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European Union Committee

24th Report of Session 2007–08

**Priorities of the
European Union:
evidence from the
Ambassador of
France and the
Minister for Europe**

Report with Evidence

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Priorities of the European Union: evidence from the Ambassador of France and the Minister for Europe

1. It has been our practice in recent years to take evidence from the Ambassador of each incoming Presidency country on the priorities of that Presidency. It has also been our recent practice to take evidence from the Minister for Europe after each European Council to hold the Government to account for its actions at the meeting.
2. In this report we publish for the information of the House the oral evidence given to us by His Excellency Mr Maurice Gourdault-Montagne, Ambassador of France, on 10 June 2008. The French Presidency runs from 1 July to 31 December 2008. We also here publish the evidence of Mr Jim Murphy MP, Minister for Europe, about the European Council of 13–14 March 2008, given on 25 March 2008. The Minister has since given oral evidence to the Committee on the June European Council; this evidence will be published shortly and is available on our website.¹
3. The key topics in the evidence from the Ambassador, discussing the French Presidency priorities on 10 June, are:
 - Biofuels (QQ 1, 11–12)
 - The budget (QQ 9, 13–14)
 - Common Agricultural Policy (CAP) reform and food security (QQ 1, 9–11, 13–14)
 - The context of the Presidency, including the Lisbon Treaty (the Ambassador gave us this evidence before the Irish referendum on the Treaty) (Q 1)
 - Energy and climate change (QQ 1, 7–8)
 - The European Security and Defence Policy (Q 1)
 - The European Security Strategy (QQ 1, 15–16)
 - Financial stability (QQ 1, 22–23)
 - French political and economic reform (QQ 1, 11)
 - Genetically Modified Organisms (GMOs) (Q 11)
 - Immigration and asylum (QQ 1, 17)
 - Investment into Africa (Q 24)
 - The Quartet and a Palestinian state (Q 20)
 - The selection of a President of the European Council, a High Representative and a President of the Commission under the terms of the Lisbon Treaty (QQ 2–6)

¹ http://www.parliament.uk/parliamentary_committees/lords_eu_select_committee.cfm

- The Slovenian Presidency (Q 1)
 - Small businesses (QQ 1, 21)
 - Trade (QQ 1, 9, 11)
 - Turkish accession to the EU (Q 18)
 - The Union for the Mediterranean (Q 19).
4. The key topics in the evidence from the Minister for Europe, discussing the March European Council on 25 March, are:
- Better regulation (QQ 38–39)
 - The budget review (Q 46)
 - Carbon leakage (QQ 55–56)
 - Climate change and energy, including biofuels (QQ 51–56)
 - Climate change and international security (QQ 49–50)
 - Data protection (Q 37)
 - The Doha Development Round (QQ 44–46)
 - Financial stability (QQ 61–65)
 - The free movement of knowledge (QQ 33–37)
 - The Lisbon Strategy, skills and competition policy (QQ 26–32, 37, 46)
 - The Services Directive and small businesses (QQ 40–43)
 - The Social Agenda (QQ 46–48)
 - The Union for the Mediterranean, including its effects on Turkey (QQ 57–60)
 - VAT concessions for eco-friendly goods (Q 54).

APPENDIX: RECENT REPORTS FROM THE SELECT COMMITTEE

Session 2007-08

The Commission's Annual Policy Strategy for 2009 (23rd Report, Session 2007–08, HL Paper 151)

Priorities of the European Union: evidence from the Minister for Europe and the Ambassador of Slovenia (11th Report, Session 2007–08, HL Paper 73)

The Treaty of Lisbon: an impact assessment (10th Report, Session 2007–08, HL Paper 62)

Session 2006-07

Evidence from the Minister for Europe on the Outcome of the December European Council (4th Report, Session 2006–07, HL Paper 31)

Government Responses: Session 2004–05 (6th Report, Session 2006–07, HL Paper 38)

The Commission's 2007 Legislative and Work Programme (7th Report, Session 2006–07, HL Paper 42)

Evidence from the Ambassador of the Federal Republic of Germany on the German Presidency (10th Report, Session 2006–07, HL Paper 56)

The Commission's Annual Policy Strategy for 2008 (23rd Report, Session 2006–07, HL Paper 123)

The Further Enlargement of the EU: follow-up Report (24th Report, Session 2006–07, HL Paper 125)

Evidence from the Minister for Europe on the June European Union Council and the 2007 Inter-Governmental Conference (28th Report, Session 2006–07, HL Paper 142)

EU Reform Treaty: work in progress (35th Report, Session 2006–07, HL Paper 180)

Remaining Government Responses Session 2004–05, Government Responses Session 2005–06 (37th Report, Session 2006–07, HL Paper 182)

Correspondence with Ministers January–September 2006 (40th Report, Session 2006–07, HL Paper 187)

Minutes of Evidence

TAKEN BEFORE THE SELECT COMMITTEE ON THE EUROPEAN UNION

TUESDAY 10 JUNE 2008

Present	Blackwell, L	Maclennan of Rogart, L
	Cohen of Pimlico, B	Plumb, L
	Dykes, L	Roper, L
	Grenfell, L (Chairman)	Sewel, L
	Harrison, L	Tomlinson, L
	Howarth of Breckland, B	Wade of Chorlton, L
	Jopling, L	Wright of Richmond, L
	Kerr of Kinlochard, L	

Examination of Witnesses

Witnesses: HE MAURICE GOURDAULT-MONTAGNE, French Ambassador and MR DIEGO COLAS, examined.

Q1 Chairman: Ambassador, we are delighted to welcome you to our Committee and thank you very much for taking the time to come and meet with us. As you know, it is a tradition of this Committee that we meet with the Ambassador of the incoming Presidency, and it is quite rare to meet with the Ambassador before the Presidency has started, so you may find yourself under some constraints because you have not even started the Presidency yet, but I think you have an idea of what we want to talk about. I understand that you would like to make an opening statement and you are most welcome to do so, so you have the floor, Ambassador.

HE Maurice Gourdault-Montagne: Thank you so much, Chairman, my Lords, for receiving me today and giving me the opportunity to give you information about the French Presidency of the European Union, starting on 1 July. First of all, allow me to give a bit about the context of our Presidency and then to give you some elements about the French contribution to the reforms which are currently an ongoing process in France and then the major priorities. I will not be long so that I can answer your questions afterwards.

As to the context of our Presidency precisely, this should be, if the simplified Treaty is ratified, the last rotating Presidency and we have also, we can say, a short window of opportunity for action as we have no major political event during our Presidency at the European level, not as the Czech Republic afterwards have with the European Parliament elections or the Swedish Presidency with the renewal of the Commission. We do not have any major negotiation to complete compared to the Danish Presidency in 2003 with enlargement or recently the German Presidency with the simplified Treaty, so in fact the intention of the French Government is to push forward some issues which are of significance to the

citizens and show that, yes, we are in a process which puts all the institutional issues behind us if the Treaty is ratified. We take over from the Slovenian Presidency which was in many sectors a success in the Balkans, with all the process in Kosovo with Serbia, as well as on the questions recently solved of the internal energy market, the unbundling last week and more recently yesterday with the two social services Directives, the one on temporary workers and the one on working hours where we could manage, with in particular France and Britain working closely together, to find solutions around which to rally the rest of our partners.

Now, France is at the moment embarked on a programme of reforms on which President Sarkozy has been elected which are the contribution of France to generating more growth in the European Union which is the main question for us at the moment. These reforms are focused on three areas. First of all, we want work to be at the heart of our economic policies, hence, everything which is done with the 35 hours, the new possibilities to rely on overtime, which have been taken up by more than half of the French companies in the last six months, the new labour contract. We are focusing also on more entrepreneurship and competitiveness in the French private sector and all that is tabled in an Act on the modernisation of the economy in France which is currently debated in parliament. All that will deal with the previous items I mentioned, but as well it will deal with R&D, with university reforms and the facility even to renew and expand skills. Then we have the last point which is the general review of public policies, of which the aim is to reduce the size of the State to create more room for manoeuvre and reduce taxes, and this happens through the non-renewal of one half of civil servants going for retirement, there will be the merger of agencies and

*10 June 2008*HE Maurice Gourdault-Montagne and Mr Diego Colas

there will be as well some reorganisation. For instance, the judiciary map in France has been totally reorganised by the suppression of one-third of the tribunals in France, so these are major reforms, and also lots of outsourcing in many sectors, for instance, in the visa delivery so we shall follow the path actually already taken by many other major partners and the United Kingdom, for example. The last point is the opening of the French labour market to eight eastern countries of the European Union. This has been announced by the President which shows actually the spirit and the dynamic that we would like to give to our Presidency before we start it.

Now, what are our main priorities? First of all, energy and climate change. On energy and climate change, we shall have to prepare the negotiations of the Copenhagen Conference at the end of 2009. We have to put into force the package which has been decided during the German Presidency and, in particular, we have to create the framework in which all these measures which should lead to the reduction of emissions of CO₂ have been envisaged, so our main task will be the revision of the Directive on the Emission Trading Scheme, and we can come back to this issue afterwards. We must, therefore, facilitate a negotiation and we would like to open as well the discussions about what will be the consequences on our industries without any distortion of the market. That is the problem and, if we want to reduce the emissions of CO₂, we need some investments and, if we need some investments, how do we share the burden of these investments, so there will be discussions on so-called “carbon leakage”, how to prepare a situation which would lead to a success in the negotiations at the end of next year.

Another main priority will be immigration. We need immigration, we need skills, we need immigrants, but we also need to control the flows of immigrants and we know that we are in an interdependent system, so we have prepared for long now what we would call a “pact” on immigration. This will be a sort of set of principles responding to some questions: first of all, how to exert better control on frontiers; secondly, how to have a better integration of immigrants, and this would be left actually to the national regulations on the basis of the principle of subsidiarity, but there could be some convergences. We would like to have better treatment of illegal immigration, how to pool, for instance, the return flights together with some partners and how we can address the question of the readmission agreements with the origin countries. We would like to deal also with the question of asylum because the traditions we have in our countries are very different, one knows that, so how to have something in common so as to avoid distortions of flows towards countries where asylum would be more favourable, and then also the question which is essential and crucial to us which is the co-development question, in fact how to help countries

to have their people prevented from emigrating because they would find jobs in their own countries and, if they leave their countries, it is because they cannot stay, so how to help countries to have their populations stay.

