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PARLIAMENTARY DEBATES
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House of Lords

Thursday, 16 February 2012.

11 am

Prayers—read by the Lord Bishop of Lichfield.

Fuel Poverty Question

11.06 am

Asked by **Lord Ezra**

To ask Her Majesty's Government whether they have further measures in mind to deal with fuel poverty.

The Parliamentary Under-Secretary of State, Department of Energy and Climate Change (Lord Marland): My Lords, the coalition is committed to helping people, especially in low-income vulnerable households, to heat their homes more affordably. The Government commissioned Professor John Hills to carry out an independent review of the fuel poverty target and definition in the context of ensuring that available resources are focused where they will be most effective in tackling the problems underlying fuel poverty. Professor Hills published his interim report on 19 October, and a final report will be published shortly.

Lord Ezra: My Lords, bearing in mind that some 5 million homes, over 20 per cent of all the homes in Britain, are in fuel poverty as presently defined, can the Minister indicate the annual rate at which homes are currently being taken out of fuel poverty? Secondly, do the Government remain committed to the objective of eliminating fuel poverty by all reasonably practical means by 2016, as laid down in the Warm Homes and Energy Conservation Act 2000?

Lord Marland: It is very good to see the noble Lord in his place. Of course, his position on this is very well recognised, having been what I was brought up to know as "King Coal". I am grateful that he should ask such important questions.

Clearly, since 2005, fuel poverty in the UK has gone up from 2.5 million homes to 5 million now. This is a very serious problem with which all of us wish to grapple, particularly in these times of economic difficulty. The Government are committed to that. I do not want to pre-judge Professor Hills' report, but we initiated it and we look forward to it.

On the noble Lord's second point, of course we are committed to reducing fuel poverty to nothing. In an ideal world, we would be doing it now. We have reworked the definition, which I think is fundamental. However, until we get the report we will not be able to comment much further on that.

Baroness Lister of Burtersett: My Lords, what is the Government's response to the "End the Big 6 Energy Fix" campaign launched last week by Compass—I declare an interest as the chair of its management committee—and the *Independent* for a ring-fenced

levy on the big six energy companies that could be used to tackle fuel poverty through making homes more energy efficient?

Lord Marland: It is difficult to attack the big six. EDF, which announced its results today, makes no margin at all on delivering domestic supply to homes. We must be very careful when we attack these companies, which are genuinely trying to supply and are, of course, struggling with major increases in global oil and gas prices outside their control.

Of course, the Government have a load of initiatives for improving things. Reducing demand at home is absolutely fundamental, as the noble Baroness will know better than I do. The Green Deal will be fundamental to that. These various initiatives will try to protect the consumer. Believe you me, the consumer is at the heart of all our policy-making and, at this time, needs to be.

Lord Lawson of Blaby: My Lords, perhaps I may be of assistance to my noble friend by suggesting to him a way in which he could reduce fuel poverty at a stroke—abolishing the whole raft of measures, from the carbon floor price to the renewables obligation and massive subsidies for wind power, all of which are designed to push up energy costs at the expense of fuel poverty, British industry and the British economy, to no effect in the absence of a global decarbonisation agreement, which the Minister knows perfectly well is not on the cards.

Lord Marland: I am pleased that the noble Lord felt he was being of assistance. I am not entirely sure that it quite fits with my dictionary's definition of "assistance", but I take on board what he said. He is bowling a straight military medium over and we are quite used to it. I shall consider the word "assistance".

Baroness Smith of Basildon: My Lords, some of the people who I most worry will not be able to afford the heating they need are those on pre-payment meters. The noble Baroness, Lady Stowell, told me in a Written Answer on 19 February that pre-payment meter customers now pay on average £20 less than standard credit customers for gas and electricity. However, Charles Hendry, the Minister in the other place, told MPs that in 2011 pre-payment meter customers would pay on average £90 more than direct debit customers and a maximum of £170 more. Therefore, pre-payment meter customers pay more. Will the Minister explain why pre-payment meter customers pay less for their energy but so much more for their bills, and what can be done to ensure that those who have the least are not paying the most?

Lord Marland: I will not get into the crossfire of the detail on that because I do not have the facts in front of me. However, we all know that energy bills have gone up. They will obviously affect pre-payment meters because you have to put more in to supply the energy bills. The big point that I am making here is that we are completely focused on reducing energy bills, which is why we have a raft of measures. The warm home

[LORD MARLAND]

discount is worth £1.1 billion. The core group rebate of £120 goes to 600,000 pensioners. There is the winter fuel allowance of £200. Cold weather payments worth £93 million have already been paid this winter, and £100 million has been paid under Warm Front. A huge number of initiatives are in place to protect the consumer and we are very committed to doing so.

Lord Jenkin of Roding: My Lords, in his first Answer my noble friend mentioned the Green Deal. Not least of the Green Deal's attractions was that the up-front costs of insulating homes and other energy-saving measures are met by the private sector providers. Can the Minister reassure the House that, in working out the Green Deal, there will be enough providers to make enough money available to achieve the Government's targets?

Lord Marland: The Green Deal is a very important private sector initiative, of which the Government have been the enabler. I am very grateful, incidentally, for the commitment from Peers on all sides of the House to ensuring that the Green Deal passed through legislation in such a well thought-out and well devised way. The Green Deal is an enabler and a marvellous opportunity for the private sector to provide energy to homes. It is for the Government to enable it further and pump-prime it to make sure that it happens.

Lord Campbell-Savours: My Lords, would not a rising block tariff system of energy pricing help low-income families?

Lord Marland: It is a point that the noble Lord has made before. He has great knowledge of it. It is a point that several noble Lords have made to Professor Hills. I do not want to prejudge what he will say but I am very grateful to those Peers who have involved themselves in dialogue with him and made a number of such points.

Gypsies and Travellers

Question

11.13 am

Asked by Baroness Whitaker

To ask Her Majesty's Government whether they will consult on a fresh definition of Gypsies and Travellers which would entitle all persons with a cultural tradition of nomadism or of living in a caravan to Gypsy status for the purposes of planning policy and legislation.

Earl Attlee: My Lords, the Government published their new draft planning policy for Traveller sites for full public consultation last year. The consultation included a question about whether the current definition of Gypsies and Travellers for the purposes of planning policy should be retained. The Government are currently considering all responses to the consultation on their new draft planning policy.

Baroness Whitaker: My Lords, I am grateful to the Minister for his Answer as far as it goes. However, does he agree with me that the current definition forces ethnic Gypsies and Travellers who want to live in caravans according to their traditional way of life and seek planning permission for that purpose to demonstrate that they pursue a nomadic way of life, when current legislation and the lack of authorised sites makes it almost impossible for them to do so and consigns them to low-paid and erratic employment? For instance, a Gypsy who practised a profession that required living in one place—such as a doctor or an architect of my acquaintance—could not get planning permission for a caravan site on land that he had bought. Does the noble Earl agree? Secondly—

Noble Lords: Too long!

Earl Attlee: My Lords, the noble Baroness's description of the current definition is right. Some of the responses to our consultation on our draft new planning policy for Travellers' sites suggested that there should be a separate consultation on the definition. The Government are considering all the responses to the consultation. We shall have to wait to see what emerges from that.

Lord Laming: My Lords, does the noble Earl accept that one of the greatest challenges in respect of those who live a nomadic life is to secure continuous and proper education for the next generation—the children—so that they can have not only a choice in their lifestyle in the future and settle into society but fulfil their potential as human beings?

Earl Attlee: My Lords, the noble Lord is absolutely right, which is why I saw a separate briefing from officials at the Department for Education.

Lord Tebbit: My Lords—

Lord Avebury: My Lords—

Lord McNally: My Lords, shall we hear from the noble Lord, Lord Avebury, first?

Lord Avebury: My Lords, can we now assume that there will be a further consultation on the revised national planning policy framework that incorporates a version of the Traveller document, as recommended by the CLG Select Committee? If so, will the new composite document include a revised and more inclusive definition of Gypsies and Travellers for the purposes of both housing and planning which is based on the Housing Act 2004?

Earl Attlee: My Lords, I am sorry that I cannot be more helpful to my noble friend but we will have to wait to see what the Government's response is. However, we will not have to wait too long.

Lord Tebbit: My Lords, should there not be an assumption that those of us who live at a fixed abode cannot have the advantages of also living in a caravan

and wandering around? Equally, should not those who want to wander around and live a nomadic life accept that there are disadvantages to it and not expect us to divvy up in some way or another to subsidise them?

Earl Attlee: My Lords, the noble Lord makes an interesting point. However, we all know what the problem is: poor education among Travellers; poor health outcomes; low life expectancy; and severe discrimination. We have policies to mitigate all these. However, at strategic level, successive Governments do not appear to understand what legitimate economic activity consistent with their culture Travellers should be engaged in. I will be taking up that matter with my right honourable friend the Secretary of State for Communities and Local Government.

Baroness McIntosh of Hudnall: My Lords—

Lord Richard: My Lords—

Lord Kilclooney: My Lords—

Lord McNally: Perhaps we could hear from the noble Lord, Lord Richard.

Lord Richard: My Lords, does not the problem go rather deeper than the way in which the Minister seems to be approaching it? The noble Lord, Lord Tebbit, put his finger on one of the issues. Is not the fact that there are not enough sites in this country the real reason why so many people who want to live a nomadic life cannot do so? Therefore, they have to go into static accommodation, which they probably do not want to be in anyway, and which no doubt has planning problems and upsets the neighbours. However, the real problem here is that there are not enough sites for nomadic peoples to go to.

Earl Attlee: My Lords, the noble Lord is right in his analysis. The problem is to find a long-term solution, which is why I referred to the problem of economic activity. Without legitimate economic activity for Travellers, local communities will not be keen on having Traveller sites near them. That is the nub of the problem.

Lord Kilclooney: My Lords, during this period of consultation, will the Government look further at the apparent ease with which foreign Gypsies and Travellers enter the United Kingdom?

Earl Attlee: My Lords, I am not sure exactly which problem the noble Lord refers to, because there are a few, but I will communicate with him outside the Chamber.

Lord Boswell of Aynho: My Lords, as a matter of equitable treatment, is it not reasonable that if we are asking Gypsies and Travellers to meet their obligations under the law we should at the same time devise the most sensitive and comprehensive measures of their nature and definition, so that they can avail themselves of their proper rights as a minority—and they should receive those rights as well as meet their obligations?

