot: Policy Exchange has done a lot of work on agriculture. We take a serious interest in it as part of the work we do on trade. The Government have been clear that they are going to help farmers get roughly what they are getting at the moment.

In the longer term, one has to ask some first order questions. What is farm policy about? Starting a priori, we would not have anything resembling the CAP. It would be perfectly sensible to resurrect the sheep meat regime, which you may be interested in, as a discrete policy, similar to the old Agriculture Act 1947, which gave a lot of scope for support to people in less favoured areas, so that should not be a difficulty. But things will be done differently, and there will be scope to do things much more efficiently. The losses of consumer welfare that arise out of the tariffs and the awkward transfer payments that are made to farming businesses, where the lion's share of them go to the top third by business income, should be examined in the years ahead and modified.

We should not be scared about being generous in transition payments arising out of no deal and fundamental reforms of agriculture, but we should not say to our friends in farming communities, "Don't worry. It's going to carry on as before". If you have just bought a combine harvester or a tractor, these things are very, very expensive these days. You should see the size of them in the Devon lanes. The world really has moved on. The average farmer is 59, so they are in their late 50s. We have to help people amortise those investments over time, but we have to move into a new place from where we are at the moment. We cannot have the framework of agricultural support and international protection that we had before.

In or out of the European Union, these are changes that will come to agriculture. At some point, people will take an interest in the size of the farm budget, which is still around two-fifths of the EU budget, and ask some pretty probing questions about the balance of spending within the

EU. There will be much greater international pressure to open up agriculture markets. You will have seen the recent negotiations with the Latin American countries in the Mercosur bloc, which are already presenting quite a challenge to our continental neighbours. We may find in the UK that we are bringing forward and expediting some changes that will inevitably happen.

Lord Bruce of Bennachie: That is fine, but it is not very comforting to people facing a cliff edge in six or seven weeks' time.

Warwick Lightfoot: I would say to someone running a farm who is facing a cliff edge that the Government are very clear that they are going to maintain the major tariffs that protect agriculture at the moment—that is one thing that has come out—and that farm payments will be maintained. In the medium term, we will have to examine those issues again, but the Government are very clear that people who are receiving payments will carry on receiving payments.

You are probably going to find that the regional development dimension of all this, rural development and structural investment, will increase. In a world without some of the complex rules of EU procurement and state aid rules, the Prime Minister and his colleague the Chancellor have some very ambitious investment and regional development plans. They may find it easier to accomplish that ambitious agenda without some of the constraints of the state aid rules and so on.

Some of us around this table may have a little hesitation, every now and then, as to what it might lead to as you exit some of those rules, but I would not advise the people looking for that kind of support to be worried.

Q19 Baroness Neville-Rolfe: I have a lot of interest in agriculture. They face quite a few challenging transitions, whatever eventually happens, but I would like to talk about the Government's readiness in this area. Whether it is Horizon, agriculture or structural funds, do the Government have the necessary structures in place to provide the funds that have hitherto been administered by the European Commission, which of course has its own way of looking at bids and so on? Is there going to be disruption, particularly if there is an early exit? Will there be control problems?

Warwick Lightfoot: My understanding is that the great bulk of payments to farming businesses are made through UK entities and the devolved Administrations in Scotland, Wales and Northern Ireland. Many of the problems in the administration come, as I understand it, not always from the EU end but from the clumsy end in the United Kingdom.

One of the great medium-term benefits, in my judgment, of leaving the European Union is that when a farmer does not have their payment it will be much easier to identify the cause of the problem than it has been in the past. I understand that some of the audit issues, for example, have been closer to home than we would like to own up to rather than elsewhere. In the longer term, this will lead to a clarification of roles, but

in the short term it should be possible, certainly in relation to agriculture, to make the payments.

I would have thought that the structure of UK Research and Innovation and the range of funding councils that we already have in place should enable us to weather any uncomfortable transitions we have to make, but a lot of effort will have to go into it. It is not an accident, I suppose, that we have a Minister in the form of Mr Gove who has responsibility for it.

John Springford: It is more problematic in farming than in structural funds. As an economist with a liberal tinge, I do not disagree with some of what Warwick was saying, but the problem is that the EU regime of subsidy also interacts with the EU's tariff structure. If you are a farmer in the UK who is now facing a different tariff structure because your exports are now subject to tariffs and quotas, the prices of your agricultural products will change massively, particularly for those farmers who send a lot of agricultural goods to the European Union.