Another priority will be the European Security and Defence Policy. We do not have in mind at all during our Presidency any kind of European army; I want to stress that this is not the point because it is written sometimes here or there. The point is that we have to address some new threats and give us some capacities of security and defence. This issue from the French point of view has very much to be linked with the assessment of President Sarkozy to give France its full place, its full role in NATO. We have already started the process of getting closer to NATO and we are not at all in the situation of 1967, as you know well, but President Sarkozy would like for us to be at the fore of NATO at the same time as we develop some European capacities, so, in that regard, what shall we do? First of all, we would like to update the European Security Strategy which was written in 2003. We consider that this Strategy, as it is now, is obsolete. First of all, we have now 12 more Members of the European Union and then there are some threats which were not so obvious at the time, the ballistic threat, piracy, some energy security issues regarding the protection of transport, all the arms trafficking; all these types of things have to be taken into account in a new European Security Strategy. Secondly, we think we should draw some lessons of the operations of the European Union. There have been 17 operations led under the framework of the ESDP which were on all the continents, in Indonesia, which you know perfectly well, in the Middle East, in Africa many times, and at the moment in Chad, where EUFOR is working well. So what can kind of lesson can we draw from that? The idea also would be to address, in particular, the post-conflict stabilisation process with European means, so now we need clarification through discussions amongst the partner countries on the missions, on the commitments, on the nature of the missions, keeping in mind that of course, because NATO is the hard core of our security, that this matter would be neither in competition with, nor a duplication of, what NATO is doing (this would be absurd), but also on that we have to discuss a lot and continue to participate in the NATO transformation which we have accompanied from the beginning, since it was launched. Then the last point would be work on common procurement amongst European countries, and there is an agency which has been set up, and this is a slow process, but it should be also a way to avoid duplications in the armament industries.

Another issue which will be difficult, but to which we are committed and on which, I would say, right now there is no taboo on is the CAP issue. The CAP issue

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is dealt with through what is called, as you know, the “health check” which is a sort of re-evaluation of the CAP on some points, within the framework of the reform of 2003. The context of the CAP has already changed a lot and it continues to do so, so we are actually putting a set of questions about this issue, taking into account that there is a European specificity as we have seven million farmers and the United States have only two million, so this is something which makes us very specific. The questions would be: what form of food security do we have for Europe actually at the time when we are net importers of food in Europe and these imports are growing every year; what is the role for Europe in the present food crisis; what can we do regarding a balanced development of territories with the CAP; what are the environmental issues and all the discussion about the debate about biomass, how to encourage investments by producers having in mind that there are risks, climatic and sanitary risks; what kind of sanitary standards do we want for our consumers when importing food and not being in a mood of protectionism, but as an ordinary requirement from consumers themselves? So the EU is ready, as everyone knows, through the Doha process to dismantle the export subsidies, it is ready at the European level—this is in the mandate of Mr Mandelson—to reduce by an average of 50 per cent our custom duties, but what can be done? Everything is open on these issues, and there is a last question which is: what can we do so that there is a balance between food crops and export crops in the less-developed countries which cannot afford to go on the international market and cannot afford to invest in export crops?

Then the last priority is economic and financial issues. We are working very much, in particular, with the United Kingdom. The Lord Mayor of London and the City of London have visited Paris and next week our Finance Minister is coming back to London and delivering a speech to the City. We are working on financial stability since the financial turmoil started at the end of last year. We are working on the financial supervision in the banking system as well as on Insolvency II, and we are working also, regarding the economic growth, on a European Small Business Act which would be inspired by the American one and would give more opportunity to SMEs to have access to public markets, freed from red tape and to have more possibilities to develop, so these are the bases of our Presidency. There are also the external issues and we can come back of course; I am at your disposal to answer your questions on these other issues.

Q2 Chairman: Thank you, Ambassador, for that very informative opening statement which gives much food for thought for members of the

Committee, some of whom will be following up on the specific issues and priorities that you raise from the point of view of their own particular expertise as Chairmen of the Sub-Committees that deal with these issues. I just wanted to ask you one question about what I believe will be an important responsibility for the French Presidency and that is how you are going to handle the organisation of the choice of a President of the European Council because that has to be done, does it not, by 1 January at the very end of your Presidency? Could you tell us a little bit about what you are going to be able to do about that, how you are going to organise it?

HE Maurice Gourdault-Montagne: This is, as you said, Lord Grenfell, an important issue which may be decided during our Presidency and before 1 January if the Treaty is ratified, and enters into force. For the moment, there are consultations amongst the Governments. There are in fact two profiles actually. Either we want a visible profile for exerting the responsibility of a stable President or we want someone actually who goes direct into the mortar and deals with all the issues. This puts the question of the balance and the way it works between the stable Presidency and the rotating Presidency and, on this, there are not so many things in the Treaty itself actually. So, first of all, we need to have someone who is there to give the right answer when one wonders who is Europe, that is important, and then, according to the choice of the profile, we shall set the basis of how it will be run in the future, so for the moment things are very open. I would not mention names here because it would be improper. There are some names which have been raised, but none has yet been chosen; we are discussing with our partners. Some say that there should be a balance between the genders, between the parties and between the north and the south, the east and the west, so we should try something which makes a consensus, and we shall try our best to reach a consensus, but for the moment the profile is not yet chosen and we still have choice and time for discussion with our partners.

Q3 Chairman: So the sequence is first the profile, then the choice of personality and then the definition of the precise role? That is the order in which you foresee it going?

HE Maurice Gourdault-Montagne: If I may add, Lord Grenfell, there is also the question of the High Representative.

Q4 Chairman: Yes, it has to be a balance between the three.

HE Maurice Gourdault-Montagne: Yes, exactly.

Chairman: Thank you very much indeed. Well, let us go now into some of the substance of what you have been speaking about.

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Q5 Lord Tomlinson: My Lord Chairman, I just had one very small point. When Mr Kouchner espoused the virtues of Mr Felipe Gonzalez, he was speaking in a personal capacity and not reflecting the views of the Government?

HE Maurice Gourdault-Montagne: Lord Tomlinson, there are lots of names actually raised and the name of Mr Gonzalez is one of them. He is the Chair of the Wise Men Group set up in December 2007. He was received in Paris in this capacity as the Chair of this group which is discussing the future of Europe after 2020, but for the moment there is nothing formal.

Q6 Lord Roper: I have one very small point. Ambassador, the Treaty says that the President of the Commission should be chosen “taking into account” the results of the European Parliament elections. How is it possible then to get a balance before those elections have taken place?

HE Maurice Gourdault-Montagne: That is a point which is, if you will allow me, Lord Roper, a bit different. As you know and as you have just said, the Parliament will have to consider the choice of the President of the Commission as its own choice, which is not exactly the case of the two others, so this has to be to a certain extent separated from the two other issues.

Chairman: Could we go on then to pick up on what you were saying about climate change and energy?

Q7 Lord Jopling: Ambassador, is it not over-optimistic and unrealistic to suppose that the Union by the end of this year can get a consensus on climate change and energy?

HE Maurice Gourdault-Montagne: As I said, Lord Jopling, our purpose is in fact to push forward this issue. We have a package which has to be implemented, so there are issues on some Directives, the one arising on the ETS which I mentioned, a new Directive on renewables to share the burden on this issue as well, and a Directive which is being proposed so that other sources of the greenhouse gas effect are also taken into account, so this is, I would say, work in progress where we would like to go as far as possible, as well as the discussion on carbon leakage which is something some say should not be formally discussed before 2011, but which we think is necessary to address before the meetings of next year. So we shall do our best to go as far as possible as we think is necessary so that the basis for an agreement in Copenhagen is reached. We are in fact sharing views with major partners on these issues in the European Union, and with the United Kingdom we are very close on these issues, as we are since the Gleneagles Summit where in fact the targets were defined by the then Presidency of the G8, chaired by Prime Minister Tony Blair and then, during your Presidency of the European Union, it has continued,

so it is a long process in which we are now continuing the job already done. With the Germans, as maybe you have seen yesterday, there was an agreement on the CO₂ emissions of cars, so on all these issues step by step we are trying, as I say, to create a basis for a consensus. Whether it will be reached, I do not know, it is difficult to say, but the time for this convention at Copenhagen next year is very close to us and, if we do not want any vacuum after 2012 for the starting post-Kyoto era, we need to reach something as early as possible.

Q8 Lord Dykes: Further to that, Ambassador, do you think that the United Kingdom and France are setting a very exciting example on renewables? Do you not think it is a bit modest, our targets for the two countries? Should we not have a greater sense of urgency on this matter in comparison with Germany, for example?

HE Maurice Gourdault-Montagne: As you know, we are starting from different points actually and the starting point for renewables in France is about 8 per cent on renewables. Your starting point is lower, if I am not wrong, so in fact we are setting objectives which are very ambitious for ourselves. It is a matter of political will and also of practicability and bilaterally, we are working very much on that and we are sharing a lot on these issues. Also in France regarding the renewables point, which has not been accepted by the Commission, we are producing non-carbon energy with all the nuclear capacity, so we would like this to be taken into account as well. The question is whether all these efforts are done for decreasing non-carbon energy or not. On these issues this is very ambitious, but we cannot but continue and try to be proactive and try to go as far as possible.

Chairman: Ambassador, as you know, Lord Sewel on your right is Chairman of the Sub-Committee that deals with agriculture and the environment and, as you also know, as indeed you informed me, he has recently met with Minister Barnier, and I am going to ask him to follow up on the CAP health question and then Lord Plumb, who is a member of his Committee who also is a former President of the European Parliament with a very, very distinguished background in agriculture, so you could not ask for two better interlocutors.

Q9 Lord Sewel: Yes, you are not going to get a better one than me! Ambassador, there are two questions really, one to do with the short term and one to do with the slightly longer term. The short-term one really is about the CAP health check. We now have the Commission’s proposals and it falls to your Presidency to work on achieving a consensus. How easy do you think that will be, given what the Commission has said, and where do you see the areas

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of difficulty? The second question, I think the longer-term one, is really as a result of the pretty sudden change in the sort of global context of agriculture. We now have the UN Secretary General saying things like members of the UN should increase food production by 50 per cent over the period to 2030. Now, that would seem to me to be such a radical change that it seems to me it should have profound implications for European agriculture and bring into question the whole sort of future nature and structure of the CAP, so I would be grateful for any observations you have on those two issues.