Earl Attlee: I broadly agree with what the noble Lord is saying. Everyone has rights but they also have obligations—and the obligations are to comply with the law.

Baroness McIntosh of Hudnall: My Lords, I wonder whether the Minister could return to the question from the noble Lord, Lord Laming. The noble Earl said that he had received a briefing from the Department for Education on the issue raised by the noble Lord. Is he prepared to share with the House what the briefing says?

Earl Attlee: My Lords, I will have to write to the noble Baroness.

Female Genital Mutilation *Question*

11.21 am

Asked by Baroness Tonge

To ask Her Majesty's Government how many cases of female genital mutilation were investigated by the police in the last year for which figures are available.

Baroness Verma: My Lords, information on the number of police investigations involving female genital mutilation is not collected centrally. However, the Government work closely with the police and the Crown Prosecution Service to ensure that they are equipped with guidance and information to deal with cases of FGM, and that they are clear on their legal powers to protect women and girls from this abhorrent practice.

Baroness Tonge: My Lords, I thank the noble Baroness for that Answer. Is she aware that between November 2009 and November 2011 there were 63 alleged cases reported to the Metropolitan Police which never reached prosecution? Will she undertake to ask the Government to set up a technical review to find out why these cases do not come to prosecution in order to ensure that proper training is given to doctors and midwives to stop this practice in this country? Does she agree that successful prosecutions are the only way to deter families from perpetrating this terrible mutilation on their daughters?

Baroness Verma: My Lords, I can inform the noble Baroness that in September 2011 the CPS launched a female genital mutilation guidance pack that has been developed to assist prosecutors in what she knows are extremely complex cases. We are intending to monitor that guidance over 12 months and we will evaluate the results. The Government are of course also working closely with schools, health service staff, charities and community groups so that through the multi-agencies we are able to raise as much awareness as we can. As to the noble Baroness's point on prosecutions, this is an issue that at the end of the day will achieve results only when the communities themselves decide really to engage with bringing forward perpetrators.

Baroness Rendell of Babergh: My Lords, is the Minister aware of the unwillingness of young girls to go into court and give evidence? FGM is an abhorrent practice but is not regarded as such by many of the young girls themselves and by those who advise them. There are many who tell them that if they are not mutilated they will not become real women, they will not find a man to marry them, and they are bullied and victimised by their contemporaries. Is the Minister further aware that if they go into court they may be required to testify against their own parents or family members and people they have known and had a close relationship with all their lives?

Baroness Verma: I think the noble Baroness has hit the nail on the head. That is why it is so difficult to get prosecutions. There is also an embedded cultural issue. Until we reach out and get through to the older women in those communities and get them to respond to the young girls who are often unwilling to undergo these practices, we will never get to the nub of the problem. However, I must say that I have come across young people—both men and women—from those communities where FGM is being practised who are beginning openly to stand up to say that they oppose it. That is a positive sign for us all.

Baroness Morris of Bolton: My Lords, two or three years ago I attended a round-table multi-agency discussion in Birmingham on female genital mutilation. One of the main problems in getting the message across to some insular communities is the language barrier and the lack of female interpreters. There was real concern that many male interpreters do not convey the fact that FGM is a crime with serious consequences. Can my noble friend say what the position is on interpreters and whether this is still a problem?

Baroness Verma: I cannot answer my noble friend directly on the position of female interpreters because that information is not held centrally. However, I can reassure her and your Lordships' House that the police, the Crown Prosecution Service and all those involved in the issue take it incredibly seriously and are working with the sensitivity that it requires. I repeat that unless the communities themselves are willing to engage with outside organisations, this will remain a problem.

Baroness Howarth of Breckland: My Lords, I recently attended an international seminar in Brussels which was focused, as the noble Baroness suggests, on how communities can themselves help with this issue. What is being done to engage the communities themselves? How can we learn from some African countries, which are taking work into the communities, rather than trying to find ways ourselves and not succeeding?

Baroness Verma: The noble Baroness raises an important point about engagement with the communities. We have set up an FGM fund of £50,000 through which we are helping to fund 10 organisations on the front line that are helping to prevent FGM within those communities. It is important that the results and the influences come from within the communities, so

we are engaged with working closely not only with the young people through school education but with the older generation through community groups.

Baroness Scotland of Asthal: My Lords, is it not also of critical importance for victims to get appropriate help and support? Is it not therefore the role of the Crown Prosecution Service to support those victims so they are enabled to give their evidence? Are the specialist prosecutors who deal with violence against women still able to do that, bearing in mind the cuts? Is that not something that we should pursue with greater vigour?

Baroness Verma: The noble and learned Baroness is absolutely right. That is why the Home Office has ring-fenced £28 million—so that we have those specialist services in place and so that those victims are able to access as much support as we can possibly give them, not just in terms of health and social services but being able to provide accommodation and all the other things that they require if they want to move from the communities that are imposing FGM on them.

Baroness Hussein-Ece: My Lords, did my noble friend see the excellent report on “Newsnight” last night on this barbaric practice in Egypt? I was shocked to learn that 90 per cent of women, both Christian and Muslim, are subjected to this awful custom. Is she aware whether the schools in this country are playing their role? Some groups who campaign on the ground and work with young women and their families tell me that the Department for Education says that it does not collate any information that would help in this matter and that it is not really a problem, but schools know when girls are taken out of the country to have this procedure performed.

Baroness Verma: I did not watch the programme last night because I was here, sitting in the Chamber.

A noble Lord: Working.

Baroness Verma: Working, yes. However, I did hear about the programme this morning and people have said how appalled they were by what they saw. The noble Baroness asked about schools. Some 80,000 leaflets and posters have been distributed among schools and healthcare services. But the noble Baroness is absolutely right: we need to do a lot more.

Sudan and South Sudan *Question*

11.30 am

Asked by Lord Chidgey

To ask Her Majesty's Government what is their assessment of current developments between South Sudan and Sudan following Sudan's recent alleged bombing of the town of Jau in South Sudan.

The Minister of State, Foreign and Commonwealth Office (Lord Howell of Guildford): My Lords, we have not yet had independent confirmation of the bombings in the Jau area. Although we note South Sudan's claim that Jau is within its territory, the fact is that both countries claim it is theirs. Whatever the case, we condemn all indiscriminate bombings that could affect civilians. It was at least encouraging that on the same day the two countries signed their non-aggression pact. They also agreed to move ahead with the establishment of a joint border mechanism, consisting of troops from both armies and from the United Nations Interim Security Force for Abyei, to oversee a demilitarised buffer zone. We urge both Governments to make good on that commitment now.

Lord Chidgey: I thank my noble friend for that Answer. However, does he not share my concerns that the apparent bombing of Jau is in breach of the non-aggression agreement signed the day before and that in fact it follows earlier attacks with bombers and tanks? These human rights violations have apparently been committed—there is compelling evidence of this—by aircraft and tanks sourced from Russia and China, which leads into my first question. Are our Government supporting a call in the UN to suspend all international arms transfers to the whole of Sudan? Is the Minister aware that the director of the International Organisation for Migration has made it very clear that it is impossible to move the half a million people planning to return to South Sudan by Khartoum's 8 April deadline? Therefore, will the Government press very strongly for humanitarian aid workers to be given access to these camps and for the returnees' deadline to be extended?

Lord Howell of Guildford: My noble friend, who is considerably closely acquainted with these issues, has raised a number of them with me. On his last point concerning the returning refugees, this is potentially a very serious problem, particularly if the Khartoum Government insist on a deadline for their return, which we utterly reject. Of course we want to see humanitarian access for the refugees in every possible way and we keep pressing on that issue.

On the other matters that my noble friend raised, we have achieved a Security Council statement at the UN but, frankly, the prospect of getting a substantial measure at the UN Security Council is just not good at the moment—the agreement is not there. There is of course an embargo on arms to the whole of Sudan—the north and the south—and that remains in place. However, while my honourable friends and other countries are working day and night to achieve more movement, I echo and share my noble friend's realism that progress is very slow and that the commitments are not being adhered to.

Lord Alton of Liverpool: My Lords, is the Minister aware that last Thursday, speaking at Westminster, the UK special representative for Sudan and South Sudan estimated that in Southern Kordofan some 300,000 people have now been displaced as a result of the aerial bombardment campaign by Khartoum? Is he also aware that on Friday last the United Nations relief

agency and refugee service said that some \$145 million would be needed to deal with that crisis? In a Written Answer on 21 June last, the Minister said:

“Reports of such atrocities will have to be investigated and, if they prove to be true, those responsible will need to be brought to account”.—[*Official Report*, 21/6/11; col. WA 294.]

In November, he said that,

“we continue ... to seek urgent access to those ... affected by the conflict”.—[*Official Report*, 9/11/11; col. WA 66.]

What progress is being made to bring to justice those responsible for this manmade catastrophe and to get access to those areas of Kordofan?

Lord Howell of Guildford: The short answer to the noble Lord is: not enough progress. The special representative to whom he refers, Michael Ryder, is at this moment back in Addis Ababa seeking to get the negotiations within the context of the African Union High-Level Implementation Panel process going again. It is a constant struggle and progress is very slow.

On the particular aspects of the increasingly horrific humanitarian situation in Southern Kordofan and in the Blue Nile area, I am advised that the Office for the Coordination of Humanitarian Affairs, under the guidance of our former colleague the noble Baroness, Lady Amos, does not for the moment want to press for cross-border access either to Blue Nile or to Southern Kordofan because of the impact that that would have on wider humanitarian activities in Sudan. However, it continues to press for cross-line access to all areas of Southern Kordofan. We are supporting it in that approach but we are, of course, up against the continual denial by the Khartoum Government of proper access by humanitarian agencies. It is a difficult situation.

The Lord Bishop of Exeter: My Lords, does the Minister agree that crucial to the future stability and security of South Sudan will be assistance towards building effective bilateral trade, security and political relations with its neighbours and the wider east African region? Can he say what DfID is doing to build capacity in terms of good governance systems and structures, strengthening the east African community and supporting South Sudan in its expressed desire to join the Commonwealth?