The subsidy that is there as an EU member, with the EU's tariff all around you, will not marry with the changes in prices that happen as a result of there being, say, blockages at Dover-Calais, or because you are subject to tariffs or do not have a big enough veterinary inspection regime to cope with the volume of traffic. That is the really crucial issue in farming. From my, admittedly not huge, research into it, it is worth scrutiny.

As for structural funds, the government guarantee is a bit easier to administer, because if a road or some physical infrastructure has been agreed, spending has already started and then we crash out, the entity constructing that infrastructure can apply to the Government and say, "Look, this is what we agreed so can you give us the money?" That is easier, because it does not interact with tariffs in the same way.

Baroness Neville-Rolfe: That is as long as the departments are ready for it.

Warwick Lightfoot: We have a lot of experience in dealing with untoward events in agriculture. You only have to think of BSE or foot and mouth. Interestingly, although it was a very worrying time for the farming community, often when you spoke to the agricultural accountants in places like Liskeard, they would tell you that in the end farms sometimes came out better from it than they would have done in the normal regime. There will be a lot of scope for the Treasury to support the departments involved and the devolved Administrations. We have done this before when there have been things such as BSE, and I see no reason why we would not manage to do it again.

Baroness Neville-Rolfe: What about where you are jointly bidding, as with Horizon? I do not know how Erasmus works. You are getting teams together and money is being sent through. Is that going to be all right or is it going to have problems?

Warwick Lightfoot: That will become much more difficult, because the EU will see us as a third party. The UK has to recognise the fact that, if it leaves the European Union, it has to leave those sorts of institutions or remain part of its legal order. If it does not want to be part of its legal order, it will not be able to do those things. That means you will not be able to collaborate through the Horizon structure, and we will have to develop new structures.

For example, I would have thought that it would be very interesting for universities such as yours to collaborate with universities in the United States, Canada, Australia, Japan, China and India. Is Lord Desai still a member of your Committee?

The Chairman: Yes.

Warwick Lightfoot: If Meghnad was here today, he would be able to give us some guidance on the huge opportunities with the all-India research institutes. We can do this in a different way.

Scientists' main worry was that if this budget was still in the UK, at some point the Treasury would take the money away, and if you could put it through a European framework you would be protected. Fortunately, starting with the first appointment of Bob May as the Chief Scientific Adviser, and the attitude of the last Labour Government, the coalition Government and the present Government, there is a real understanding in Britain of the importance of science, which we did not have before.

It should be about spending more on science and raising the amount we spend, within both public spending and national income. That will be the direction of travel. You do not necessarily have to do it through Horizon 2020. There may be better ways of doing new collaborations outside. Where there are problems, we have a chequebook. If the problems turn out to be greater than we were expecting, there is no better time for the United Kingdom Government to borrow to finance transition arrangements, because debt service charges are very low. We are in a very strong position to do that.

Dr Jorge Núñez Ferrer: It is nice to have positive ideas. Speaking about the economics profession, I remember very well how some real economists, not from certain institutions, warned about the financial crisis and wrote very detailed explanations of what would happen, and they were right. But they were only "library rats" people behind a computer. Nobody listens to them on television. They are not the ones who are visible. Data crunching is hard; speaking on television is very easy. Sitting in a "think-tank" making up stories can be very easy if you are loose with data. The most important aspect is the discipline of looking at numbers, which is sometimes unpleasant because data may say the opposite of what one would expect, as a researcher.

One has to be careful. The points that were made about leaving, no deal and so on are serious, because you are speaking about cross-border production supply chains. Multinational companies are not working

nationally. Someone might say that Bayer or others are German, but they are everywhere. They have 150,000 people around the world. They are looking at their supply chains. They look national and they speak very nice German, but these operations are global, and they are part of the EU.

Not so many things will be different in the sense of what someone in the UK can do within or outside the EU as a company with non-EU contacts. In the research area, you may have less need of the EU from a UK perspective. But it certainly is not the same for many EU members; in Belgium a university became one of the world's top centres of biotechnology and medicine. It only did this because, thanks to Horizon, it could go beyond its national borders. For a lot of countries, working across national borders creates sort of integrated cross-border departments in different institutions. It is quite important for them.