HE Maurice Gourdault-Montagne: I will be frank with you, Lord Sewel. I do not have the answers because the debate has just started actually and, when it was said that we would have this re-evaluation of the CAP actually, we did not know that the context would have been changed completely. Whether it will be easy and what are the difficult points, I cannot tell you. We are ready as far France is concerned, to discuss all the issues, but we are not sure that dismantling completely the CAP will be the proper solution. There is the link with the food crisis at the moment and the question is: what is the role of Europe in the whole context? There is the question of the Doha Round and I would put it aside actually because at the moment, when you see the new Farm Bill in the United States which preserves all the subsidies that were given before, I would say it is a setback for the present process. When we see Brazil or many other countries putting some export taxes on their own agricultural products, it shows that things have changed completely in the world trade system, so the main issue to deal with, according to us, is first of all, what do we do in favour of the less-developed countries, what is made for their food security, what is the place given to food crops which they have been growing in the past and export crops. Regarding our continent, regarding the European Union, yes, the time for export subsidies is completely over and already it has been halved, as one knows very well, since the 1990s, and we can go further. This discussion will be linked one day with the budget. What are the means that we are ready to put in the machine so that it works? These are only questions at the moment and there will be lots of discussions about modulation, about the capacity of each country to go back on a national basis on some issues, on the size of the exportations. There are issues, which you know very well, which are environmental issues to which we attach importance as well and also the balanced development of territories and, for instance, when we think of the decoupling which will be a major issue, we are convinced that, for instance, in the mountain areas, if there is too much or only decoupling, there will be no longer any livestock farms actually which would be a major problem because why have cattle and devote so

much effort if there is no payback or no payoff from that? That is something important. The quotas, for instance, the quotas for milk, yes, the quotas are questionable. Yes, there were huge bulks of butter in the past, but this is no longer the case now and the reserves of food in the whole world have declined by 30 per cent, so what do we do in that regard? There is also the question of the balanced development of territories which is linked with all these issues, so this is a comprehensive issue and, when we touch one aspect of it, then we touch the others. On these issues, as you have a position which has been always, I would say, different from ours, we need a discussion. If I may say, you handed over to the French Minister for Agriculture last time your Committee's report on the CAP and we are scrutinising this report, it is highly interesting, and there is a basis for discussion on every paragraph actually and we need each other to discuss more these issues at the moment.

Q10 Lord Sewel: Specifically on the health check, and I do not want you to commit in particular areas, but do you see the Commission's proposals as being a suitable base to take forward the discussion and work towards a consensus?

HE Maurice Gourdault-Montagne: It is a suitable base, yes, for sure, and this is the prefiguration of what one day the CAP should be. That is what I would say.

Q11 Lord Plumb: Ambassador, you mentioned two things, in particular, of many things in your opening remarks, one being food security which is now being seen, I think, throughout the whole world as one of the major issues, not just in respect of Europe, but also the rest of the world, particularly the developing countries. You also asked what role should we play in the present crisis. That inevitably means some fairly dramatic changes in the direction of the CAP if we are going to meet those commitments, and I would like to ask you what is the attitude at the moment in France to biofuels because biofuels have been the talking point? Yes, we can produce enough for both biofuel and for the food market, can we? Is that an issue that French agriculture is now looking at? In those so-called "dramatic changes" and in that context, I think you referred to the American scene and the proposals that they have at the moment in the Farm Bill in America. It does seem that they have not recognised the importance of trying to bring about the necessary stability which, I think, is what matters. The instability we see now appears to be between one sector and another, the arable sector and of course then, as you have just said, the livestock sector. If one is at the expense of the other, what happens at the end of the day and where is the food coming from? These are issues that almost seem to be insoluble at the moment, but they have to be resolved and I, for one,

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hope that Europe can see the need for change to see the positive aspects of what we are doing and, I accept, within budget control because you cannot go on for ever feeding through the budget yet more unless we know exactly what it is being used for. There are 1,001 questions, my Lord Chairman, that we need to follow up on which need a lot of further discussion, but these are the areas of concern.

HE Maurice Gourdault-Montagne: On the question of biofuels, I remember that three years ago or four years ago biofuels were the solution to everything and very soon one became aware that this had environmental consequences, it was a waste of water, but the investments were made. Actually, for the moment France is producing some biofuels, we have some projects, but we are very much debating and thinking that, yes, maybe we should put an end to this, to continue with existing plants for biofuels, but not to develop further because of all the drawbacks I was just mentioning, so this is, for sure, not a solution at the moment and not a solution to be exported to other countries. We have another issue in France which is the issue of GMOs, as you know, which is an issue on which we are working under the principle of precaution. At the moment there is a bill which was passed into legislation in the parliament which gives us a bit more time to see, on a scientific basis, where we go, so it is an issue on which we are not really progressing, but on which the political debate is very sensitive and on which we have to be very, very cautious. These are all difficult issues which are linked together, although not exactly the same. On the question of America, I do not have any comments actually. I agree with your point of where is the balance actually, but this is very much linked also with the developments at stake in America and one does not know exactly yet what the future administration will be willing to do. What we are very much concerned about is that there will be a movement back to protectionism which is something that we cannot but fear.

Q12 Lord Jopling: Ambassador, I want to follow up on Lord Plumb's question, and I should declare an interest as one who has significant benefit from high grain prices. I remember, when I was Minister of Agriculture many years ago, that the French and Italian Ministers got together, I think it was Rocard and Pandolfi from memory, and came up with this great suggestion of Valhalla of using grain and other vegetable products for making biofuels. When we looked into it, it was based on totally bogus economics and one wonders whether that still is the basis of the move towards biofuels. I would just quote you a comment which was made on the Front Bench here yesterday where Lord Howell said, "Was a distinction made between energy-efficient biofuels made from cane sugar which came from Brazil and

biofuels produced by corn farmers in America and Europe which are energy-inefficient?" Now, do you not think that too much has been made of the advantage both environmentally and economically in turning food crops into biofuels?

HE Maurice Gourdault-Montagne: Yes, I do think so, too much has been made. That is the opinion of the French Government now and that is why we are revising our position on this issue, very much so.

Q13 Lord Tomlinson: Linked up with the agriculture question is the obvious question about the French Presidency's intention regarding efforts to reform the EU budget. What do you mean by reform in terms of quantity and what do you mean by reform in terms of policies?

HE Maurice Gourdault-Montagne: As you know, Lord Tomlinson, this issue of the budget is not on the agenda of the French Presidency and we—

Q14 Lord Tomlinson: But can you have a debate on agriculture without it being on the agenda?

HE Maurice Gourdault-Montagne: As I said, there will be a link, but for the moment it is more of a review, of a revision of what should be the CAP and what should be the new shape of the CAP than something which would be directly linked with the budget and for budgetary decisions. We shall expect of course from the second half of the budgetary period the new European Parliament to be elected and the new Commission to be named. In fact there was, by the Commission, a public consultation, as you know, regarding the budget to which we have answered and said that, yes, the CAP would be part of the revision of the budget and would be part afterwards as well as all the questions of the Structural Funds which are important for the new Member States and that it would be important as well to engage new common policies and a follow up to the Lisbon Strategy, which expires in 2010, and all of that all start under the Swedish Presidency, so this is a debate for after, but, as you say rightly, the debate on the CAP will not preclude what will be the budget for the CAP afterwards, but will give the shape of what are the needs to be met from the European budget in the future.

Chairman: Lord Roper is Chairman of our Sub-Committee dealing with the Common Foreign and Security Policy, defence issues and international development.

Q15 Lord Roper: Ambassador, in your remarks you talked about the review of the European Security Strategy. The original European Security Strategy was of course adopted on a proposal from the High Representative and, when he addressed the European Parliament last week, he made it quite clear that he was going to produce a revised European Security

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Strategy to be considered in December. How do you see the relative roles of the High Representative and the Presidency in the preparation of the revised European Security Strategy?

HE Maurice Gourdault-Montagne: There is a very constant relationship between the French Government, hence from the French Presidency-to-be, with the High Representative. Mr Solana is a man of experience and he has the advantage of having been the Secretary General of NATO, so, as far as we have worked with him for the moment, he never, I would say, was disloyal or betrayed anything we had to give him as a mission, that we had to task him with, so he will present this revised strategy, but in steady consultation with the Presidency.

Q16 Lord Roper: And with other members of the Council?

HE Maurice Gourdault-Montagne: Of course it will be proposed to the Council, it has to be proposed to the Council, and prepared in consultation with other members of the Council.

Q17 Lord Dykes: Ambassador, on the thorny and complex question of the pact for immigration, and Foreign Minister Kouchner has been referring to this many times, would it have helped the emerging debate on the very complicated territory if the French Government had made more public its draft outline putative proposals without being bound by them and without reaching conclusions too early? This surely would have helped the public debate and reassured the EU-wide public as well.

HE Maurice Gourdault-Montagne: I see this as a question which is very important. We have the feeling that this pact on immigration and all the issues which are linked with the pact have been in the public domain for some time, notably, since Mr Sarkozy discussed it at the time he was Home Secretary, which is not the same as now of course. Mr Jouyet (French Minister for Europe) came here recently (on 8 May) and delivered a speech at the LSE talking at length about this issue, but, if you say so, we should admit that there is a need actually of more debate and bringing all the issues more into the public domain so that there is a feeling of ownership of what is at stake in this pact for immigration, on which we are quite confident we shall reach consensus by October.

Q18 Baroness Howarth of Breckland: I wanted to ask about France's attitude towards Turkey and the accession and what you see as the possibilities and the impediments in relation to Turkey.

HE Maurice Gourdault-Montagne: As you know, Turkey has been a very controversial issue for France, but, although it was a controversial issue, decisions were taken and were always followed to go forward in the negotiations, so for the moment what

has been said by the French Government is that we stick to the decisions taken by the European Council regarding Turkey. We do not preclude what would be the result of the negotiations and we do not want to raise again any question of principle, whether it should be a partnership, a privileged partnership or an accession. There are 35 chapters and there are, according to us, 30 chapters which can be negotiated because they are chapters which, by all means, are worth being negotiated with Turkey irrespective of the end result of the negotiation. There are five more chapters which are more difficult as they imply inevitably accession to the EU. So we are ready to open some chapters under our Presidency and not to have any theological position about it. There are three qualifications used by the French Government, that we want to be neutral, we want to be impartial and we want to be objective regarding negotiations with Turkey.

Q19 Chairman: Ambassador, we have just a little time left and I have a couple of other questions I would like to put to you, and one is concerning EuroMed. I think there is some concern, particularly in the light of the fact that now we have the Polish and the Swedish proposal for the Eastern Partnership, and today I was reading, to my astonishment, that the socialists in the European Parliament are now suggesting that there should be a Black Sea Union. It all seems to be getting a bit out of control. I think we are quite clear now about how President Sarkozy has come to modify slightly the proposal on the Euro-Mediterranean Union and we do understand that it should be, as much as possible, budget-neutral, although of course there will have to be quite a lot of investment in projects. When Lord Roper and I were in Brussels at the joint meeting, I put the question to President Barroso, "Would the Eastern Partnership funding be at the expense of the funding for the western Balkans?" and he sidestepped the issue, which suggested to me that maybe he was not too sure about that himself, but would your position, the French Government's position, be that the more these partnerships and unions proliferate, the less effective they will be? Maybe you could just tell us a word or two about your attitude towards the Mediterranean Union and whether you have any comments on the proposals for the Eastern Partnership. I will not ask you to comment on the Black Sea one because I think that is very much up in the air at the moment, but maybe you would like to answer on the EuroMed.