Lord Howell of Guildford: The answer to the right reverend Prelate is that DfID is doing a great deal. It is putting many millions in infrastructure aid and technical support into this new, young nation of South Sudan and into better relations and connections with the whole east African community. The prospects in the long term are very good, but the prospects in the short term are extremely bad, not least because there is, at present, a total block for various reasons on the sale and transfer of oil from South Sudan, where most of it lies, through the pipelines to the north, where it has to be distributed. That, of course, is slicing the revenue of South Sudan almost to zero. We have to overcome these short-term difficulties, but longer term we ought to be able to build a new and more prosperous east African community, which would certainly include South Sudan.

Business of the House

Timing of Debates

11.36 am

Moved By Lord McNally

That the debate on the Motion in the name of Baroness Verma set down for Thursday 1 March shall be limited to five hours.

The Minister of State, Ministry of Justice (Lord McNally): My Lords, I beg to move the Motion standing in the name of my noble friend on the Order Paper.

Lord Barnett: My Lords, before we turn to the instruments, which I am sure are very important, perhaps I could ask the noble Lord about an Urgent Question that I raised some weeks ago on car park access for Members of the House. I was promised then that there would be a review on 7 February. I gather that the committee met on that day but we still have not seen exactly what happened. Can the Minister tell us why it is being kept secret?

Lord McNally: My Lords, I think that the term “secret” is rather emotive. As I understand it, the Chairman of Committees, who is a paragon of open government, held a meeting and the minutes will be published in the usual way.

Lord Grocott: My Lords, perhaps I can raise an issue with the Deputy Leader. I have put down a Written Question on this but this is the first opportunity I have had to put an Oral Question to him about the Business of the House.

For a fortnight, we shall be in the rather bizarre situation of having our bicameral Houses of Parliament effectively sitting as a unicameral system as there are separate recess dates for the Commons and the Lords. I find that inexplicable, partly on the grounds that we are at the stage of business when a lot of ping-pong takes place, which is inevitably delayed because of this, and partly because there are occasions when we cannot get Royal Assent to Bills because the two Houses are not sitting. There is also a cost involved and a lot of inconvenience to people who have not been able to arrange the normal cross-party and cross-House meetings during this period. Can the Deputy Leader give us an explanation for what, on the face of it, seems to me to be a rather bizarre decision to have made?

Lord McNally: The noble Lord is right that it is usually good to synchronise the dates. However, I am informed that they were announced last October and that there were no objections in either House. As the noble Lord put down a Written Question, I am sure that a considered Written Answer from a higher grade than mine will give him the explanation.

Lord Campbell-Savours: Was the director of facilities not consulted before the decision was taken? Surely he works to a budget and should know—and should have been asked—whether this was an efficient use of resources.

Lord McNally: I have an explanation here. The Lord Chairman has already made it clear that no extra costs are involved; the two Houses can sit independently. Clearly, the matter will be best dealt with by hearing the Answer to the Written Question of the noble Lord, Lord Grocott, rather than by lobbing a verbal question at me on a Thursday morning.

Motion agreed.

Social Security (Contributions) (Re-rating) Order 2012

Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2012

Guardian’s Allowance Up-rating Order 2012

Guardian’s Allowance Up-rating (Northern Ireland) Order 2012

Tax Credits Up-rating Regulations 2012

Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2012

Motion to Refer to Grand Committee

11.41 am

Moved by Lord McNally

That the draft orders and regulations be referred to a Grand Committee.

Motion agreed.

Arrangement of Business

Announcement

11.41 am

Lord Wallace of Saltaire: My Lords, 41 speakers signed up for the debate. In spite of the wealth of expertise and experience, and the diversity of opinions, may I suggest that if all contributions other than the opening and closing speeches are kept to a maximum of nine minutes, the House may rise at its normal Thursday time of before 7 pm?

EU: Recent Developments

Motion to Take Note

11.42 am

Moved by Lord Howell of Guildford

That this House takes note of recent developments in the European Union

The Minister of State, Foreign and Commonwealth Office (Lord Howell of Guildford): My Lords, I hope that noble Lords will welcome the opportunity for a European Union debate in the light of the very rapid changes and developments in the European Union, and that we will be able to bring to bear the accumulated

wisdom of your Lordships' House on how we should proceed in the interests of this nation and of European strength and unity in the coming weeks and months.

Although the global pattern of influence, power and wealth is fast changing, Europe remains our neighbourhood and our largest immediate market. Obviously it is in a stable, prosperous and vibrant neighbourhood that we want to live within the European Union, on terms of close co-operation and friendship with our neighbours. It is therefore in Britain's clear, immediate interest to see our neighbours' problems sorted out, notably the present eurozone tangles. These are having a chilling effect not just on the eurozone but on our economy and the global economy, including even the great new markets of the emerging world on which we increasingly depend.

Addressing the eurozone problems in a realistic and sustainable manner is one of the best ways in which the conditions for renewed economic dynamism can be found and secured, both here and across the whole European economic space. The package of measures agreed by the European eurozone states in October last year set out the immediate steps that must be taken if the eurozone is to hold together and endure. Europe's banks must be properly capitalised; the uncertainty in Greece must be brought to an end, which we hope will happen soon—and without utterly destroying that noble country; and a firewall must be built that is strong and high enough to deal with the full scale of the crisis.

In the longer term, much more will be needed. Proper fiscal discipline built into the system will be the only path that goes forward for the eurozone. This is the inevitable consequence of the decision taken in Maastricht in 1992 to set up the single currency area, to which the United Kingdom did not sign up, and outside which we thankfully remain. For those inside the area, it was always the hope that, following monetary union, greater fiscal discipline would indeed somehow follow and be achieved. It was deviations by several states from this hoped-for path of fiscal discipline that built up into the current eurozone crisis, for which new rules on closer fiscal integration aimed at trying to correct the problem had to be hastily hammered out over recent months.

At the December European Council, the issue was whether these new rules aimed at closer fiscal union should be incorporated in the European Union treaties or implemented through an intergovernmental agreement. My right honourable friend the Prime Minister went to the European Council prepared to agree a treaty of all 27 countries, but only if there were proper safeguards in place to ensure that the integrity of the single market was preserved. They were not an opt-out for the UK, as some have suggested; they would have applied to the European Union as a whole, ensuring that the basic building blocks of the single market—that is, a level playing field upon which competition takes place—were properly protected in all member states. These safeguards were not acceptable to some, and so the Prime Minister vetoed the proposal to have a treaty change for all 27 member states. To have incorporated the changes in the intergovernmental

agreement into the EU treaties as a whole now without proper safeguards would have been the effect of signing up in December.

Lord Lea of Crondall: I am sorry to interrupt so early in the noble Lord's introduction, but he mentioned safeguards. Some parts of the Government seem to say that those safeguards were solely to do with the City of London. Does that mean that the rest of what was agreed on closer economic and monetary integration would have been quite okay?

Lord Howell of Guildford: Not necessarily. I would like to give a straightforward answer to the noble Lord, who follows these things, but there are a number of qualifications and details that I want to come to in my speech. I have tried to set them out most carefully because I know your Lordships' detailed interest in them.

I was saying that to have incorporated the changes in the intergovernmental agreement, the fiscal union agreement, into the EU treaties now without the proper safeguards, which would have been the effect of signing in December, if my right honourable friend had gone ahead with it, would have risked changing the character of the European Union profoundly. It would have strengthened the euro area, but without corresponding balancing measures to maintain the integrity of the single market at 27. I shall come to the nature of those safeguards in more detail and why we felt they were not present.

As a result of the December meeting, eurozone countries and others are making separate arrangements outside the treaties for strengthening budgetary discipline, including by ensuring that there are much tougher rules on deficits. The Governments of 25 member states, so far, have indicated that they intend to sign up to the intergovernmental agreement reached in January.

This is a treaty outside the European Union. We are not signing it, we are not ratifying it and it places no obligations on the United Kingdom. It does not have the force of European Union law for us, European Union institutions or even the countries that have signed it. European Union legislation can be agreed only in the European Union Councils of Ministers, and we are a full member of them. There will be no inner group of European countries distorting the single market from inside the EU treaties. That is the protection that the Prime Minister secured in December, and that protection remains.

There has been much comment about the use of the European Union institutions, and I want to come to that. The new agreement sets out limited roles for the European Commission and the European Court of Justice. The legal implications are complicated and hinge upon how the agreement is implemented. It is for this reason that we have reserved our position.

We have been clear that we will not allow the institutions to be used in any way that would undermine the interests of the 27, in particular, the single market, and that we will insist that the EU institutions continue to work for all 27 nations of the European Union. Indeed, those institutions are established by the treaty, and that treaty is still protected. The intergovernmental

[LORD HOWELL OF GUILDFORD] agreement is absolutely clear that it cannot encroach on the competences of the EU and that measures cannot be taken which undermine the single market. As my right honourable friend the Prime Minister made clear to colleagues at the informal January European Council, we will be watching closely the implementation of this new intergovernmental treaty, and we are able to take action if our national interests are threatened.

We want to see a reformed and strengthened European Union better able to cope with the new international pattern of powers and influences. I agree with the comments that I read made by the noble Lord, Lord Mandelson, that the EU model needs “dramatic reform”—I think those are his words—but we do not want to be part of a fiscal union. We do not want to be part of the eurozone, and we have made clear that the British people have a say before any further competence can be transferred to the European Union.

Having said that I agree with the noble Lord, Lord Mandelson, I slightly disagree with his suggestion that it is the European social model that should guide us, as I believe we should have confidence that we can develop potentially our own model, especially based on wider capital ownership, and wider ownership and distribution on a fair and balanced basis in our society, and that is what we should think in terms of.

Nevertheless, as I have said, it is in the UK’s interests that the eurozone sort out its problems. The UK’s attitude is supportive and constructive. We are involved in discussions on the implementation of this agreement and, as ever, in the machinery of building a prosperous and competitive Europe and a good single market. These remain our aims. The view that the only way to exert influence in the European Union is through surrendering more sovereignty and control to Brussels is, frankly, outdated.

The EU is not monolithic. It contains flexible arrangements such as the single currency and the Schengen agreement, and it is right that the European Union should have,

“the flexibility of a network, not the rigidity of a bloc”,

as my right honourable friend the Prime Minister said in his speech at the Guildhall last autumn. The UK is at the forefront of efforts in Brussels to develop our union according to this model, which we believe to be the right one.

Britain’s agenda in Europe is to promote growth, competitiveness and jobs. We have said repeatedly that the best way in which the European Union can drive growth and create jobs is to complete the single market, establish trade deals with the fastest growing parts of the world—which we are seeking to do on many fronts—and cut the regulatory burdens on business.

