

TUESDAY 5 MAY 2009

Present

Dykes, L
Hannay of Chiswick, L
Jopling, L
Kerr of Kinlochard, L
MacLennan of Rogart, L
Mance, L (Chairman)
Teverson, L
Wade of Chorlton, L

Witnesses: **Rt Hon Caroline Flint**, a Member of the House of Commons, Minister for Europe, **Ms Alison Rose**, Head of Communications, Institutions, Treaty and Iberia Group, Europe Directorate and **Mr Ananda Guha**, Deputy Head, Europe Strategy Group, Foreign and Commonwealth Office on the March European Council, gave evidence.

Chairman: Minister, thank you very much for coming to answer questions on the March European Council. Lord Dykes is going to start with the first question.

Q1 Lord Dykes: Referring to the countries in the community in respect of the present worldwide and European financial crisis that are described as financially vulnerable, there has been a lot of press comment as well as official comment from the European and national spokesmen in different countries. This cites examples like Ireland, Greece and Hungary, sometimes much to the irritation of the Member States concerned because it can be exaggerated and there have not been any specific emergencies arising in recent weeks. As you know, Minister, Article 103 of the Maastricht Treaty does specifically rule out bail-out guarantees for countries. There is a difference between the national rescue schemes that have been put forward both in Britain, the United States and other European countries and the meetings of the ECB in deciding what they can do to provide overall protection to Member

States. As we know it is possible to intervene at Community level when a Member State, under Article 100, Section 2, is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control. Although at the moment the situation looks calmer than it did a few months ago, in particular the British newspapers screaming and shouting about all this with some glee, do you think that Article 100 will be used in the future to bail out any EU Member States?

Caroline Flint: Bail-outs are denied under Article 103 of the Treaty, but what has been agreed that should be helpful to some of the countries that we are talking about is to see how we can help them where they experience particular difficulties with their balance of payments. The Spring European Council agreed double this finance facility to €50 billion and that should help some of those countries, the non-Eurozone Member States who are facing those difficulties. I think that is important. The other aspect of this is that the European Union agreed to provide €75 billion to the IMF as well which will be made available for some of the countries that we are talking about here. I think that is a helpful indication of the role that the EU can play whilst not, I think, being seen to have to take on a fuller responsibility for decisions that are made by countries at any given time – even though these are exceptional times – about how they run their economies and what they decide to do in terms of their banking systems or taxation or what have you. I think it would be the wrong place for the EU to try and step in and somehow underwrite that. I think in terms of balance of payments and the IMF the EU has shown it is able to act speedily and take some action. In other matters that are happening, whether it is in terms of loans to help small businesses and other matters as well, I think again that is where individual Member States who are having difficulties can avail themselves of that type of support and help.

Q2 Lord Dykes: Presumably there will be general satisfaction amongst member governments that the ECB does not provide for any quantitative easing in respect of the Eurozone.

Mr Guha: Quantitative easing is something that various Member States have been looking at, the UK Government in particular. I am not sure how that relates to the fiscal bail-out question that you raised, Lord Dykes.

Q3 Lord Dykes: No, it does not; I was passing on to something else. I was just registering the point that unlike the Member States doing their various modalities of quantitative easing that does not apply to the ECB system.

Mr Guha: The ECB has its own inflation target and the monetary policy in the Eurozone is something that the British Government is not part of.

Q4 Lord Dykes: I think member governments are pleased about that, those who are members of the Eurozone and those who are not.

Mr Guha: Quite possibly.

Q5 Lord Dykes: So far as you can tell.

Caroline Flint: So far as we can tell.

Q6 Lord Wade of Chorlton: We understand that the Council has agreed Conclusions on tackling the social impact of the financial crisis and we believe that an Employment Summit is planned for this month. Could you expand on the types of measures foreseen and what you expect to be achieved at this Employment Summit?

Caroline Flint: The Summit now will include the present Troika and social partners – not the heads – at 27 and I think the idea is that the Commission is trying to use the discussions at this Summit as a base for a new Communication on 27 May which we are feeding into, as I am

sure other Member States are as well. I actually was in Stockholm last week meeting my opposite number and we both presented, as part of a seminar, looking forward to what the European Union could do to look at the Lisbon programme and jobs and skills in the future. I think in terms of what has happened so far, first of all getting this fiscal stimulus package of 400 billion euros across the European Union is very important. Community resources have been provided to the tune of 30 billion euros and the AIB is helping to look to how it can boost support to SMEs as well. In terms of the future, the sort of areas that we think are important for the summit to tackle, firstly is a bit of a more long term skills analysis of where we are going with skills, what is missing, what jobs are down the line. There has been a lot of discussion more recently about environmental technologies, greening the economy, how people have to update their skills whether they work in the energy sector, construction sector, the car sector as well as for jobs we have not even invented yet. I think in the short term we are looking at pushing for an expansion of the European social fund but also an acceleration of the skills review because we think time is important here. As and when the economy picks up it is important to be in a position to move quickly. For the longer term there is the review of the budget ahead of the next financial perspective in 2013. We have been very keen that we should look at how the budget could work better, whether there are areas in terms of environmental technologies and the jobs and sectors in that area should be seeking to get a better share I think of the EU budget in future and we are very keen for that discussion to continue as I know are our Swedish colleagues as well. Another area is identifying common social problems. There is no one-size-fits-all solution. But, as in national politics, European politics could benefit from how we better share good practice and use that to our national advantage. I think again in this area, in terms of employment, jobs and skills, that is something worthwhile. I know that this is a Swedish priority and I think it is something we

would like to support our future colleagues on to make sure in their presence we can move this agenda forward and make some concrete progress.