HE Maurice Gourdault-Montagne: My Lord Chairman, there were lots of misunderstandings about this union, this Mediterranean Union when it was proposed, and maybe it was launched in a way that gave the misleading impression that it would be something which would be in competition with what

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already exists. In fact there are three factors. First of all, the EuroMed process is something important, but has not delivered concrete results so far in the process, so we pushed it, but the main merit was that Israel was included with all the other countries in this forum for the first time and that is an important result. Then there is an issue which is important for the countries of the southern part of Europe, the southern bank of Europe, which is in fact that we have populations in front of us who would like to normalise their lives towards Europe. They look at us through TV screens but they are not allowed to come and to experience this life for themselves, so there is a feeling of frustration and discrimination which is enormous, and neighbouring countries like France, but also Spain and Italy feel it particularly strongly. This is an issue which is vital. Third, we consider having some figures in mind that what we do for this part of the world which is so close to Europe is not enough. When we compare what is done regarding foreign investments of the United States towards Mexico, 20 per cent of American foreign investments goes towards Mexico. Japan invests 25% of its FDI in south-east Asia. Only 2 per cent of European FDI is invested in northern Africa and in the region considered by the project. This is too little considering what is at stake in this region, so this pushed us to take some initiative. Now, the result is that we will have a budget-neutral project which will be based on parity, which was not the case in the EuroMed process which was more north-south and more unequal. As we shall have a core presidency in the process, there will be one country of the north and one country of the south, and therefore equality which is important. Second, there will be a secretariat, depending on the Secretary General of the Council, working on some projects which will be identified, selected and implemented by the secretariat itself and reporting to the European authorities, the Commission and Secretary General of the Council, so there is a feeling of ownership by these southern countries which was far more present than it was before, so this is the essence of the project. Third, it will be built around projects which will be concrete, whereas in the EuroMed process there were no concrete projects. For instance they could cover depollution, maritime surveillance, access to drinkable water, development of SMEs, a wide range, and we would like by the end of the year to have set up this secretariat with its executive structure and to have taken some decisions on the precise projects that I have just described, so this is something new on a region which is vital to the whole equilibrium of Europe. Regarding the other projects, we have nothing against them, but I am not sure that they should be put in the same terms because of not being of the same nature of what is this contact of Europe across the Mediterranean with countries of a special nature.

Chairman: Thank you, I think that makes clear where the French priorities lie as far as these arrangements are concerned.

Q20 Lord Wright of Richmond: Ambassador, I just wanted to ask a very quick question about how you see the Presidency's relationship with the Quartet in working towards a Palestinian state by the end of the year, which is the perhaps rather optimistic target which has been set. Also in relation to the last question, is there a risk that EuroMed will divert attention and indeed finance from the attempt to solve the Palestinian problem?

HE Maurice Gourdault-Montagne: I do not think so, Lord Wright. There is the Quartet and Europe has a role to bring to the Quartet, but what is the Quartet without the Americans? That would be the main question, I think: what would be the action of the Americans during the electoral period? That is the main difficulty. At the present time, as you have seen yourself, where settlements are continuing and when one does not know exactly where the Israeli Government is orientating its policy, this will be the main problem, so, whatever EuroMed or other forums are doing, it will be a difficult issue.

Q21 Lord Harrison: Ambassador, the last priority you spoke of in your opening address was helping small businesses. How will the French Parliament avoid platitudes about small businesses like cutting red tape or making finance accessible, important though they are, and instead establish a plan which includes the completion of the Single Market as the most effective way of encouraging small businesses to work?

HE Maurice Gourdault-Montagne: You are right, we are always coming to platitudes in this regard. What I hope is that, since we have started to work very much upstream with the British Government, we shall avoid platitudes. We have been working very closely with Baroness Vadera since the end of last year, so there should be some practical measures for the support of SMEs, and access of the public market is something which is not very concrete and gives capacities of development to companies which would actually be rather focused or restricted in their capacities of action. We would like to give some capacities also for access to capital risk and to credit which would be something very concrete and tangible for the SMEs, so all these measures put together should give us something concrete at the end of December.

Q22 Lord Kerr of Kinlochard: Ambassador, supposing the growth of the European economy continues to slow, supposing Monsieur Trichet's next move is, as he hinted, an upward move in interest rates and, as a result, the dollar drops further against

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the euro. Will France return to ECOFIN to demand more political control over the Central Bank? I remember the President's visit to ECOFIN last summer: will we see that again?

HE Maurice Gourdault-Montagne: Lord Kerr, if you have noticed, President Sarkozy has been less, I would say, expressive or talkative about these issues in the last months. We consider that the policy which has been run by the European Central Bank in the last months has been a proper one, in particular their management towards the financial turmoil, so I do not see any risk of having the position of the French Government and the French President in the way you describe.

Q23 Baroness Cohen of Pimlico: I am very interested, as Chairman of the Sub-Committee which produced our euro report, because when we published the report on the euro we discovered all sorts of myths about the euro had been demolished; that it was not going to tear Europe apart and the less well-developed countries, the southern states of Europe, were not going to have a problem with having their growth constricted. Do you feel, if the ECB rates do go up, that this would begin to make life difficult, and I am not thinking of France but Italy, Portugal, the countries that have suffered more?

HE Maurice Gourdault-Montagne: It is difficult for me to answer on behalf of these countries, as I am sure you understand, but the euro has proved to be the best protection for the European countries in the past. We had to suffer competitive devaluation which destroyed entire sectors of our activities; the textile

sector and the leather sector were thus destroyed. With the euro, in fact, we have had protection and the critical mass protected us very much from being hit. Of course, it does not prevent us from a contagion of some effect in the financial system itself but, on the whole, regarding the economic growth of Europe, the euro has helped very much the European economy to continue to grow and not to be affected.

Q24 Lord Wade of Chorlton: Very briefly, I was very pleased with what you said about encouraging investment into Africa and clearly we have been very behind that, but I hope that that investment will be in such a way that it will not go to governments but will go to where it is needed into the economic needs of different countries, along the lines of Objective 1 and 2 investments in Europe. Would you agree with that?
HE Maurice Gourdault-Montagne: As you know, there are lots of measures taken now and very much pushed in the form at the G8 to control where this money goes, wherever it comes from. Much more accountability and good governance are now required from the governments in Africa, so I would not be so pessimistic regarding this issue of where the money goes.

Lord Wade of Chorlton: Well, I hope you become more pessimistic if you want to make full use of the money!

Chairman: Thank you very much indeed, Ambassador, and also Diego Colas, for being with us. That was very informative and very helpful to us. May I on behalf of the Committee wish France all the best with your Presidency. You said there are no great events contemplated, but who knows? Thank you very much for coming to see us.

 TUESDAY 25 MARCH 2008

Present	Blackwell, L	Plumb, L
	Grenfell, L (Chairman)	Roper, L
	Harrison, L	Sewel, L
	Jopling, L	Symons of Vernham Dean, B
	Kerr of Kinlochard, L	Wade of Chorlton, L

Examination of Witnesses

Witnesses: MR JIM MURPHY, a Member of the House of Commons, Minister of State for Europe and MR ANANDA GUHA, Deputy Head, EU Delivery Group, Foreign & Commonwealth Office, examined.

Q25 Chairman: Thank you, Minister, for taking the time to be with us; we much appreciate it. As you know, we are on the record and we are being televised and you will get a transcript in the usual manner shortly after the meeting. Would you like to make an opening statement?

Mr Murphy: Good afternoon; I am delighted to be with you again!

Q26 Chairman: Thank you very much; that is succinct and welcome! Following the European Council of 13-14 March, which is the purpose of this conversation with you, Minister, and the statement that was made subsequent to it, could we begin on the Lisbon Strategy and could I begin by asking you whether there is something behind the words “a renewed focus on competition policy in the EU single market”? Did the Council identify some specific problems here or was this just giving it a bit of a push?

Mr Murphy: It is largely giving it a push on the basis that there is a danger, I suspect, in some quarters of European politics to say that competition, undistorted markets, better regulation is something that had its origins in the UK and other governments’ initiatives, and Hampton Court and everything else, and it is certainly something that has been carried by the Commission I think pretty energetically and quite effectively in recent times. But it is about ensuring that that momentum is not lost. So there is continued action on cartels and on anti-competition measures; that is really the gist of it. It is not about announcing a whole new raft of initiatives that will come with revisiting the Lisbon Strategy more generally on jobs and growth; but in the current context it is about maintaining the momentum, the energy and the political will.

Q27 Chairman: Thank you very much. There was no indication from the French, for example, that they had any problem with a renewed focus on competition policy?

Mr Murphy: No, certainly not that I am aware of. This is one of the issues that of course focused the

minds of Members of the House of Commons during the passage of the EU (Amendment) Bill, which I know your Lordships will have the delight of considering over the next few months as well. It is about the nature of competition policy in the hierarchy of EU law, with the French appearing to have, in some people’s minds, achieved a demotion of the importance of competition policy in terms of being taken from the body of the text of the Treaty and placed in a protocol of the Treaty. But the fact is that that has no change in substance at all in respect of competition policy because, as your Lordships are aware, the protocols have the full weight of the EU law when it comes to Treaties, and that undistorted competition is still within the protocol of the Treaty. So, no, your Lordships, there has not been a change in the legal position of competition as a consequence of that.

Q28 Chairman: Let us come on to the National Reform Programmes and ours in particular. Maybe you could tell us a little bit about where we stand with our own specific policy response to the Integrated Guidelines, etcetera, etcetera; what is going on?

Mr Murphy: There have been some criticisms. I think it is both fair and right to say that there have been some criticisms of this process more generally about the programmes that Member State governments have published that have either not been detailed enough to question and challenge, or have not been ambitious enough to be able to track the detail of delivery. So the programmes that are going to be published, I think you will see a shift in some of the focus so that there is more information, so that there can be external, multilateral challenge by other Member States and the Commission. In terms of the UK, there was not any specific criticism of the UK’s process for last year, so the intention will be to simply take that template from last year and repeat it this year with a real focus on the work, in particular arising out of Lord Sandy Leitch’s work on skills. That is the area where there is an expectation that the UK goes further over the next year.

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Q29 Lord Kerr of Kinlochard: This Committee last year was puzzled that the Government did not pick up the call for all Member States to designate specific Lisbon ministers charged with monitoring national plans. Is the government still clear that the recommendation is one that we do not need to act on, as most other countries seem to have done?

Mr Murphy: There is a sense that in the UK Government—and I think this argument and response is pretty well rehearsed to your Lordships, and it is important to get this right—that this is a shared ownership for the Lisbon Agenda and it is about driving that process. There is now, I would argue, a much more effective way of across Government working on EU matters in recent months. That is not an implicit criticism of anyone else who has sat in this chair previously; it is just an acknowledgement that the challenge is a wee bit different. The energy of the French Presidency, the end of the rotating Presidency, the appointment of the very senior and some of them new jobs I think does require a much more focused and energetic across—Government EU strategy—the budget review and all these big issues. So I think rather than an individual minister living in a Lisbon Strategy silo it is a genuine attempt to have a substantial number of ministers across Government sharing the ownership. Clearly within some departments there is a natural fit as to who leads but in terms of delivery across Government we think that is the proper way of doing it.