Last year the European Commission estimated that growth in the Union this year would be 0.6 per cent. The IMF now projects minus 0.1 per cent. Competitiveness remains Europe’s Achilles heel. More than half of EU member states are now less competitive than they were last year. It is essential that countries across Europe take bold action to recover their economic dynamism, get to grips with their debts, and secure growth and jobs for the future.

This is why the UK has been arguing for a pro-business agenda in Europe. We are pushing for the completion of the single market in services, where there are still 4,700 professions across Europe to which access is regulated by government, and in the digital area, where there are over a dozen separate copyright regimes. Together, these measures could add more than 6 per cent to European Union gross domestic product within 10 years.

We are also committed to reducing regulatory burdens, especially for small and medium-sized enterprises and microenterprises, and pushing forward a patent package to support innovation. This has been discussed in Europe for over 10 years and decisive progress is now at last being made.

We are also actively pushing for decisive action to get trade moving. We want 2012 to see significant movement on EU free trade agreements with major partners such as Japan—which has been going for many years—India, Canada and the United States. Completing all the deals currently on the table could add an estimated €90 billion to Europe’s GDP. An agreement between the EU and the US could have a bigger impact than all of these put together.

For countries outside the European Union, the UK remains the gateway to the largest single market in the world. Of the 1,200 Indian firms operating in the EU, over half have their headquarters in the UK. Britain is a world-class destination for international business, and the most attractive foreign direct investment destination in Europe, and remains so. Being outside the euro does not affect that.

My right honourable friend the Foreign Secretary has emphasised that we need to develop our commercial, economic and political presence in fast-growing, emerging markets. We certainly do. At the same time, Europe is our neighbourhood and our biggest market. It is full of innovation and potential for the future. More than 40 per cent of our exports go to EU eurozone member states—more of course to Europe as a whole. Trade with the EU allows us to specialise in what we produce best and to run trade surpluses with other countries, such as the US and Australia. Our aim is to use this position to expand our exports to fast-growing markets in addition to our existing exports—not as an alternative or instead of them but, I repeat, in addition.

The Commonwealth is one such area. It is one of the great networks of the future. It provides a gateway to many of the great, new markets. It includes some of the world’s fastest-growing economies, with members showing democratic values and similar legal and accounting systems. These provide solid foundations for doing expanding business and a platform for trade, investment, development and, in turn, prosperity. Trade within the Commonwealth totals more than—

Lord Ryder of Wensum: I am very grateful to my noble friend for giving way. In light of all the wonderful objectives that my noble friend is setting out in his speech about British exports and how Britain is poised to gain even greater advantages in world markets, how does he explain the fact that the British Government barely opposed the clinical trials directive that is having considerable cost on our most successful manufacturing

industry, the pharmaceutical industry, which brings in about £3 billion a year surplus on our balance of payments? Yet here we are in Britain with our pharmaceutical industries losing ground in terms of clinical trials to China and India. Ultimately, that will incredibly damage the British economy.

Lord Howell of Guildford: My noble friend puts forward one of the many challenges that we have to address. I will not go into the full details at this stage, but he is right; there are several areas where the challenges are very great for the whole of Europe, including this country, from the rising power of the great emerging markets. We have to face the fact that, as I began by saying, the world's pattern of wealth and competitiveness has changed radically over the past five years. I am not sure that many people in the media or, dare I say, some of our great policy thinkers have always grasped this fact.

The changes that we are making provide solid foundations for doing business and a platform for trade, investment and development, which in turn will be the prosperity, or perhaps I should say in a more realistic tone the survival and maintenance, of our existing standards. Trade within the Commonwealth totals more than \$3 trillion annually. Our European membership is very valuable in promoting trade interests and access to new markets such as these.

The UK continues to play a strong role in achieving collective European action on many foreign policy issues, when appropriate and effective, in order to advance our shared interests and values. We drove concerted action forward at the EU level in response to Libya. The EU was actively engaged since the early stages of the conflict and we secured a UN resolution and assembled a multinational coalition force faster than at any time in history. Today, we are playing a prominent role in the EU response to the continuing violence in Syria. Some 11 rounds of EU sanctions have already been agreed and we hope to agree further measures on 27 February at the Foreign Affairs Council.

We have been at the forefront of action on Iran where, along with France, we led the EU in agreeing an unprecedented package of sanctions. The UK continues to be a strong supporter of European Union enlargement, which helps to create stability, security and prosperity. Enlargement brings significant benefits for the United Kingdom. An enlarged market obviously expands the opportunities for trade and investment. We want European nations to succeed not just as an economic force but as an association of countries with the political will, when they wish to mobilise it, and the values and the voice to use their collective weight to make a difference in the world.

Looking ahead to the March European Council, the UK will focus on ensuring that EU initiatives and projects deliver growth and jobs as agreed at the January Council. The UK plays an important role in these and other issues of significance for the Union as a whole. We are driving forward the single market, we are improving competitiveness across Europe and we are leading decisive foreign policy action when collective action works. European eurozone members are often our closest allies on some of these issues. Britain is part of the European Union not by default but by

choice. It does reflect our national interest to be part of a single market on our doorstep and we have no intention whatever of walking away.

We want Europe to be a success, and not just for parochial reasons. We are going through a fundamental rebalancing of global power, a point I have just made to my noble friend, as economic weight shifts from west to east and from north to south; some of us have been pointing this out for two decades. Political power is diffusing from the G7 to the G20 and beyond, and from global groupings of states to regional groupings such as the Arab League, the African Union, ASEAN and many others.

Lord Clinton-Davis: My Lords, I am very interested in all that, but the Prime Minister withdrew from the European People's Party. Does the noble Lord agree with that? I thought that the EPP was in favour of a muted Europe, not an entirely neutered Europe.

Lord Howell of Guildford: That is a debating point from the noble Lord, if I may say so. He believes that that is what has happened, but some of us believe that we are working in ways that fit the pattern and evolution of the role of the European Union to be effective in the 21st century. I do not accept his words at all.

As I was saying, we are dealing with a new landscape to which Europe as a whole must adjust, as indeed must this country. Our commitments to Europe must be seen as part of a larger repositioning of ourselves in a world in which no country can go it alone. To maintain our prosperity and political clout we must work together with our neighbours and our friends. We face the same challenges and will be much stronger in dealing with them if we do so together.

I end by saying that we want to be quite clear that Britain is an active and influential member of the European Union and will remain so. That is the basis of this Government's approach to European affairs, as an integral part of our response to the changing global conditions generally. As old enmities and differences recede, it is time to forge new alliances and strengthen old ones in a reformed European Union, through the Commonwealth—indeed, perhaps I can add even here in the British Isles with our Irish neighbour, which has been through so much with great courage and to which Her Majesty the Queen recently paid such a fabulously successful visit. The coming year of the Diamond Jubilee and the Olympics gives us a golden opportunity to reposition Britain firmly in the new international landscape that is now unfolding, and that is what we will do. I beg to move.

Lord Richard: My Lords, the noble Lord did say in the course of his speech that he would say something about the safeguards. I wonder whether he would concede this point. If we do not know what the safeguards were, how on earth can we judge whether the Prime Minister was justified in casting his veto when he did not get the safeguards? It is nonsensical for the Government now to ask us to judge this on the basis of what the Prime Minister did not get when we do not even know what he asked for. Can the noble Lord lift the curtain just a little on what safeguards the Prime Minister actually demanded?

Lord Howell of Guildford: Yes, I would like to tell the noble Lord a great deal more and detail the reasons why the decision was taken not to make this into a total EU treaty. Before I answer him in detail, the larger point is that it would have profoundly changed the whole nature of the European Union. That was the essential reason why my noble friend recognised and argued that if there was to be an attempt at a fiscal union pact and it was to go ahead, it would do so without the United Kingdom. That is why he stood back from it.

On the details, let me give four very strong reasons why it did not make sense to go ahead with agreeing with the treaty—I have to find the precise bit of paper in order to do this, which is not so easy.

My right honourable friend the Prime Minister made it clear that our preference was to move forward as 27 with the protections of the single market. That is what we sought. The Prime Minister in his post-assembly European Council statement explained the safeguards that the UK was proposing, which were modest, reasonable and relevant to ensuring that the integrity of the single market was preserved. The Government do not confirm the authenticity of documents or published informal draft texts proposed during the negotiations.

There were four areas where we felt our involvement might damage the single market and our national interests. First, we were concerned about the voting powers on financial levies; secondly, we were concerned when we sought assurances, including on the voting procedure for handing powers to European adviser agencies; thirdly, we were concerned about the freedom that member states had to wreck their own financial stability regimes. I believe that we also sought a fourth assurance. None of those assurances was forthcoming.

I apologise to the noble Lord for my hesitation in putting my finger on all these issues, but they were complex and our concerns were very precise. Those safeguards were not provided.

Lord Harrison: My Lords, in setting up ESMA, the European Securities and Markets Authority, have we not already given away that power in order to frustrate credit default swaps legislation?

Lord Wallace of Saltaire: My Lords, I think it would appropriate if we continued with the debate. The Minister has sat down. I will answer some of these questions when it comes to winding up.

12.07 pm

Lord Davidson of Glen Clova: My Lords, I thank the Minister for his very clear tour d'horizon of recent EU developments and empathise with his struggling with his brief.

There is growing concern, not only on this side of the House, that the UK's policy and strategy towards the EU are both unclear and risk being misguided. Recent events in the eurozone, particularly the moves towards the so-called fiscal pact and the UK's apparent

isolation from the mainstream of EU decisions and discussions, suggest a worrying lack of grip in the Government.

Plainly, given the importance of the UK's trade with the eurozone and the anxieties expressed in the US, China and elsewhere about the negative consequences for global growth of the euro crisis, there is a real cause for concern. The choice by the UK to retain sterling and not to adopt the euro does not leave us unaffected by what happens to the economies of our EU trading partners. Only the most blinkered Eurosceptic draws anything positive from the current crisis. One is reminded that the enthusiasm shown in certain quarters when the UK left the ERM was short-lived and that the consequences of financial storms are rarely of general benefit. It would obviously be unwise were the Government deliberately to extract themselves from discussions affecting matters of direct interest to the UK.