Q7 Lord Wade of Chorlton: I am a member of Sub-Committee G and we look at employment issues. Would there be any opportunity for us to have an input into the Government's view on these matters?

Caroline Flint: I am sure I can look into that. I am happy to follow that up.

Q8 Lord Wade of Chorlton: In the time that I have been a member there has been quite a lot of evidence taken on this matter.

Caroline Flint: There is a new Communication coming out of this Summit on 27 May. I will certainly make sure that that is circulated. James Purnell is obviously one of the Cabinet leads in this area and I will make sure that our officials feed back to DWP and make sure the committee you mentioned gets the Communication. I think it is always important to address changes in our job markets and how they are working. That has become ever more important in this present time.

Chairman: Can we move on to the subject of climate change and energy? Lord Hannay and Lord Maclennan I know want to ask questions on this.

Q9 Lord Hannay of Chiswick: Minister, I would like to ask one set of questions on climate change and one on the energy components of the March Council. On climate change time is getting pretty pressing now for the European Union to shape up its contribution to the global negotiations on how much in the way of resources it is prepared to put for developing countries. This is absolutely crucial to the Copenhagen package. Do you feel optimistic that discussions among Member States are going well on this, that they are going to get to the finishing post in June with a really substantial offer for that? Would it not be wise to

recognise that the United States are not going to do all this for us because they are a bit bogged down at the moment with their problems with Congress over trade. So if the European Union does not keep in the lead on this, there is going to be nobody leading. On the energy aspects, do you feel that we really have now crossed an important watershed in putting European Union resources behind things like inter-connectors and the Nabucco pipeline, and that the rather obscure Conclusions in March mean that things are really now going to move ahead. Is any consideration being given to having a gas storage obligation of a similar kind to the oil storage obligation which we have had ever since the oil crisis in the 1970s and which requires Member States to have a minimum requirement of gas storage? I know these things are quite costly but they do have a quite remarkable effect on security as we discovered this winter when the Germans were not at all fussed about what happened in the Ukraine because they have got very substantial gas storage. We do not, of course, and neither do many others. Imposing a minimum obligation, not necessarily financed by governments, could be a very important step. I wonder if you could comment on that.

Caroline Flint: Firstly, on how things are going on the financial packages that we are trying to move forward for developing countries, it is fair to say that this is a challenging area but I think the fact that the Spring European Council did re-confirm its recognition that in the European Union we do need to sort out a position out well in advance of Copenhagen is an important one. The fact that each step along the way – whether it was the G-20 or before that – or the big decision at the December Council on climate change that has kept some of the momentum going. I still feel that we can get this in good time. I hope we are going to do it in June but I think there are still a lot of discussions going on about what this might mean. There have been various suggestions put forward about the way forward. I think our Polish colleagues have got some ideas about this and Norwegian colleagues have been putting forward proposals of what the financing arrangements should look like. I think we are

working through that, but I think there is an understanding. What will make the difference between getting a decision or not is the recognition that if we are to influence what happens on the world stage it is absolutely crucial that we sort out what our position is. I hope we can do it in June but certainly, compared to other parts of the world, we are discussing this in detail and in depth ahead of other countries. It is challenging because when the talking stops it is about what is on the table in terms of the money and that always concentrates people's minds. I feel hopeful that we will have something in good time for Copenhagen that will help us to influence that agenda. On the point about the interconnectors, there has been additional funding, as I understand it, under the economic recovery plan which is to be welcomed because obviously one of the concerns in relation to the Ukraine-Russian crisis was how do we get gas supplies around Europe. I think that was very welcome. On gas storage, I will say a little bit on this but I will have to write with further details. I know that there has been more discussion about this following this winter's events. My understanding – but of course my colleagues in DECC lead on this area – is that part of the problem is about how do you set the level of what each Member State should store given the different needs of different countries in relation to gas. I think that whilst there is some discussion happening around this particular area, I am a little bit concerned that you could end up with a sort of arbitrary amount per country which actually is quite expensive and does not necessarily help at the end of the day. As I say, I do not lead on that particular area, it is DECC, and I would have to get some more information on that. The supply of gas, whether it is moving it around quickly through interconnection or storage needs, is part of the discussion. Obviously I think we have got a new impetus around some of these discussions around different pipelines. Of course the Eastern Partnership is meeting this week. The countries involved in that Eastern Partnership but also other countries such as Turkey and Russia are obviously part of this picture about these different supply lines and I think there is a new impetus for the EU to get more

involved. I had a feeling when I first started in this job that there was a little bit of a “let’s just let it happen and the market will sort it out”; I think there has been a bit of a shift in the sense of the EU recognising that we do not want to take over commercial matters entirely but the EU can give a sense of direction of travel which hopefully will give confidence to business to invest but also to shape some of the difficult and sometimes challenging discussions you have to have with a number of countries who all have a part to play both in the supply but also in securing transit.