Q30 Lord Kerr of Kinlochard: You are not bidding for the job, Minister?

Mr Murphy: If you had asked me that about six weeks ago the answer would have been yes as we were in the middle of the Lisbon Treaty process, but now I am comfortable with it!

Q31 Lord Blackwell: To follow up on this National Reform Programme, the Conclusions are peppered with exhortations for the UK Government to do various things—to implement the agreement on common principles on flexicurity, to substantially reduce the number of young people who cannot read properly, to encourage universities to develop partnerships with the business community, etcetera, etcetera. Will any of this change anything that the UK Government does or are they all directed at other Members?

Mr Murphy: This approach is directed at all Members, of course, but with each Member State having to adopt its specific set of policy objectives over the following years when, as your Lordships are aware, in different European capitals the nature of this conversation is significantly different both in content and tone. But in terms of the UK the Conclusions in the statement that has just been read

I think encapsulate what the Government is trying to do and trying to do in respect of the Welfare Reform Act, in terms of over two and a half million people on incapacity benefit, with this year seeing the end of that benefit and a much greater focus on skills, particularly amongst those with mental health difficulties. I think 40 per cent of people coming on to incapacity benefit at the moment have a mental health illness. There is a substantial number of younger workers or former workers on incapacity benefit, women in particular—40 per cent of those coming on to incapacity benefit are women and again that is a dramatic change in just one generation. Of course, we used to think of incapacity benefit in terms of the public conversation as a benefit for people who were basically decommissioned out of the former heavy industries—made redundant but also decommissioned in terms of career, unfortunately. But the way in which that benefit is now being phased and the employment support is being introduced is an important component of what we are signing up to here. There are the other aspects of the Leitch Review of Skills and there are the budget measures, so all of these are a specific policy prognosis for the particular problem that we have in the UK, which is, I would argue, generational unemployment, where two or perhaps indeed three generations of one family have not known anyone in work, and where it became the norm within a family structure—and in fact on occasion with a whole family tree—that certainly far too often very few people had a career, let alone a job. That is really what is captured by the Conclusions.

Q32 Lord Blackwell: I am trying to understand what value the National Reform Programme adds because presumably those are things that you would want to tackle anyway?

Mr Murphy: Those are the things that as a progressive Government we should be tackling, but I suggest that if we were not doing these things this National Reform Programme would be more of a challenge. If we had gone back to the bad old days of incapacity benefit being an alternative—and I do not want to make a wildly political observation here, but if we went back to the days where incapacity benefit was seen by many as an alternative to unemployment benefit, including by many from Job Centre Plus workers, whereby here is a benefit that you can receive at a higher rate with no conditionality for a three-year period with only a medical once every three years, if we were stuck in that mindset still this would be—and this is a frank observation—a much more substantial challenge because we would not have a strong and contrary argument. But this remains a challenge because other Member States are able to either bilaterally or multilaterally challenge the progress that we are making, in the same way that

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we are able to challenge the progress that they are making on their specific programmes.

Chairman: Thank you very much. Still on the Lisbon Agenda, let us move on to the question of investing in knowledge and innovation. Lord Wade.

Q33 Lord Wade of Chorlton: You will be aware that the Council's Conclusions create this fifth freedom—the free movement of knowledge. I would be most grateful if you could tell us how you think this is going to impact and what the impact of that decision is going to be, particularly in the UK? I am particularly interested in how it might affect innovation and enterprise?

Mr Murphy: I know that this fifth freedom conversation has evolved relatively recently, as your Lordships will be aware, and certainly in the short to medium-term at least this so-called fifth freedom would not have the same status in the EU prioritisation as the existing four well-established Treaty-enabled freedoms. Notwithstanding that, the way I would describe it would be that this fifth freedom encapsulates the work that is already going on. I think it is an effective way to describe the existing work that is happening across the EU at the moment on innovation, on intellectual property, on education and training. But at the moment that is the status of it. It is a way of describing existing work; it is not an attempt to place in European statute a separate and additional freedom that European citizens currently already enjoy.

Q34 Lord Wade of Chorlton: My reaction to that is what does it really mean then? What is the purpose of it? If it is not going to make information more freely available then what is the purpose of it?

Mr Murphy: I think what it usefully does is give those of us who have a genuine ambition in this field for better coordination of research development, for more effective work on patenting, on issues such as freedom of intellectual property rights, on climate change technologies and all of those big issues, a single patenting process across the EU that really gives a degree of political commitment to make progress on things that we would wish to do in any case. I think that is the important part behind this. As I say to your Lordships it is not in the short or medium-term an attempt to enshrine an additional freedom with the same weight or significance as the existing four freedoms.

Q35 Lord Wade of Chorlton: You do not expect anything to change?

Mr Murphy: What will change is that the work currently taking place should become more effective as a consequence, but I do not expect—nor would it be inviting or welcome—a raft of centrally imposed bureaucratic solutions on new EU legislation in this

field. But it really does give us an opportunity for those Member States who see this as an area where the EU has not been as active as it should be to maximise the political will that has been created by the description of it as a fifth freedom.

Q36 Baroness Symons of Vernham Dean: I am a bit confused about this, Minister. If we are going to be sharing more in terms of research and technologies and intellectual property what does that do for the competitive edge that some industries have within their own countries? Whilst cooperating in a lot of ways we all actually are competitors as well as cooperators. How does that work?

Mr Murphy: I know at one level we have the confidence and innovation of our great universities that in a truly competitive European environment we would be able to succeed. That is one response to it. So that is the intra-European market on technology and innovation. There is also the external challenge that we face. The EU is an economic community and your Lordships may either have personal experience or have other experiences of trying to patent an innovation across the EU, and despite the progress that is being made currently the fact that you have to go through the different processes, the different translations—I think printed in up to 23 different official languages—all of those sorts of things, the time that it takes to bring a product, an innovation to attracting capital, to break through the bureaucracy and bring to market across the EU is far too long. I do not have the precise details with me today but it takes significantly longer than it should do if we had the political will to resolve it, and certainly it is a time constraint and timeline that our competitors in the US, Japan and increasingly China are not tied in by. So that type of competition within the EU and externally is important.

Chairman: Thank you. I am letting Lord Jopling slip in a question which is not actually on the Council agenda.

Q37 Lord Jopling: I think it is relevant, my Lord Chairman. I wonder if you could tell us how the creation of this fifth freedom for free movement of knowledge sits alongside the movements towards the data protection regime, and in particular how might the fifth freedom affect the aim and scope of the EU/US high level contact group on data protection, which was very prominent in the discussions of the Justice and Home Affairs Council on 28 February last?

Mr Murphy: The UK is supportive of this dialogue between the EU and the US in terms of data protection, and the work is still being carried out on the details of underlaying the principles. Your Lordships may find it helpful if I were to share with the Committee some of the thinking as to what these

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principles would be. They are being discussed and need to be finalised but it is around the purpose limitations of the data protection proposals, proportionality, information security, oversight, access, transparency and notice and also redress. I think the background to this is that of course with an exchange of information between the US and an EU Member State there has to be a recognition by the EU Member State about the adequacy of protection—I think that is the phrase that is used—and if the EU Member State has declared the protections and principles of adequate quality, then the information exchange and data protection exchange can take place. I think the difficulty—and I am not a spokesman for the US government, far from it—the US had was differing definitions of adequacy and the barrier being set at different levels in terms of EU Member States’ definition of adequacy, which has led to confusion, difficulty and particularly when there are two EU Member States involved in a tripartite way with the US. I think that is one of the major drivers of this initiative. The impact on competitiveness in a Single Market and the issues we have been discussing is largely about the movement of information regarding individuals—it does not affect it in respect of national security. I cannot see that it can hinder the competitive environment, the competitive completion of the single market that we have been talking about. I think it is an important improvement if we get it right, but we are still working on the details.

Chairman: I think we must make progress but thank you very much Lord Jopling and the Minister. We are still on the Lisbon Agenda and let us come to the Regulatory Environment, Lord Blackwell.

Q38 Lord Blackwell: Minister, the European Council Conclusions stressed the importance of the report on the Better Regulation agenda, and in particular asked for the redoubling of efforts on the target set last year on reducing administrative burdens arising from EU legislation by 25 per cent by 2012. Firstly, could you confirm my understanding that that target applies to all EU legislation? It is under the section on SMEs (small and medium-sized enterprises) but my understanding is that it is not just SMEs, it is all regulation. Secondly, given that all EU legislation, however well intentioned, tends to end up producing a burden on business—and I am assuming, and maybe you can confirm, that this 25 per cent means reducing from the baseline in 2007, it is not just reducing new burdens by 25 per cent and it is an absolute reduction—in which case, do you have any real expectation about how it will be met and has the UK Government or could the UK Government table its own proposals to the Council on how regulations could be reduced by 25 per cent by 2012? Is that something you have considered?

Mr Murphy: Your Lordship, I think it is generally accepted across the EU that the UK is amongst the most energetic on this agenda. I think I reflected with your Lordships before that in a previous job but one in Government I was the Better Regular Minister, so this is something that I am happy for us to discuss all afternoon, if your Lordships would wish. The fact is that not because of but perhaps even despite my intervention the EU has made progress with an Impact Assessment Board being set up in 2006 with the identification of these targets. I would say first of all that there is a changing but not changed culture in the EU on regulation, but that is an improvement in terms of changing culture rather than changed, and there have been important ways in which Impact Assessments have led to the withdrawals of proposals. Where do I think the weaknesses are? If your Lordships do not mind I will very briefly mention them to you. One is the “something must be done”-ism. I do not know whether this is true for your Lordships’ House, but there are very few elected politicians who say, “Elect me and I will do nothing about it.” So the “something must be done”-ism is true in all parties in the House of Commons and it is true in the European Parliament as well. So the “something must be done”-ism sometimes could be, without being blasé, that risk is part of society and we cannot have such a risk averse society in business or elsewhere. So that is one. Secondly, we have to ensure that where there has been progress there has been enough progress and there are some proposals that have not escaped the Impact Assessment process. Thirdly, and I think this would be the biggest change, retrospective analysis of the proposed Impact Assessment’s likely outcomes. What I mean by that mouthful is that you have brought forward this proposal, you have told us it would cost X euros, X million or X 100 million or X thousand euros, and three years in, five years in actually it has cost three times that. What does that tell you about the methodology of your Impact Assessments and the value of future projections because of course Impact Assessments often, and indeed on most occasions, are a projection of expected impact and I think we need to have a greater degree of retrospective analysis of how accurate they were? Those are relatively frank—and certainly the first one was a personal reflection on the “something must be done”-ism.

Q39 Lord Blackwell: Minister, if I could just press you on this and I would not in any way want to discourage the efforts you are making, but the points you have just made are things that I could see might help in limiting the flood of new legislation and new regulation against, as you have pointed out, the tendency for increasing the activist in you to want to do more and more things in more and measures. Every time a new regulation is passed, every time a

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new law is passed it adds to the burdens of business on the whole and, as we also know, most of the burdens on British business now come from European legislation rather than what you do at Westminster. So I wonder whether you really have any expectation in reducing—not just stopping the flow or reducing the flow—the burdens on business by 25 per cent unless you are able to identify some things that you want the EU simply to stop doing?