Where the direction of our fellow EU members' policy appears to be leading towards unsound outcomes, the Government should of course step in to seek to persuade, warn and advise. The proposed fiscal pact within the EU member states is a good example of where government must make clear the UK's position. Procyclical fiscal austerity, subjected to legal compulsions to be applied across the EU—the UK and the Czech Republic excepted—may seem to many in the UK an unbalanced approach to recovering eurozone stability.

Absent some collective responsibility for member state debts buttressed by support from the European Central bank, it is not perhaps obvious how long-term eurozone stability will be achieved. Even the capacity to oblige member states to adhere to the pact may seem doubtful. But what is the UK's position regarding the fiscal pact?

Reports suggest that the UK's position at the December 2011 summit was somehow to win protections for city institutions from EU regulation and transaction taxes. It goes almost without saying that the UK benefits in many ways from being the global financial centre and that states view this pre-eminence with some jealousy. It goes without saying that the Government should strive to protect this status where they can from competitive incursions. It has, however, proved difficult to identify what protections were won for the UK's financial institutions by Her Majesty's Government's approach in December last year. If there were any, it would be useful to hear what they might be and how they are thought to operate.

Is there a government policy to oppose the fiscal pact from a stance that the pact is unwise and unrealistic, or has it been decided to stand on the sidelines? Where the pact is to be enforced, apparently, by resort to EU institutions and in particular the European Court of Justice, do the Government propose to take legal action, as the Prime Minister appeared to suggest, or has the prospect of such action now been abandoned?

It was certainly somewhat puzzling how it was that the Prime Minister envisaged the United Kingdom might enjoin the European Court of Justice from deciding issues relative to euro policy that came before that court. Some clarity would be welcome. The Minister

said that the United Kingdom would insist, watch closely and take action regarding the possible use of EU institutions. What form would the proposed action take?

Much attention over the past few months has naturally been directed towards the position of Greece and the associated negotiations. To a degree, the exposure of the UK to Greek difficulties is limited and may not seem immediate to our interests. In another part of the eurozone, however, the UK's interests are direct and substantial. In that context, I am referring to the Irish economy, which the Minister referred to.

Proportionately, for the UK both by virtue of bank lending and trade, Ireland is fairly significant. As is entirely clear, Ireland, the eurozone member state with which we are perhaps most closely linked economically, faces difficult and possibly intractable problems. Will the Minister assure the House that appropriate measures are being taken to monitor the UK's financial institutions' vulnerability to the Irish economy? Are there contingency plans in the event that the position deteriorates? Is the proposed fiscal pact likely to increase or decrease that vulnerability?

I now turn to a greater long-term question that is emerging from Her Majesty's Government's approach to EU relationships. It concerns the strategy—

Lord King of Bridgwater: In these extremely difficult negotiations with Greece, in which people presumably outside Greece are commenting on what the retirement age, the pension age and perhaps the minimum wage should be in Greece, it now becomes apparent that for the fiscal pact to mean anything at all and effect proper budget discipline, it will be considerably more obtrusive, and maybe in certain cases more draconian, than has been appreciated by many of the countries that are presently agreeing to go along with it. Does the noble and learned Lord have any view of how many in the final analysis are likely to sign up to the form of fiscal pact that is becoming increasingly evident as the discussions with Greece continue?

Lord Davidson of Glen Clova: The noble Lord raises an interesting point. In this sense, one has a negotiation from which the UK eventually excluded itself. The noble Lord correctly identified the capacity for change in the fiscal pact. Would it not have been better for the UK to have remained within that negotiation, given the somewhat protean nature of this apparent fiscal pact? The question I am putting to the Minister is: what, precisely, is the UK's position in relation to this? However, I return to the greater long-term question—

Lord Tebbit: I am waiting for the noble and learned Lord to give us a precise description of his party's policies towards this pact. Is it his party's policy that we should see Greece destroyed in the way that it is being currently and that outsiders should take over in respect of the issues my noble friend Lord King just described? At the beginning of his speech, the noble and learned Lord referred to "blinkered Eurosceptics". Some of us were not so blinkered that we could not see this coming 10 or 20 years ago.

Lord Davidson of Glen Clova: I remind the noble Lord that the reference to blinkers was to those who drew something positive from the difficulties in which the eurozone now finds itself. I take it he puts himself in that particular position. However, in relation to—

Lord Tebbit: The noble and learned Lord suggests that I find something satisfactory in these difficulties. I do not. However, the sooner they are resolved by Greece leaving the euro, the sooner Greece will be able to conduct its own affairs and get back on its feet. That probably applies to Spain and Portugal as well.

Baroness Garden of Frognal: My Lords, given the length of this debate, it is not customary for quite so many interventions to take place during speeches. It might perhaps enable the debate to be more effective if noble Lords are not interrupted quite so frequently.

Lord Davidson of Glen Clova: I am much obliged. I was interested in the lists of people who were to be expelled from the EU that the noble Lord was perhaps hinting at. I return to what I describe as the greater long-term question, which is emerging from the Government's approach to EU relationships. The point I am trying to make concerns the strategy that the UK will adopt in promoting its position in the world, which is perhaps the greater question.

It has been the foundation of the UK's foreign policy over recent decades that we maintain good and strong relationships with both our EU partners and the United States. The emphasis has varied from time to time with the attendant tensions, but on balance our positioning has at least to a degree been within our control. However, major global shifts are under way. With the so-called pivot—the United States moving away from Europe and towards Asia-Pacific—our relationship in that direction may become less close. The rise of the economies of China, India, South Africa, South Korea, Brazil and Indonesia inevitably reduces the UK's relative economic standing in the world. At such a juncture it would seem that the UK's relationship with our EU partners must objectively become of greater importance. The UK's capacity to pursue its interests increasingly depends on being part of the world's richest market—the European Union. Being an influential and effective partner of our fellow EU member states is the best route to being a persuasive interlocutor in international affairs both within the EU and externally.

There is a danger that the UK is becoming of declining relevance to a US turning towards Asia. As we face the rise of the new economies, the importance of the UK to world trade declines relatively. Were we then to become less involved in the EU, and take the role of bystander, the relevance of the UK would diminish. A reduced engagement with the EU would leave the UK further away from influencing decision-making within the world's richest market.

It therefore follows that, whether by accident or by design, the UK being isolated at the December 2011 EU summit was, objectively, a foreign policy failure. Were such a policy direction to become entrenched—with talk of repatriation and so on—leading to the UK

[LORD DAVIDSON OF GLEN CLOVA]

becoming a semi-detached member of the EU, may I take it the Minister would regard such an outcome as retrograde and inimical to the UK's interests?

More significantly, perhaps, where do the Government see the position of the UK strategically in the light of changes in US priorities, the rise of new economies and events in the EU and the eurozone? What is the strategic vision of Her Majesty's Government for the UK's relationship with the EU? It is necessary to ask this as recent events leave no great clarity and give rise to some concern.

12.20 pm

Baroness Falkner of Margravine: My Lords, I too welcome the opportunity to speak to recent developments in the EU. I recognise that it is inevitable that the debate will be dominated by the eurozone crisis. I anticipate that there will be numerous speeches expressing disappointment with the developments in the EU over the past few years. I understand some of those views, particularly as the lack of leadership by some players in the EU has affected our own economy so detrimentally. The profligacy of others is particularly keenly felt when one's own prudence is imperilled through the behaviour of others.

I am speaking today, though, in support of recent developments in the EU against the backdrop of the turbulence of the past few years. It is now nearly three years since the Commission issued warnings to Greece, Ireland, France and Spain to reduce their budget deficits. It is a full two years since Greece's budget deficit was revised upwards from 3.7 per cent of GDP to 13.6 per cent—something that could be described only as fraud on an industrial scale—yet the EU continues to bump along and the eurozone itself, for which headline writers had prepared their “Rest In Peace” banners, is still with us.

It is conceivable that the eurozone will lose a member along the way, but it may yet confound predictions and emerge from this crisis far stronger. Whatever happens, we in the UK have to be clear that we will not simply be onlookers but will be affected by what happens there. We would all have wished that the previous decade had not seen the mushrooming of private debt, the housing and construction bubbles and wage spirals with productivity losses in some of the less competitive countries. We can all agree that, had the financial crisis of 2008 not put pressure on government borrowing too, we would not be here. The human cost across the EU and beyond is considerable but, as commentators talk of a 1930s-type recession, it is instructive that we have avoided that sort of catastrophe to date.

If one thing has become apparent over the past three years, it is that the EU is more than a sum of its parts. The intention to create more than a free trade area was there from the very outset, and evidenced in the preamble of the treaty of Rome—an ever closer union of the peoples of Europe. Over its existence we have seen a convergence of policy-making but, more than that, there has been a genuine convergence of the values that bind Europe together. It was for the prize of a united Europe that western Europe held out

together in the Cold War and our perseverance paid off handsomely, with those well beyond what was conventional Europe joining the queue to come in over the years.

I turn specifically to the eurozone crisis. Its handling is essentially a political issue. There are those in this Chamber who quite legitimately express concern about the installation of technocratic governments in Greece and Italy and the democratic cost of so doing. There is also concern about the power exercised by the bigger eurozone countries in imposing conditions on the indebted states. The argument goes that this is proof of the power of those faceless Brussels bureaucrats in the Commission, who are accountable to no one. However, it is exactly the opposite. The eurozone crisis has demonstrated the renationalisation of European policy, and it is ironic that those of an anti-EU posture do not like that either. The pull and push of democratic politics is very much in demonstration here, just as it should be.

Let us consider Italy and Greece, the two countries that are being led by technocrats. It was evident in both cases that the Government of the day had neither the resolve nor the numeric capability to carry out the measures needed. An alternative was proposed and accepted by the populations of those countries. What is important is that, in the case of Italy, the Monti Government have taken the necessary steps and should now be allowed to get on with putting themselves to rights. The case with Greece is different. The posturing of both the main parties is synthetic—calculated with an eye on the elections in April rather than the main issue, which is Greek insolvency.

Germany is cast as the villain of the piece, but if you were Germany, with elections forthcoming next year, would you willingly ask your citizens to write an open cheque for someone else's party? We in the UK have little appreciation of what a charged debate this is in Germany, coming as it does within living memory of the sacrifices made during unification, which resulted in higher unemployment and flat growth for over a decade in the 1990s. The words of the Oxford-educated Polish Foreign Minister Radoslaw Sikorski to Germans are instructive. He said:

“Because of your size and history you have a special responsibility to preserve peace and democracy on the Continent”.