Will it be possible to just claim that "we can go with the US or with India" and replace EU programmes? I do not know. In some cases, they are very different institutions. They are very hard to handle, such as with Indian institutions. It is very tough to work at that scale. It is not easy to jump over. I understand your point, but this requires a lot of thinking and work, not a two-month thinking period. It is important that the UK has an agreement or some kind for future deal with the EU, so it has the access you want to have to Horizon and expand beyond the EU too.

Even if you think you can get better things outside the EU than if you were inside it, you still need to be able to participate with your neighbours. This needs an agreement. That is why it is important to have a deal. I am worried about no deal. I thought the withdrawal agreement was an agreement indeed about a "withdrawal" transition, and then the EU and UK would sit down for the time that is needed to design a future relationship. The problem with that is that politics change and politicians change. For present politicians it seems it has not been acceptable not to know what is going to happen during the withdrawal period and leave it to other to negotiate it.

I understand it when some people say, "I don't like it (the Withdrawal agreement), because it means years of wondering who's going to do what, and maybe it's not what I want". There are lots of deals to be made after no deal, and it is not that Indian or American research centres and so on will just be there to collaborate under clear rules. Easy trade will also not appear immediately. The issue about trade is not even tariffs, it is the non-tariff barriers. The non-tariff barriers are the most difficult part of trade. It is not about customs. A permit is needed to sell into India or China. It took a company that I will not name nearly five years to get an import permit for one product. By that time the product was a bit old. Trade is hard.

In the European Union, the situation at the moment is unique. Everything flows because there are common rules. If you want to be free from these common rules, that is fine, but it is not that outside there are no rules. There are the rules that the trader imposes. France cannot stop you

coming over the channel with a product and selling it there. There is nothing to stop that, because there are these common rules. When those are not there, it is not that you can just cross the border to the US or Mexico and say, "Here, I have this. I will sell it". No, it does not exist. That will be the difficulty: to maintain your trade relationships with the world and the EU, and to have trade functioning after Brexit to an equivalent benefit.

No deal just breaks that. It has a lot of consequences. Yes, it is good that the UK can start financing its own farmers, as Mr Lightfoot was saying, but it is also a national budgetary issue. Will the budget go through parliament? I agree with the comment on the opacity of the CAP. Take French farmers, they are very scared, if the policy is renationalised the national court of auditors gets more directly involved and people will have a better look at the money distribution. That is true, but I have been saying for 20 years that it is a problem, so it is not something new.

In the long term, the CAP will have to face its demons. That is true. But the CAP, in the whole trade and single market picture, is quite small. I have to say, that in recent years, I have stopped looking at the CAP, because there are so many more important things to do. Before, when the CAP was taking all my time on the EU budget, it was much easier to deal with the CAP. Now I have to deal with the EIB. The EIB has a portfolio of €500 billion. That is like all the structural funds. There are so many more things than the EU budget, so I decided that agriculture is a waste of my time. Yes, what Mr Lightfoot is saying is true, but there is still a cost to the Exchequer.

Warwick Lightfoot: Yes, and the consumer. My home town is Plymouth. About half a mile down the road from where I live, there is a group of eight high-rise flats called the Mount Wise flats. When people go out of them, they go into Lidl, Aldi and Morrisons. About two-thirds will be living on benefits. They will be paying more for textiles and more for food as a result of the tariffs. It is not theoretical, if you are living on a low budget or on benefits, to have food prices be higher than they otherwise would be.

As for think tanks thinking up nice ideas, we did a lot of work on the gravity trade models, which were at the heart of the critique of coming out of the European Union. They were based on 150 data points from countries, but the difficulty was that many of them were emerging markets, former colonial possessions and former transition economies, where there was no data or, if there was data, it was defective. Could you have a read-across from an established identity that you found in one of those economies and apply it to a large, open, flexible economy like the United Kingdom?

There is this huge problem of identification, and the specification of the equations was open to a lot of interrogation and questioning. That is why, at the heart of this, the profession, not just in government departments but in universities and international organisations, has not come out at its best.

The Chairman: Can I congratulate you on ending where you began, with an attack on the economics profession? I thought, in the interests of fairness, I ought to give Mr Springford an opportunity to attack the economics profession as well. But I wanted to draw the session to a close and say thank you for a very interesting and extremely stimulating session this morning. Thank you very much indeed.