Mr Murphy: We are confident, and as I say we and the Dutch are amongst the most enthusiastic on this agenda. You are right to quote the figures, the 25 per cent by 2012. It is anticipated that this would save across the EU £100 billion, I think it is, by 2012, and our role as the UK Government through the Better Regulation Commission and the work that we do is to make sure that the European Commission, the individual Commissioners, the parliament and others are on track to achieve that, and we see that as our function and external challenge on delivery. We also have our own domestic delivery plan on this, which I think exceeds the EU target on better regulation. And it is not just of course on business, which is of crucial importance, but also on public sector workers, on the number of times there is a repeat request from public sector frontline workers to provide the same information—a repeated request for that sort of information. So there is a better regulation in the private and the public sector. In conclusion to this answer, if we ever felt that the momentum was ebbing then we see as our role as trying to enforce it again.

Chairman: Thank you very much indeed. Still under Lisbon, can we come to the Services Directive?

Q40 Lord Harrison: Minister, two Fridays ago we debated our report on the Single Market, in which we called for less regulation, better implementation of existing legislation and more liberalisation and competition—and I would also include better monitoring of legislation. In the light of that what progress has been made with regard to transposition and implementation of the Services Directive? And bearing in mind the United Kingdom as well as the European Union, what instruments can the EU adopt to help small businesses take full advantage of the Single Market—and I do draw a differentiation between what we can do collectively and what we can do in this country, because I sometimes fear that we spend half our time telling small businesses that the Single Market is a frightful place to enter where they use foreign languages and different money and strange things will happen to them, and we really should be painting the other picture that it is a real opportunity, particularly in the light of something like the Services Directive?

Mr Murphy: I absolutely agree. The sense is and the assessment is that the effective implementation of the

Directive would create about 600,000 additional jobs across the EU, which is a remarkable opportunity across the 27 Member States. In terms of the Directive, again it may be helpful, just for the record, your Lordships, for me to very quickly outline really what we would like to see as part of the completion in response to the specific question. The Services Directive—four things—will firstly remove unfair barriers to cross-border trade; secondly, create an online information portal for service providers; thirdly, improve cooperation between service regulators; and fourthly, and finally, improve the quality of service provision to consumers through stimulating competition and easier accesses to services. In terms of the UK in the internal challenge function within Government—and I am sure business will have its own perspective on it and we welcome their continuing challenge—we are on track for transposition, which is important strategically for the UK economy, with 70 per cent of the UK economy composed of services, of course. In terms of SMEs specifically there is of course the proposal for the EU Small Business Act. When I read about this initially the idea of an Act runs contrary to much of the UK Government's ambition, but it has not yet been decided as to whether that is legislative or non-legislative, and that is the conversation that is continuing. But it is about how do you transpose the Services Directive in such a way that it is as friendly as possible and as sensitive as possible to SMEs who do not have access to the significant sources of advice and technical support by the nature of their size as some of the larger companies, and it is a significant challenge for us in the Services Directive.

Q41 Lord Harrison: Do you feel that you are talking sufficiently to the FSB (Federation of Small Businesses) and the FPB (Forum of Private Business) and the BCC (Bristol Chambers of Commerce) to try and understand the nature of the problem for small businesses to understand those opportunities, or do you just talk to the CBI (Confederation of British Industry) which, with the best will in the world, claims to represent small businesses but actually represents larger businesses?

Mr Murphy: We have a dialogue with the CBI, the FSB, the IOD (Institute of Directors) and many others. Could we do more? I am sure we could; it would be complacent to ever say you could do no more. The links are very strong; we have tried, for example, with the FSB to open an online portal in the UK for UK SMEs to be able to make their own proposals for a better regulation idea, based on their own experience of, "Why do I have to do it this way?" whether it is a UK piece of red tape or an EU-inspired piece of red tape. So we continually look for additional ways to have a better quality; and it is important to have the quantity of contact, but

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improving the quality of the contact is something in which we are always interested.

Q42 Lord Wade of Chorlton: The sub-committee I sit on, Sub-Committee G, took evidence from the FSB a few months ago and they specifically told us then that they found it virtually impossible for them to give evidence in Brussels on the impact of legislation or the impact of directives on the FSB sector, and that they found that it was impossible for them to get their views listened to or into the system. So are you telling us that you would specifically go out of your way to change that situation?

Mr Murphy: Your Lordships, that is the first I have heard of that comment and I would undertake, with your Lordships' permission, to read that transcript very carefully and indeed contact the FSB about it.

Q43 Lord Wade of Chorlton: If you would, we would be most grateful.

Mr Murphy: I will happily do that because when I was doing the job on Better Regulation at the Cabinet Office I found it was a great benefit to our work to have the FSB's energy and in fact frustration, which is often the same thing, frustration/energy, to drive us on. So I will happily do that.

Chairman: Baroness Symons and Doha.

Q44 Baroness Symons of Vernham Dean: Minister, paragraph 12 of the Conclusions pledges—and I quote—“ . . . to strive for an ambitious, balanced and comprehensive agreement in the Doha Development Round.” You seem to have been pledging this for rather a long time; indeed, I think I was Minister for Trade at the time of Doha and that is quite a long time ago. What is the current state of negotiations and do you really have a genuine belief that they will come to a successful conclusion?

Mr Murphy: The frustration for me, and I suspect for many of those who follow international development and the interaction between development aid and trade and the markets, is that this is another one of those issues that has now been trapped in a vocabulary which is entirely impenetrable. For example, on the specific progress that has been made recently your Lordships would find it interesting, I am sure, but many of those who campaign on these issues would find it difficult to follow if I were to share with your Lordships the fact that we do see a significant progress on the negotiations in Geneva of what is described as a new Chairs' text on agriculture and non-agricultural market access, and that is the basis of the ongoing discussions now. It is frustrating that something as important as this is reduced to something that is as relatively impenetrable as the text I have shared with your Lordships. This has been a long process, and it is reasonable to argue that it is far too long, but we do remain absolutely committed

to a pro-development outcome as part of the Doha Round and will continue to champion that cause, but the pace of progress has been painfully slow.

Q45 Baroness Symons of Vernham Dean: Is there real progress, though, even if it is slow? Is there really progress?

Mr Murphy: Arising from the progress on 8 February on that text I referred to, there are still discussions going on about some of the contentious areas. There is an expectation that we expect the WTO (World Trade Organisation) to convene a ministerial meeting possibly in eight weeks or so, which could pave the way for the deal later this year. So that is the current expectation, that with this Chairs' text being released and with conversations going on around the detail of some of the contentious issues the hope, our ambition would be that that WTO Ministers' meeting would take place in May. That is our hope and it is what we are working towards. But I share Baroness Symons' frustration; I remember being the Government Whip at the FCO when Baroness Symons was working on this issue and I had not realised that this number of years later we would still be discussing it.

Chairman: Let us go on. The Commission seems to be working up a proposal for a new Social Agenda. Lord Wade, would you like to probe on that one a bit?

Q46 Lord Wade of Chorlton: Thank you, my Lord Chairman. We would like to find out a little bit more about your views on the impact of these new proposals for the continuation of the Social Agenda. When does the Government expect this to be adopted? Does the Government have specific views on what it should include? And what relationship, if any, does the Government expect it to have with next year's budget review? Three questions.

Mr Murphy: And hopefully three answers! First of all, your Lordships, I should say again that my frustration at the slow rate of progress in Doha was in no way because of an assertion, implicitly or otherwise of the work that Baroness Symons did on the building blocks of delivering it! Having been through the weeks or years of the Lisbon Treaty ratification process I am conscious of leaving even a trace of apparent sceptical observation, so I hope that is absolutely clear—it is despite the work that Baroness Symons has done, not because of it! In terms of the specific point on social Europe and the Social Agenda, we are very confident that Europe should have this social Europe, social dynamic. Whether we call it social Europe, social dynamic, flexicurity or anything else is not as important as the content of it, and our starting point and our position throughout this will be the most effective way of delivering a social Europe is to develop flexible markets, complete the Lisbon Agenda, a lighter

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touch on regulation, greater flexibility for workers and no new heavy-handed centrally imposed legislative solutions. In the context of globalisation that also means that we should avoid, I think at all costs, the temptation to lurch back into economic protectionism. So that leads you to the point of what we are talking about really is a social Europe of maximum employment, including those who are on inactive benefits, as I alluded to earlier, in terms of incapacity benefit in the UK. So what is the EU's contribution without impacting upon Member States' competencies because clearly most of the competencies are for Member States rather than for the EU? The competence for the EU is about ensuring that it is a genuinely competitive, open, flexible market and that the budget process focuses on worker mobility, skills enhancement, supporting further projects and programmes such as ERASMUS, to ensure that that is the type of social Europe that we deliver. It is not the social Europe of protectionism; it is the social Europe where we believe in full employment. As I have said before—and I got in some trouble on this before in some sections of the media, and again without wishing to draw your Lordships into the party politics of this—the Labour Party and the trade union movement was of course founded on the right to work and has never defended the right not to work—I just do not believe in the right not to work for those who are able to do so. Therefore, a social Europe is about supporting people to fulfil that right to work. Based on the evidence before us in the UK that means flexible labour markets, completing the Single Market rather than the contrary approach, which I think is voiced on occasion in other European capitals which, based on the evidence, is not anywhere near as effective, which of course is protectionism and rigid labour markets. In terms of timescales there is a relationship between this of course and the budget review and it is a debate that, as your Lordships are aware, is not new and will really continue into and beyond the budget review; but how it is captured in the budget review we think is a greater focus for mobility of workers and skills across the EU.

Q47 Lord Wade of Chorlton: To sum it up, you are really saying that it is an economically driven social improvement; that we improve the wealth of Europe and we improve the social benefits as a result?

Mr Murphy: Improve the wealth of Europe and in doing so simultaneously improve the skills capacity of the European workers and do that simultaneously, and I think we are in the right place. I have reflected on before—and I think your Lordships may have read or heard me say something like this before—that across the European Union there are 92 million economically inactive citizens—92 million. I am not putting a figure as to what the preferred number is

but these are 92 million economically inactive that are not classically unemployed, but that is more than the population of all of Scandinavia and the ten new Member States of the European Union combined. Does that feel about the right number? Of course it does not. And as we have our own labour market reforms in the UK—perhaps belatedly in terms of inactive benefits—I think there is an equal challenge for all Member States of the European Union to get this right.

Q48 Lord Wade of Chorlton: But you would not expect that it has a big impact on any change in the UK because this is very much, is it not, the policy now?