The eurozone 17 have themselves bought time in their handling of the peripheral countries so as to let the system stabilise against unrelenting market pressure. It is salutary that Iceland, which is pulling itself together again, has only recently reiterated its intention to join the EU and the eurozone as it embeds its recovery. The cost of borrowing for the deeply indebted Italy, Spain and Portugal is slowly coming down. In institutional terms, over the past two years we have seen a determined move by the eurozone to address systemic failure and to put in place, albeit belatedly, a series of measures which are intended to shock-proof the system going forward. Improved governance, though little noticed, has taken several steps forward, and a new, more robust architecture is now visible.

Notable among these steps is the so-called “six pack” set of rules aimed at strengthening economic governance in the EU. It will ensure that both the EU

and the euro area will benefit from improved surveillance of both budgetary and economic policies. These measures have “Made in liberal north Europe” stamped all over them, and are entirely in keeping with the UK’s traditional approach of embedding legal norms, with the European Commission and the European Court as the guarantor of compliance. Indeed, the agreement of the European Parliament was in large part due to the steerage of Liberal Democrat MEP Sharon Bowles, who as chair of the Economic Affairs Committee ensured that while tough rules on deficits and debt were agreed, sufficient flexibility simultaneously remained to allow for automatic stabilisers to operate in downturns.

The European Central Bank has quietly worked to keep the credit markets liquid and has made significant progress in ensuring that the EU has built up its capital base. Basel III is on track and stress tests are ongoing. The European Financial Stability Facility, or the ESM as it will become, is making progress—slow progress, but progress nevertheless—to erect a firewall as well as to engage emerging markets and others in further capitalisation. The fiscal pact is now agreed, with its emphasis on balanced budgets. So the EU has proved to be extraordinarily resilient. A recent World Bank report on Europe puts it this way:

“America has taken in poor immigrants and turned them into high-income individuals. The European Union has taken in poor countries and turned them into high-income countries”.

However, to believe that Europe’s economic model is valid is not to say that there is no case for reform. As the *Economist* put it recently:

“If America is a defence superpower, spending almost as much on defence as the rest of the world combined, Europe is a ‘lifestyle superpower’, spending more than the rest of the world put together on social protection”.

Demographic change and the pressures of ageing will stretch health and welfare budgets further, while productivity is declining apropos emerging economies. Having closed the productivity gap with America in the mid-1990s, Europe is again falling behind, particularly in the southern countries. That brings me to the Government’s priority on a comprehensive growth strategy for Europe, with a renewed emphasis on innovation and enterprise. The single market still has to operate better in certain sectors, not least research and industry, where there are still significant barriers in some countries, hence the importance of the newly agreed growth tests.

I may be presenting too optimistic a picture of where the European Union and the eurozone are presently, but perhaps I can justify my optimism in my closing remarks with a quick overview of where we were just three years ago. The shock that hit the world economy in 2008 was analogous to the great depression. In the 12 months from 2008, industrial production fell as much as it did in the first year of the depression. Falls in equity prices and global trade were greater. Unemployment has risen in some counties to levels above those of the great depression. However, we have survived all these upheavals. The shared safety nets and the ability to act together in international co-operation, to pool resources and share markets, were absent then. When historians look back on this period, the spirit of common endeavour and unity will stand out as the variable that made the difference.

12.31 pm

Lord Jay of Ewelme: My Lords, last week was the 20th anniversary of the signing of the Maastricht treaty, which came shortly after the negotiations in Maastricht in December 1991. I had the honour of attending those negotiations with, among others, my noble friend Lord Kerr and the noble Lord, Lord Lamont. The day after those negotiations in Maastricht, an editorial in the *Daily Telegraph* lauded the Prime Minister, John Major, and had a few words of compliment for the Foreign Office—which I have treasured because it was, I think, unique.

I was reminded of this when the Prime Minister returned from Brussels just before Christmas and again faced a laudatory and rather triumphalist press. However, it was the start of rather a painful reappraisal, which draws me to the conclusion that there are no easy wins for the United Kingdom in the European Union, any more than there are in other areas of policy. EU negotiations are a hard slog to protect and advance British interests, faced with often intransigent member states and an often sceptical British public.

There is much emphasis on the eurozone at the moment, but that is not the whole European Union. It is worth remembering that the European Union has had two real achievements over the years, both of which are very much in the United Kingdom’s interest. First, there was the coming together of western Europe after the Second World War and after the end of fascism in Spain, Portugal and Greece. Secondly, there was the provision of a democratic, liberal market home for the countries of eastern and central Europe and the Baltic states after the collapse of communism.

It is worth remembering, too, the advantages that the European Union brings to Britain today. First, as the noble Lord, Lord Howell, mentioned, it provides a single-market economic zone, which is substantial although not yet complete, with a total GDP of around €11 trillion—larger than those of the USA and Japan combined—and which takes more than 50 per cent of British exports in goods and services. We export those goods and services to a zone with a common set of rules so that business does not have to comply with 27 different sets of regulations.

Secondly, the EU provides a developing and increasingly flexible common foreign and security policy that can give Britain greater clout; for example, as part of the group that keeps constant pressure on Iran over its nuclear ambitions, and as part of the response to what is going on in Syria. Then there is Britain’s part in Operation Atalanta to counter piracy off the coast of Somalia, which threatens sea routes across the Indian Ocean and into the Red Sea. I also mention, since it has not been mentioned so far, an economic aid programme of some €12 billion—larger than that of the World Bank—which operates in parts of the world such as west Africa, where needs are huge and DfID barely operates. Thanks to constant British pressure from Governments of all parties, the quality of that aid is far better now than it was before.

There are other areas, too. In the absence of the noble Lord, Lord Lawson, perhaps I can mention climate change as being one where EU policy, influenced by UK policy, enhances our own influence around the

[LORD JAY OF EWELME]

world and advances our national interest. I mention all this because there is often rather a British tendency to focus on only those things that go wrong, and not on those from which we profit. Of course there are things that go wrong. In retrospect, the eurozone was a flawed and risky project. Britain was absolutely right to stay out of it and it is extremely hard to see circumstances in which the United Kingdom—or, topically, Scotland—would sensibly want to join.

The concept of using economic and monetary union as a means of creating political union, rather than seeing them as an expression of political union once created, was risky, as we now see. I also have serious doubts about the viability of the fiscal compact, with its legal obligation, among other things, to keep budgets to a certain level. Nor do I know whether Greece will ultimately default or leave the eurozone and, if it does, whether that will have a knock-on effect on other eurozone economies. However, we should not underestimate the determination of the eurozone countries to keep it together. Nor should we regard its breaking up as having anything other than a profoundly disruptive effect on our own economy at a very difficult time.

Therefore, the United Kingdom's aim must surely be to work with our EU partners, in and out of the eurozone, to keep it together and, crucially, to ensure that measures taken to achieve this do not adversely affect the single market of all 27 EU countries. To go back to where I started, that is surely where the hard-headed British interest lies. Nothing in that approach prevents, at the same time, our doing all we can and should to expand our trading relations with the fast-growing economies of China, India, Brazil, Indonesia and others; or strengthening the Commonwealth, which is rightly dear to the heart of the noble Lord, Lord Howell. That approach, of being engaged with both the European Union and the world's fast-growing economies, will surely be appreciated by the United States. With its focus increasingly on its west and its south, it will want its strongest European relationships to be with those countries that have the strongest European influence. I hope that that will continue to include the United Kingdom.

I conclude by saying that, despite the difficulties, a full engagement with the European Union and its development is fully in Britain's economic and political interest.

12.38 pm

The Lord Bishop of Guildford: My Lords, I am very grateful to the Minister for this debate, and indeed warmly welcome it, including his stress on the necessity for fiscal discipline within the eurozone and his explanation of the crucial December agreement, which has already been referred to many times in the debate. In any case, Guildford is very pleased to speak in a Guildford debate.

I draw attention to your Lordships' EU Committee report, which was published two days ago and to which I am much indebted. It draws attention to what may be a serious anxiety shared by other Members of your Lordships' House—that the United Kingdom will be marginalised by reason of a shift of discussion

to forums in which we have elected, for the time being, to have no voice. While I am glad that the UK is not opposing the proposed agreement of last December in terms of its support through European Union mechanisms, I hope, along with the EU Committee, that we shall follow its course very carefully and see where both our best interests and those of the whole EU lie in the longer term.

I suggest that it would be disastrous if the result of the pressure of what I will carefully call excessive Euroscepticism resulted in our ultimate isolation. However, I deeply sympathise with the Minister because such "islanders' fear" is hardly new. Just over 30 years ago, in the Palais des Congrès in Brussels, the then Archbishop of Canterbury, Robert Runcie, said that in Britain:

"The European Community has a communication difficulty in expressing its underlying vision. ... It is going to be hard to make progress if there is no vision of where we are going sufficiently strong to harness the energies which are easily diverted into mutual suspicion and selfish kinds of nationalism".

In that same lecture he bewailed the fact that:

"Little Englanders still exist who believe that all would be well if we withdrew from foreign entanglements".

He added the obvious statement:

"The complexity and interdependence of economic and political life in the modern world make isolation an impossible option".

Plus ça change!

It is still obvious to me that if there is a leak in the ocean liner below the eurodeck, it will soon enough affect the sterling passengers as well, as the Minister has himself stressed, adding significantly that the EU is our largest market.

However, in your Lordships' debate today, which is largely about economics and politics, the voice of the churches and, indeed, of faith communities, may seem an irrelevance. I argue that that is not the case, although I declare an interest here as the Anglican vice-president of the Conference of European Churches, which is wider than the EU.

Robert Runcie could not be dismissed as a wet pro-European without patriotism. He did not earn his MC in the Scots Guards for Utopian idealism but by knocking out a Panzer single-handedly in Normandy. Yet after the war he returned to Oxford and immediately volunteered to go back to Germany in the Oxford-Bonn reconciliation exchange. That was the European vision he spoke of in Brussels: a Europe of reconciliation, compassion and meaning. With such a vision we have the potential for communities of virtue.

This was also the Christian vision of the founders of the European institutions: Jean Monnet, Robert Schuman, Spaak and de Gasperi. They were inspired by a vision of what I would loosely call Christian democracy—that is not necessarily a party political tag—which gave life to otherwise dead institutional and economic structures. Without such fresh vision, I fear that Europe will eventually lapse into petty parochial haggling and dangerously extreme forms of nationalism.