Q10 Lord Maclellan of Rogart: The Presidency Conclusions drew attention to the need to make the best use of the EU’s own energy resources including renewables and also to the promotion of energy efficiency. Are you satisfied that the Union will not apply controls over state aids which may inhibit the research and development which is necessary to get renewables going in this country? Is that an issue which has been considered because we have heard much public criticism of an absence of support for renewables of late? On energy efficiency, can you indicate whether consideration has been given to the possibility that a package could actually have a limiting and detrimental effect on competitiveness of the EU?

Caroline Flint: In terms of renewables I think there has been a move forward in terms of recognising how the European Union but also individual Member States should be more engaged in terms of supporting that particular sector. I know that in terms of the recovery package the UK certainly is benefiting from support for renewable development but also carbon capture and storage. Again I think it is a recognition, particularly in certain areas which are new. You have to have pilots to give confidence for them to happen down the road, the EU can play a role in helping to encourage the sort of research and development that is necessary to make that happen. Certainly the practical pilots around carbon capture and storage will help do that as will some of the other initiatives around wind power and soon. As I said before, I think part of our argument around reform of the budget is about saying that we

do have to have a budget that reflects both our ambitions for tackling climate change and for economic prosperity in the future. I hope that direction of travel will continue. In relation to energy usage and how it links into this, the EU Strategic Energy Review did agree to adopt a package of energy efficiency proposals in a number of key areas covering buildings, household appliances and tyres. That is going to be absolutely key to meeting the targets agreed in December of the 20 per cent improvement in energy efficiency by 2020. We already have had estimates from the Commission on how the proposed re-cast of the Energy Performance Buildings Directive will help to deliver more CO2 savings by 2020. The Revised Labelling Directive for energy efficient appliances is being calculated to show how that will help consumers to make better choices about how they can save energy through knowing what these appliances can and cannot do. On the CO2 savings from the labelling of tyres, again there have been estimates factored in on what improvements that might lead and also how that might speed a transformation in the market as well. I think in all these areas it is about the European Union being able to give a direction of travel which industry can then step up to the plate and meet, knowing that that is the direction of travel and that is what they have to aim for. Again, on one level, we have already seen that in certain industrial sectors the support that is being provided to different sectors – the car industry being one of them – has often been coupled with expectations of greater energy efficiency and innovation in that market in the future, so a step change in the way those particular sectors are operating, I have to say, for their own good as well because this is where we are going that is how we are going to keep ahead.

Q11 Lord Teverson: Minister, you mentioned the Eastern Partnership. One of the things that has been clear in Sub-Committee C recently is that papers coming out of the Commission in Brussels on the Mediterranean Union indicate that it is floundering and is really finding great difficulty in getting itself established or doing anything. In the United Kingdom

generally we feel that the Eastern Partnership is of particular importance and I would like to understand why the Eastern Partnership is not going to go the way that the Mediterranean Partnership is clearly going.

Caroline Flint: From what I recall there have been particular problems in terms of the Mediterranean Union, particularly with some of the Arab countries connected to the Middle East Peace Process and what have you. I think there have been some particular challenges there from what I understand in relation to that. I have to say that I still think that that Union is important on the security issues and on a number of other different fronts in the UK. As far as the Eastern Partnership is concerned, we are going to have the summit launched on 7 May. I think it is a really important opportunity to see how we can work with these regions within Europe. However, one of the challenges for these sorts of partnerships is recognising that there is not a one size fits all solution. Some of the countries involved would like to have a journey towards membership of the EU, they are clear about that; others do not. How we work with those different countries is going to present different challenges, to be honest, and different opportunities as well. That being said, I think it is worth seeing how we can look at what can be achieved individually but also if there are areas where, on certain projects, we can work with these countries together. We spoke about energy earlier that might be something in that part of the world that would happen on a more regional basis. One of the big firsts in terms of the Partnership will be how we look at different areas that might help our business in trade but also other matters in terms of concerns about, for example, criminality issues as well is the sort of capacity and institution building that the EU can assist these countries with which, I have to say, will not only benefit us in the EU but fundamentally help people in those countries too. I think all of these partnerships have to be open to scrutiny about how they are going to work and I do know that one aspect of the Eastern Partnership will be that there will have to be annual plans submitted and, as far as I understand it, the cost

for these plans (whether it is in terms of capacity building or in other areas) signed off. I hope that will give, particularly in these early years, a greater sense of attention on what is working as well as some aspects that may not work as well as we might have thought. As I say, it is early days and these things have their own life, I suppose. Should we be doing it? Should we be getting involved in this way? Yes, I think we should.

Chairman: Thank you very much indeed, Minister.