Mr Murphy: It is very much the policy now but there could be changes based on the sharing of best practice. If as part of this dialogue we discover that in Germany, Italy, Slovenia or somewhere else there is a remarkable innovation in the labour market or in the skills capacity I think there is no difficulty in sharing best practice. So that is the extent of change. Will there be a centrally imposed legislative solution to this? No, there should not be.

Chairman: We have the Minister for a maximum further 40 minutes and we have several substantial questions to get through, so let us make progress. Climate change and energy, Lord Sewel.

Q49 Lord Sewel: Minister, the Council, as I understand, welcomes the report by Commissioner Ferrero-Waldner and High Representative Solana regarding the impact of climate change on international security. It was a pretty frightening report, was it not—almost at the gates of doom really? So the first question is does the United Kingdom Government agree with that analysis? And the second question obviously is, if you do agree with it what are you going to do and do you think that the EU needs to sharpen up its act in integrating its approach to how environment issues can impact on security issues?

Mr Murphy: We strongly welcomed the report because of the quality of it but also because of the message. It is a wake-up call, if it were needed, to some in the EU and beyond because it is a report read not just with impact in the EU but beyond. The two things in particular that are important are about mainstreaming the climate change debate as a national security issue, as an issue on migration, on energy, and mainstreaming it in that context. So that is one of the particular things that we welcome. Secondly, specifically the High Representative has been tasked to submit specific proposals and recommendations for follow-up action arising from the report, and that is strategically a crucial piece of work. I think importantly within that is a regional analysis—region by region—as to the implications of

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climate change in different regions, whether it is water shortages, food shortages, movement of people, energy, water levels, so that there is that kind of one size fits all analysis. But it is an important and welcome piece of work which now has to be built upon.

Q50 Lord Sewel: Just to draw out from that, it is not too difficult to see competition for water resources, energy resources and food resources as being the three factors which are most likely to impact on international security in the decades to come.

Mr Murphy: My frustration on the debate on climate change would be—and, again, this is not meant to be dismissive, but just a personal observation, and let me say first of all that I like polar bears—that on occasion it is too often focused on polar bears. It is not about enlightened self-interest, it is not about economic self-interest or the national security of self-interest, it has in the past in previous years been about, “Let us do the socially responsible thing for socially responsible purposes exclusively.” We are all in that place, we are all willing to do our bit in that context, but to get the degree of change in governments but possibly more importantly in the behaviour of citizens across the globe and across the EU, it has to be more than just do the right thing for the right reasons—it also has to be about enlightened self-interest. That is about mainstreaming climate change which is a genuine and strategic threat to our nation’s future, our nation’s economic future and our nation’s security future, and I think that is what this report helps to do.

Chairman: Targets for renewables, Lord Kerr.

Q51 Lord Kerr of Kinlochard: Minister, I am trying to work out what is new in the Conclusions of this European Council on the energy/climate change front. I cannot find any new target. I am pleased not to find any carbon tariff and I am pleased not to find any carbon energy taxes. I see a lot of stress, which seems good to me, on competition in network industries, and a sort of commitment to reach political agreement on the gas/energy third package, including interconnection, by June, which seems to me good. But I see a lot of other things which look to me to be simply repeating what I have seen before, in particular in the spring 2007 European Council Conclusions. Have I picked out the right new things? Is there something big and new that I have missed? Is there anything that you would like to tell us about what this European Council achieved on climate change and energy?

Mr Murphy: I think what is significant first of all is that there was not, if you like, an unpicking of previous declarations and commitments and that is very important. Governments have had the months to reflect since the previous Council and the genuine

realisation of the size of the challenge we have set ourselves could have led to a much more difficult discussion and set of Conclusions, which suggested the need for a pause for thought and reflection. Those debates still continue, of course they do, particularly amongst some of the Central and Eastern European Member States—the fact that the EU remains committed in principle to its previous agreements, the fact that, to be frank, the most significant climate change renewables and measures come out of the Council. In addition to that the point made in the question is absolutely fair, that there is the other significant thing by virtue of the fact that there were not any additional add-ons. The Council can either have unpicked previous agreements or decorated it with hindrances to such an extent that would make it either undeliverable and devoid of purpose or real meaning, and that did not happen either. The final point is, specifically on the proposals for some sort of border tax, that that proposal was put forward and it is a proposal that when I was in Paris a fortnight ago the Europe Minister in the French Government, Jean-Pierre Jouyet lobbied me on, we pushed back on and we continue to push back on. We think tactically, in the short to medium term at the very least and probably on a longer scale than that, that is the wrong-headed way to go about this. We cannot expect international cooperation on climate change, technologies and on renewables in the context of punitive tax proposals which will then lead to international recrimination. It also sends a message to the rest of the world that Europe can only deliver on renewables in a way that hurts our economy and as a consequence we will take these protective tax measures, and I think that other countries and other global trading blocks would then respond in kind, and I think that is a very unhelpful way for us to progress. The important thing is we did not unpick the previous agreement and we did not add to it in a way that was unhelpful.

Q52 Lord Kerr of Kinlochard: I agree. I do not mean to be critical; I think that is very sensible. I did spot what seemed to me to be two slight changes of tone. One was the emphasis on flexibility in how Member States achieve targets, which fits with what the Reform Treaty, as you will be all too aware, Minister, says about Member States being absolutely entitled to set their own energy mix; there seemed to be rather more about flexibility as to how you achieve targets. Secondly, and particularly on biofuels, I thought that while there is no resiling on the commitment to ten per cent in transport fuel; there is quite a lot about the need to have greater synergy between climate change and biodiversity policy and to ensure effective sustainability criteria in meeting the ambitious target for use of biofuels. Am I right that that is a change of tone, and do you think it is a significant one?

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Mr Murphy: On those two points I am glad your Lordship has acknowledged the responsibility for the deployment of an energy mix remains an issue for Member States, but I think it is inevitable—and I think it is a welcome inevitability—that as we look into the detail of how this target will be delivered that there is Member State flexibility—flexibility on how to encourage uptake of renewables and flexibility as to the different sectors of demand and the most effective ways in each Member State to drive delivery of the renewables targets. That flexibility I think was welcome and probably inevitable as we get closer to working through the detail. In terms of the point about biofuels, I am willing to acknowledge to your Lordships that I am relying on scientific advice available to the FCO—it is not something in which I have a personal detailed background in terms of the interaction between climate change and biofuels—and the evidence provided by the scientific community is that there is a greater climate change benefit, if you wish, from second generation biofuels and on that basis I think it is right that any attempt to go towards a more ambitious biofuels target upon the ten per cent should wait until we know the exact benefit of second generation biofuel deployment, and that is what the statement says there—an acknowledgement of the science of biofuels and the science should drive any advancement on the ten per cent target.

Q53 Lord Sewel: Can I take up the issue of the targets, the 20 per cent overall target for renewables and the ten per cent for biofuels for road transport? Surely in combating global warming and climate change the key, if not the only things that matter are the global aggregates, and therefore it seems absolutely right and sensible to set overall emissions targets, allocate those to Member States and allow the Member States to decide for their context which is the most economic, effective and efficient and sustainable way of achieving them and not go down into particular targets for particular renewables for particular fuels.

Mr Murphy: I think that is the right way to progress. I think, with respect, that is what we are trying to do. There is a conversation that continues in European capitals about this, but I think the balance of opinion fundamentally is very strongly in our favour, this degree of flexibility. Perhaps a year or so ago that may not have been what the debate was but as governments across the EU start to consider just how they would specifically deliver the renewables target there just is not a one size fits all. I met with the Finnish Europe Minister, who said—and again I am not a spokesman for the Finnish government so I do not want to misrepresent the comments—in general

terms that without the flexibility that is sensitive to the nature of what Finland has already achieved and the structure of the economy of Finland it would be very difficult for Finland to make progress on these issues. On the specific point about flexibility in the UK—and Burke is considering estimates about wind power contribution, which I am advised that to electricity generation we are in the region of 30 per cent, which is of course beyond the UK 16 per cent target. So, again, that is an example of the flexibility that the UK would seek to deploy. The final point on this is that this is about deliverables and improvements but it is also about leadership. If the European Union, Heads of State and Government sign up to bold targets and then resile from them and a difficult decision is needed to achieve them, I do not think we can expect in any sustained way for the rest of the world to then play its part in the post-2012 international deal, because without the EU delivering importantly I am not sure about what is the architecture of an agreement that then gets the US, Japan, Russia, China and other economies to play a part in this as well. So it is important that we deliver and also lead.

Q54 Chairman: Before going on to carbon leakage, which I find a most regrettable addition to our international lexicon, I must say, could I just slip in a question about VAT concessions on eco-friendly goods. This seems to have dropped on the Council from out of the clouds, the Prime Minister's proposal, and it did not go down well with everybody, particularly not the Germans. I notice in the Prime Minister's statement made in your House and read in ours that when the Commission comes to deal with its summer legislative proposals on the VAT that they might be including this as some sort of an addition to their regular examination. Is the Government placing high hopes that something like VAT exemptions for eco-friendly goods might be included?

Mr Murphy: I think it is something about which, along with some other Member States, we remain very enthusiastic. There was not a concrete conclusion of specific deliverability on VAT or on climate change-sensitive goods but it is something that the Council agreed we should return to. On all of these things of course you will want to see progress as quickly as is humanly possible but I think we have registered that there is an agreement to return to it and we will exploit to the full the opportunity that has now been opened. It is part of the mix of climate change efforts by the EU that we think is important and it is a view that is shared by some other Member States as well.

Chairman: Thank you, that is clear. Lord Plumb, carbon leakage.

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Q55 Lord Plumb: It naturally follows, I think, the question that Lord Kerr put and of course runs on from dealing with emission reductions. You are stepping into very much an unknown field I think because there will be a lot of mixture before we are through on this one. But on carbon leakage at least the EU is setting a lead and therefore there will be an exposure to international competition. I think, on this, one is bound to be concerned that short of allocating free emission permits to businesses in those sectors, what do you consider other policy options might be and can they be used to address the problem? And if some proportion of emissions permits continue to be allocated for free, will this not undermine the proper functioning of the EU Emissions Trading Scheme?

Mr Murphy: The important point we wish to continue to get across to other governments in the EU—and obviously I mentioned this in passing answering Lord Kerr’s question that you have alluded to, Lord Plumb—is that a policy should follow the evidence here. The evidence based on the research that we commissioned was that there are a few sectors that may be affected and it may be helpful to your Lordships if I place on record what some of those would include: they would include the sectors covering cement, iron and steel and some others, but those are the three. Our alternative approach is to seek international sectoral agreements on these issues so that these punitive tariffs, border tariffs would not be necessary. I think it is accurate to suggest that those countries that are most enthusiastic about climate change tariffs, border tariffs of this nature, and on occasion are also those countries that are most enthusiastic about a protectionist and economic posture more generally. I think there is a legitimate conversation to be had about to what extent is a climate change tariff a proxy for general concerns about international economic globalisation in any instance. Of course, the major stated public concern about the EU delivering on climate change in this way is that it is not about carbon leakage. Carbon leakage, of course, is another way of describing jobs leakage to those economies that are not as proactive on climate change as the EU would be. We are not interested in seeing a European Union accept that economic architecture that says we should not act because the whole world will not act. So what is the solution? We see the solution as evidence-based, following the signs on specific sectors rather than a complicated set of international, multilateral and bilateral border tariffs. I think in doing that, as I said in response to Lord Kerr earlier, we do not send a message to the rest of the world, the US and elsewhere, and China, that to do the right thing would be expensive and to do the right thing by necessity leads to the need for significant economic adjustments and that degree of tariff retaliation. So I

think the best way is to follow the signs of the sectoral agreements across the globe, so that is what we continue to work on. We have said to the French and others who are interested in this that it is not something we wish to follow.