I am an amateur historian, so I conclude with the following reminiscence. Not far from this place, in Westminster Hall, the Man for All Seasons, Thomas More, was tried, to be eventually beheaded at the Tower of London. At his trial in this Palace of Westminster, he spoke movingly of his true patriotism.

He remained the King's servant—though, of course, God's first—but he also had a wider vision than King Henry VIII. Thomas More said at his trial:

“And for the Kingdom I have all other Christian realms”.

As we properly debate the economics and politics of the EU and wider Europe, may I make a plea for a revival of the vision of Europe which fired the EU's founders and which is deeply rooted in Europe's many cultures and, now, its many communities of faith?

12.44 pm

Lord Lamont of Lerwick: My Lords, it is a pleasure to follow the right reverend Prelate. I think Thomas More might have been in favour of an ever closer union of peoples but it would have been of peoples, not of institutions and crowns—of that I am sure. However, I am grateful to the right reverend Prelate for making that observation.

I spoke in the debate in November on Europe and so I hesitated to impose myself on this House again. However, this is a fast-moving scene although we always seem to be in the same place. I wish to comment on four issues. The first is the so-called veto by the Prime Minister of the proposed treaty change. I would not have criticised the Prime Minister if he had not vetoed it. However, unlike some Eurosceptics and some Europhiles, I did not regard the veto itself as a seismic event. On balance, it seems to me preferable to have an intergovernmental treaty outside the main EU treaties because it lessens the read-across from the treaty to the single market and to the issues raised by financial regulation. It is true that, of course, a regime for financial regulation has already been agreed but it was agreed in different circumstances where there was a different relationship to the rest of the EU from that which there is now, when there is to be a fiscal union within the EU. That seems to me to raise profound issues for a pan-EU regulatory system.

At the subsequent Council, the Prime Minister took the advice of my noble friend Lord Brittan of Spennithorne and did not veto the use of EU institutions. However, as my noble friend Lord Howell has made clear, that is still an option that we have. Indeed, if the treaty is to be folded into the wider EU treaty, Britain still has a veto. Noble Lords on both sides of the House will take different views about this but whatever the rights and wrongs of the Prime Minister's veto, the *Financial Times* got it right, when commenting on the drift and indecision that has characterised this crisis, when it asked, “Even if the Prime Minister made a mistake, what on earth has the eurozone done?”. Indeed, the summit was extremely disappointing in its outcome.

A number of noble Lords are worried that Britain will be isolated and will lose influence. However, we cannot be both in the euro and outside the euro: we have to make a choice. We have made a decision not to be in the euro. There used to be an old French joke that if an Englishman was asked whether or not God existed, he replied, “The truth is somewhere in the middle”. We must stick by the consequences of the decision that we have made not to join the euro, which I think was a sensible decision.

The second issue on which I wish to comment is the fiscal union itself as opposed to the veto of the fiscal union. It has long been said by many people that inevitably the single currency, if it is to work, would have to lead to a fiscal union. I must say I was a little puzzled by the enthusiasm of the noble and learned Lord, Lord Davidson, for fiscal union and the treaty. Noble Lords on that side of the House spend a lot of time criticising the Government for reducing the deficit far too quickly. I am not sure that they quite realise what the fiscal union treaty would imply. It is a treaty which actually abolishes Keynesianism. Although I am not a great Keynesian myself, I would fight for the freedom of the other side to be Keynesians and to implement their policies.

Mrs Merkel talks about a fiscal union, even a political union. However, I am sceptical that that is really what this treaty is. It seems to me that it is a much more beefed-up version of the stability and growth pact. The interesting point is that it does not use the word “growth”. That was true of the original proposed title of the stability and growth pact. Originally, the Germans wanted it to be called just the stability pact and then the French insisted that “growth” was added. This time the French have not even been able to get “growth” added. However, this is not real fiscal union in the true sense of the phrase—that is, having a harmonised tax system and a single treasury. It is a cloak for German-style policies—I do not mean to use that phrase in any sinister way—to be imposed on other countries in Europe. That is what it is, and is what led one German Minister, rather foolishly and rashly the other day, to say about the fiscal union, “Everyone in Europe is now speaking German”—a remark that was not universally well received, particularly in one country where someone remembered the Hapsburg Emperor Charles V, who said that he spoke Spanish to his court, French to women and German to his horse. That is perhaps how that remark was viewed in certain other countries. Of course, a real fiscal union, as the former President of Germany, Mr Herzog, has observed, poses profound questions of accountability and democracy. That observation was made by a former President of Germany, not a Eurosceptic.

The third issue I wanted briefly to comment on was the decision of the ECB to make available the three-year long-term refinancing facility for banks. This has been a bit of a game-changer, not for the reason that a lot of people have given. They believe that this is the buying of bonds by the back door, which the German Government—rightly in my opinion—are absolutely opposed to. No, this is actually safeguarding the banking system, making liquidity available to it, and in that way has separated the issue of the stability of the banking system from the issue of the finances of Governments. That has been a feature of the crisis—the ricocheting from sovereigns to the banking system, and from banks back to Governments. The actions of the ECB have managed to separate out those two things. However, the ECB has become an interbank market. It is the substitute for the interbank market. That cannot go on indefinitely. It is merely buying time, and at some stage the banks have to come back to the market and get commercial financing, or we are not living in a real world or a real market economy.

[LORD LAMONT OF LERWICK]

The fourth event or issue that I wanted to comment on were developments in Greece. Although I have always been opposed to the single currency, I have said that I thought it would survive for quite some time, and that it would survive its first crisis but probably not its second. However, that did not exclude the possibility of, say, one or two countries dropping out of it. At the beginning of this year, I took a bet with someone that Greece would still be in the euro at the end of this year. I am not sure that I am going to be able to keep my money. The question is: would it be better if Greece left the eurozone? It was the late Lord Butler—not the noble Lord sitting here but the late Lord Butler of Saffron Walden—who once said, “Politics is the art of the impossible”.

Noble Lords: Possible.

Lord Lamont of Lerwick: Possible. What I was about to say was that politics is more accurately described as choosing between the utterly impossible and the utterly incredible. That is the situation in which Greece finds itself. The package that has been proposed is extraordinarily far-reaching—a 20 per cent cut in public sector salaries on top of a 20 per cent cut previously, and a 22 per cent cut in the minimum wage. The Greek economy has contracted by 6 per cent in the past year. It has been in recession for five years. Yesterday, someone who described himself as the Minister for Public Order in Greece—a rather Robespierreian title, but I believe it was genuine—appeared and said that Greece was absolutely at the limit of what people could and would be able to tolerate. That seems very probably to be the case. It seems to me unlikely that Greece will ever be able to implement what it is being asked to do. Even if by some miracle it was able to achieve what is being demanded, it will get debt to GDP down to 125 per cent of GDP only by 2020, and so more austerity will be demanded of it, even after 2020. It seems a certainty that Greece will leave the euro. It would probably be more honest and dignified if that happened now, rather than later, after money has been lent to Greece. It will eventually have to make that choice. It will be very difficult in the short term, as it was with Argentina when it ended its currency link and currency board.

The point I want to conclude on is that Greece is not unique. Italy, Spain and Portugal are in a similar, not so bad, situation, but are two years in arrears. Italy, if it is to comply with the fiscal union pact, will have to run a primary surplus of 5 per cent. To get growth, Italy will have to lower its real exchange rate by 20 per cent to 30 per cent without being able to alter its nominal exchange rate. It will have to achieve levels of inflation 2 per cent below those of Germany. This is the prospect that faces Spain, Portugal and Italy. Greece, therefore, is not unique. It is an extreme example, but it is the canary in the mine. Members will remember that miners used to take down a canary into the mine as a warning of the dangers to come. I fear that what the eurozone faces is a very bleak future, and several countries will have to face unrest and discontent—as, indeed, Mario Monti has recognised. The sooner

that that is recognised about the euro as a whole the better. Europe is not the euro, and the euro is not the European Union either.

Lord Lea of Crondall: Before the noble Lord sits down—

Noble Lords: No.

Lord Lea of Crondall: Before the noble Lord sits down—.

Noble Lords: No.

Lord Lea of Crondall: If people would stop interrupting, I have a question.

Baroness Garden of Frognal: My apologies to the noble Lord but the noble Lord, Lord Lamont, has sat down, and it is time to move on.

Lord Lea of Crondall: Is this a new doctrine? It is quite normal to intervene if the noble Lord has not actually sat down. That is the convention of the House. Is that not the case? Can the Whip say whether it is not normally case that before the noble Lord has actually sat down, one can say, “Before the noble Lord sits down”?

Baroness Garden of Frognal: It is also the case that no Member who is speaking has to give way to an intervention. It is up to the Member who is speaking. I think the noble Lord made it clear that he wished to finish his comments and sit down.

Lord Lea of Crondall: The noble Lord indicated that he was about to sit down. I intervened in the normal way. There have been some very rude interruptions from the Conservative Benches and I will take this further in a different form. I am very sorry to be discourteous to the Liberal Democrat Whip but I do not think she will find that the doctrine she has now enunciated is correct.

12.57 pm

Lord Mandelson: My Lords, I do not know whether the noble Lord, Lord Lamont, is more canary or Cassandra. I could take up many of his observations, but I shall not. Nor shall I dwell on current events in Greece, although I do think they illustrate the risk of becoming too fixated on austerity out of fear of market sentiment. Nor am I going to dwell on the events of December’s European Council meeting. I am not sure who was in the driving seat, but both the Prime Minister and the Foreign Secretary chose to drive up a cul-de-sac of their own making. The important thing now is that the Government have decided to take an altogether more emollient approach, and that is welcome.

However, for all the interesting words and useful tour d’horizon of the Minister, the noble Lord, Lord Howell, I am still left with the abiding view that the

Government are seriously lacking a hard-nosed, sustainable and long-term strategy for conducting Britain's relationship with and within the European Union. It is a relationship—this is really my main point—that will be profoundly affected by the changes and restructuring that the eurozone will have to undergo if it is to endure and if economic and monetary union mark 2 is to be successfully created.

Whatever the virtues and successful record of the single currency itself, the design problems of the eurozone, on the other hand, are clear. A single collective monetary policy operating alongside a set of 17 national and insufficiently co-ordinated fiscal policies is not optimum. A currency union operating outside a single sovereign framework is certainly complicated. The absence of a central bank acting as a lender of last resort is not ideal. Convergence of the eurozone economies, much anticipated at the outset, has not happened and has become a serious impediment.