Q56 Lord Plumb: In other words you are hopeful that the European Union would set an example, but to what extent do you think that countries like China are going to follow?

Mr Murphy: Obviously the Foreign Secretary and the Prime Minister have both been there recently and it is our assessment that the Chinese leadership have decisively made the intellectual leap towards the need for action on climate change. Equally frankly, the assessment is perhaps from a different perspective to the UK. Their assessment is on occasion driven by the remarkable increase in the cost of food in China, driven partially by population growth but largely actually by the impact of climate change on agriculture. So with China potentially the way in there on climate change is about food shortage/food pricing. Equally in Russia the way in there would be on energy efficiency and the capacity of their energy sector to be able to fulfil its international commitments, and with the current degree of energy inefficiency in Russia it is difficult to see them meet their international obligations. So I think there are different ways into the same argument in different capitals and in different populations, and China is an excellent example of it.

Chairman: Thank you very much indeed. Could we move on to the Union for the Mediterranean and Baroness Symons?

Q57 Baroness Symons of Vernham Dean: Minister, the Union for the Mediterranean, largely accredited to Mr Sarkozy, all the diplomatic chit-chat is that perhaps there are a number of different views about the merits of the scheme within Paris itself, let alone anywhere else. I wonder what you can tell us about the disagreements and agreements that there are, the matters of contention over this that surfaced at the meeting; and what the UK’s position is on the objectives and the financing of the project which I heard recently described as, I think, the “small tombstone” on the whole project itself, and when you look at how much was devoted to it in the Conclusions perhaps that is a reasonable conclusion for us to come to.

Mr Murphy: I cannot add to the diplomatic chit-chat or the undiplomatic chit-chat, certainly not in this gallery but perhaps on another occasion. The sense was that President Sarkozy of course made his statement I believe on the Mediterranean Union and it was important that the detail was then followed up. That detail is now much clearer and where we are now is that the Mediterranean Union is not now the

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property of France, it is not a French proposal, it is in the ownership of the European Union, and that is important, based on the way that these things are dreadfully described, based on the Barcelona Process. If there was tension at the Council meeting the tension was—and I think this may have been reflected in some media coverage, I am not sure—that obviously there are two discrete areas of the European Neighbourhood Policy, that to the south and that to the east. There was a worry—I think voiced most vocally by Poland—that we should not be favouring one aspect of the Neighbourhood Policy over another, and as a consequence there is a proposal to return with what are the impacts to the Mediterranean Union on the European Neighbourhood Policy in the east. The UK's position has been that the Neighbourhood Policy to our east and our south should not be seen as competition; we should not favour one over the other; the Neighbourhood Policy should not be an alternative to membership of the European Union and now the Mediterranean Union should not be seen as an alternative membership of the European Union in time, and we are very clear about that. But now the rest of the European Union is equally clear about that—this is not an alternative to membership. In terms of funding, once we have worked through the specific projects that we seek to do then we will work through the funding sources for it. But those are the principles; the principles are no competition between the east and south; the principle is it is not an alternative to membership; and the principle is it is not owned by one Member State but is the property of all the European Union and I think that is now clear and we are actually very content with that outcome.

Q58 *Baroness Symons of Vernham Dean:* Is it better that it is the property of the whole European Union because that facilitates a decent burial?

Mr Murphy: It is important that we all share in the responsibility to make it effective.

Q59 *Chairman:* But is it clear that it is, so to speak, budget neutral; that is to say, that it all has to be accommodated within whatever the Lisbon Process manages to get into its coffers?

Mr Murphy: There is not an additional source of income as a consequence of this.

Q60 *Chairman:* Was there any consideration given to giving assurances to Turkey that these new arrangements would not in any way threaten their negotiations with the EU?

Mr Murphy: We have said it very clearly to Turkey. For Turkey, of course, for understandable reasons, there is an additional anxiety that this is not an alternative to their membership ambitions either.

There is a very detailed discussion going on just now, as your Lordships would expect, with the Turkish government about which chapters of its accession process can be opened over the next six to nine months, particularly the dynamics and the rate of progress during the French Presidency. But we are confident that continuing under the Slovenian Presidency and then going into the French Presidency that Turkey will continue to see a momentum towards EU membership. Of course we will not come close to completing the process, but perhaps two or three additional chapters would be opened that allows Turkey to make progress and for domestic purposes, importantly, to be seen to make progress.

Chairman: I am glad to hear you say that because there were many who suspected—maybe wrongly—that the initial proposal coming from France masked a certain agenda about keeping Turkey happy with something like that rather than full membership. I am glad you have clarified that point. We have ten minutes left, if the Minister will indulge us, and we have a couple of questions—one from Lord Jopling and then one from Lord Kerr—on the stability of the financial markets, and the question of the euro.

Q61 *Lord Jopling:* Quite rightly the communiqué devotes a lot of space to the current instability in the financial markets and I wonder, Minister, if you could tell us what role you think that the EU can play in dealing with the resolution of problems of this sort? Also, I must say that reading this part of the communiqué there seems to me that there are an awful lot of pious hopes and aspirations. For instance, if I can pick out four: one, the EU stands ready to take regulatory and supervisory action; two, it invites ECOFIN to swiftly and completely implement the programme of work agreed—that is their split infinitive and not mine—and three, the EU should work in close cooperation with its international partners; and four, the Council should continue to give high priority to these institutes. What type of regulatory and supervisory actions do you think the EU will actually do rather than just express hopes of this sort in the short and the medium terms?

Mr Murphy: The specific issue here I think is where does the EU have competence, and that is the starting point of this question and this issue. I think the important added value that the European Union as an organisation and as an institution can provide is about a consistency of message across major European capitals, the governments of those nations with major financial centres in their capitals, and to do all that we can as Member States, as the communiqué refers to, whether in pious terms or high level terms, coordinating that political effort about a consistent message of confidence about international

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global economic stability and macroeconomics in the EU. Then you get to a point about which levers does the EU have to pull to ensure stability. Things that are being considered would be about Member States, what are called cross-border stability groups—another dreadful name but it does exactly as suggested—whereby groups of Member States come together perhaps on specific sectors or on specific pressure points and work their way through the specific political and diplomatic/economic response. So that is a specific. Then there are also the proposals, about which I will happily provide more details to your Lordships, about the banking reform consultation document, which is, as I understand it, set out in Chapter 2 of that consultation document, and the UK is in the process of setting out some detail as to how we think that banking reform consultation document could improve the EU's posture in the context of recent global turmoil. If your Lordships would find it helpful I would happily provide details of the Government's thinking as that process continues. Additionally, these issues will be things that the Chancellor will be discussing in ECOFIN, I think next month, at an ECOFIN gathering. So he will be discussing the issue of regulators, supervisors, the EU Deposit Guarantee Scheme and much else. There are these specific medium-level interventions that the EU can make, which are important, as part of a wider response.

Q62 Lord Jopling: So there is nothing much else but talk and thinking in positive terms in the short and medium term?

Mr Murphy: It comes back to first of all a political economic posture in the face of challenge, whether it was on the challenge of climate change or the challenge of China and economic globalisation or the challenge of the turmoil in the financial markets. There is a temptation on occasion to retreat inside protectionism. I think what is significant is that in this context of the EU in the remarkable nature of 27 governments working together on this is that that just was not the temptation or the inclination at all, and the communiqué shows this—it is about the continuing commitment to open markets, flexible markets, no attempt to get involved in the protectionist policies of the past and then building on the spring Council Conclusions about transparency, disclosure and work on credit ratings agencies. So there are specifics that the European Union is working on inside the principle, and the principle is remaining open, flexible, a place for international investment, but the specifics are there about transparency, credit rating agencies, cross-border stability groups and the Deposit Guarantee Scheme and the banking proposals that I mentioned. So there are specifics to add to what may be regarded by some

as pious words or high level general declarations; but there are specific concrete proposals there as well.

Q63 Lord Kerr of Kinlochard: I think we have an insoluble problem here, the one to which Lord Jopling draws attention, because if the European Council were planning a cunning initiative for financial stability in the markets then the correct thing to put out would be exactly this sort of boiler plate Conclusions text which would not reveal the initiative until it was ready to go; and the Minister is much too cunning to breathe a word about that, so there is no point in my asking him! But I was puzzled to find not even boiler plate on the euro. If you read the French press or the Italian press the wicked Fed is driving the dollar down and wicked Frankfurt is keeping the euro strong and killing the export industries of France and Italy. You do not read that in the German press because German exporters are not being killed, and are indeed to be succeeding. Was there in fact any discussion of exchange rates and the euro?

Mr Murphy: Lord Kerr is already laughing before I even attempt a polite answer to his jovial but also accurate question! There were discussions but there were no demands for intervention from the Central Bank or anything of that nature. I think Lord Kerr puts his finger on it, that in this context the German economy continues to progress in the euro zone in a really pretty effective way in terms of its performance of exports and everything else. As a Scotsman I do not use cricketing analogies very often, when I say I have to play a straight bat on this and say that there were no demands for Central Bank intervention and, perhaps more importantly, there was no conversation about the UK changing its position on the Single Currency because that is still captured in those famous five economic tests, which we have no intention of revisiting, and they remain constant today as they were some time ago.

Q64 Lord Kerr of Kinlochard: That was more than I expected!

Mr Murphy: I am being as frank as I can be! My Lord Chairman, I think the general point is I am not sure it would be welcome for me to comment on the exchange rates and the appropriate level of the euro; this is an issue for the markets and the market will decide and it is currently making its decision.

Q65 Chairman: I am minded to recall that when the famous five tests first came up and included the phrase “clear and unambiguous” evidence, Anatole Kaletsky said that in economics there is no such thing as clear and unambiguous evidence! Minister, thank you. We are letting you go one minute early but you deserve the rest; you have given us a lot of

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information and answered our questions very fully, as always, and we thank you very much indeed and we look forward to seeing you after another Council. Thank you and all your staff for communicating with us, not just here in this room but on a very regular

basis. We really appreciate the way in which you handle our requests for information and our comments; it is very helpful. Thank you very much indeed.

Mr Murphy: Thank you to your Lordships.