I leave it to others to amplify those issues. They all need addressing. No doubt there are those who relish the eurozone's predicament as a precursor to its inevitable demise. I say to them: be careful what you wish for. There is no bad outcome for the eurozone that is not also bad for the United Kingdom. Europe is our home, domestic market. Europe's growth is our growth. Europe's prosperity is our prosperity. If the European currency collapses amid a string of sovereign, corporate and banking defaults, the knock-on effects for all of us will be calamitous.

That is why, in my view, the Chancellor of the Exchequer is right to play a constructive role in helping to get through this crisis. The rest of the Government and the rest of his party—and, I might say, the Labour Party—should support the Chancellor, including in respect of the IMF's involvement in helping to get through this crisis.

These, however, are just the preliminaries. In the months and the year ahead, the Government will be confronted with some big policy choices and substantial decisions on Europe and the future direction of the European Union. The eurozone will have to address its original design flaws. In effect, it will have to reinvent itself to sustain itself. The steps that the eurozone will have to contemplate and prepare for, politically and institutionally, will make the current negotiations over the fiscal treaty look like a casual walk in the park. It will be no good saying, "We are not in it, so it does not concern us and we needn't bother". For Britain, that is not an option. The Government will find themselves in a substantial dilemma.

Essentially, the dilemma is that the UK is actually willing the eurozone to integrate further. We are—I think rightly—telling the eurozone member states to follow the construction of the currency union to its logical political conclusions. That is what the Prime Minister and the Chancellor are saying, and I think they are right, but, at the same time, they are pretending that that can happen without a cost to Britain's position and influence, standing as we do outside the core. If EMU mark 2 emerges, as I think it should and will, Britain's terms of engagement not just with the eurozone but with Europe as a whole will change seriously.

We will see an inevitable gravitational pull in focus and decision-making to the eurozone from the EU of 27. Instead of an EU that the Government would like to see as wide and shallow, the eurozone means that it must deepen. That will call for much smarter, much more intense engagement by the Government, not less.

As it happens, the Government got off to a reasonable start, one that was engaged in Europe, if not overwhelmingly enthusiastic, at the beginning of their term. I think that Ministers were pleasantly surprised by how much Britain is valued in the European Union and how much Brussels wants to accommodate our views. However, the feeling in Brussels now is that that engagement has waned since the early days of the Government. That is bad news for Britain and bad news for Europe. As the Government's dilemma, which I have described, gets deeper, their ambivalence will become less and less useful and their lack of a plan for our longer term relationship with the European Union will become more and more obvious. That is dangerous for one reason above all—I shall finish on this.

As Trade Commissioner and as Business Secretary, and now in the work I do outside your Lordships' House, I have spent a lot of time in the rest of the world. It is naive not to realise that the rest of the world sees us in Britain as no different from Europe. Of course, we have been largely sheltered from the investor nerves and capital flight that has blighted the EU's periphery, but the credibility problem that we have in the eyes of the world is a European one that includes Britain. People in the United States and Asia say that, as an asset class, Europe is over and that Europe, including Britain, belongs to the old world, and that we cannot fix our problems because we lack the mechanisms and the political will to do so. That hurts us all as an investment destination, and we need to repair it. Of course, it is a caricature, but it is none the less a perception.

As it happens, given the constraints, I think that EU institutions have moved a long way to face up to the eurozone's problems in the past year. New Governments in Italy and Spain are doing so now. However, Europe as a whole, including Britain, urgently needs to show the world that it has a plan both to reboot the eurozone and to re-engineer growth in Europe—one that rethinks EU structural funding and intervention, uses the European Investment Bank to better effect and deepens the single market for services. We also need social model reform to sustain that essential safety net in Europe. We have to show once again that Europe is investment-grade. Floating Britain off somewhere into the mid-Atlantic, to quote the noble Lord, Lord Heseltine, will not help us put together that plan to signal to the rest of the world that we have our act together and know where we are going.

In my view, that is what the Government have to face up to and, in doing so, face down the rather unworldly figures in their own ranks. They have to do so with a darn sight more courage and, above all, a darn sight more rigour than they are showing at the moment.

1.08 pm

Lord Howe of Aberavon: My Lords, I have to say a rather surprising thing: my intended observations are insufficiently organised for exposure today. The House will have to wait for another opportunity. I seek forgiveness for my modesty.

1.09 pm

Lord Harrison: My Lords, this is a timely and important debate, as the European Union is facing its most serious crisis since its inception. Only this week, we have continued uncertainty about the future of Greece against the background of widespread unrest, falling GDP figures, threatened ratings downgrades by one of the credit rating agencies and the danger of fragmentation, with France pushing ahead with its financial transaction tax. What happens in the euro area has a direct bearing on the economic development of this country. Earlier this week, the European Union Committee produced its latest report on the euro area crisis. It was based on the work done by the Sub-Committee on Economic and Financial Affairs, and International Trade, which I chair, and by the main Select Committee, chaired by the noble Lord, Lord Roper. The sub-committee focused on economic and financial aspects of the crisis; the Select Committee focused on the institutional aspects and is responsible, in particular, for the chapter on the proposed fiscal compact treaty.

The crisis is actually a series of overlapping crises—financial, economic, political and institutional. Alone, any one of them would have challenged the European Union leaders. Taken together and reinforcing each other, the challenges are monumental. Professor Buitert, commenting on the alacrity of EU leaders in addressing the problem, described it as a “caterpillar hurdling”. EU summits have come and gone. There has been a series of announcements and agreements but they have so far failed to resolve the crisis, and there have been major difficulties in implementing things that have been agreed.

The committee examined an outline agreement reached at the EU summit on 26 October last year on recapitalising European banks, writing down Greek debts and increasing the financing of the European rescue funds. However, the details were left to be worked out subsequently and are taking too long to finalise. For example, on recapitalising banks, the agreement was aimed at boosting the capital held by banks, and it specifically warned that banks should not achieve a higher capital ratio by deleveraging. It was put to us that giving the banks nine months to achieve their new capital ratios would lead to exactly that—a deleveraging with a failure to invest in future industries.

We examined the role of the European Central Bank. The bank states that Article 123 of the Treaty on the Functioning of the European Union prevents it buying euro area debts directly from euro area states. However, over the past months it has greatly increased its purchases of sovereign bonds on the secondary markets, and in December it offered long-term loans to banks at very low interest rates. Indeed, 500 European banks took up an extraordinary €489 billion in loans. The bank is expected to repeat the operation at the

end of this month. We caution against seeing the ECB as a panacea, but we judge that further ECB action is likely to prove essential, at least to preserve the functioning of credit markets.

The Select Committee examined the proposed fiscal compact treaty, which was negotiated after the European Council in December. The Government said that they went into that meeting with the view that the “optimum outcome” would have been an agreement at the level of all 27 European Union member states with the interests of the United Kingdom protected. However, the Government have refused to publish the details of the safeguards to which the other member states did not wish to agree. Again, I say to noble Lords on the Front Bench opposite that it would be extremely helpful and useful if the proposals that we found so difficult were published. It is impossible for parliamentarians and others to form a balanced view about the outcome of that meeting, on which the Government remain dumb.

I turn to the agreement itself. There has been a high-speed series of negotiations, which have resulted in a draft treaty on “stability, co-ordination and governance in the economic and monetary union”. It is intended that only the euro area countries will be bound by the requirements of the treaty, unless any other country volunteers to follow these rules, and many are. The treaty includes, in particular, measures on budgetary discipline, which will have to be translated into national law,

“through provisions of binding force and permanent character, preferably constitutional”.

One witness, the former Prime Minister of Italy, Mr Giuliano Amato, suggested that the treaty would not be enough by itself to resolve the crisis but that it was necessary to restore trust. He said that,

“trust may be the main outcome of this treaty on which you can build what in the treaty itself is missing”.

In principle, the committee considered that the euro area states must be free to take the steps they consider necessary to strengthen the euro, including the key area of fiscal integration, but that matters relating to the single market must remain the preserve of all 27 EU member states. Again, I urge the Front Bench opposite to consult the evidence of Professor Craig, who came before the Select Committee, on the ambiguity of having a treaty between the EU 27 as currently formulated and having the fiscal compact treaty. There is no doubt that one thing that might become contaminated is the single market. Incidentally, I think that in this Chamber there is a universal view of the benefits of having a proper and functioning single market.

The Select Committee highlighted a number of legal and other issues raised by the proposed treaty, including the relationship between it and the EU treaties and laws made under the existing EU treaties; the proper role of EU institutions in relation to the treaties; and the overlap between the new treaty and requirements under existing EU laws. Some of the difficulties would disappear if the proposed treaty were folded into the main EU treaties. Article 16 of the proposed treaty suggests that this should happen, after a review of experience with implementation.

In principle, the Select Committee could see no reason why this should not happen in due course. It is worth emphasising that, even if it does happen, the key provisions will still apply only to countries using the euro. I ask the Government whether they will contemplate folding in the treaty and joining in with that enterprise.

We accepted that budgetary discipline is necessary to make progress in resolving the crisis, but ultimately it is the resumption of sustainable economic growth that will hold the key. We mean this both in general terms across the European Union and specifically to boost the competitiveness of certain areas of southern Europe compared with the north. It is hugely concerning that the potential of the further development of the single market to enhance such growth has faded from view during the crisis. Perhaps the most important challenge facing policy-makers now is to find policies to support economic growth which can be implemented effectively during the period of budgetary austerity.

I draw the House's attention to other things that are going on which are contingent on the development of the European Union. For instance, this morning my committee interviewed Commissioner Šemeta on the financial transactions tax, and I hope that noble Lords will have the opportunity to read the transcript. My committee has published the sovereign credit rating agencies report, which has come back into focus again with, extraordinarily, one of the CRAs predicting the rating of Scotland were it to leave the United Kingdom. We also now have in place the European new supervisory financial framework. There have been some major changes in the way we oversee the financial services which appertain to London, including the creation of various European supervisory authorities. These things are happening. As the noble Lord, Lord Mandelson, said, we have to be alert to these changes and we have to be actively engaged if we are to ensure that the United Kingdom's interest is preserved in the future.

1.19 pm

Lord Kakkar: My Lords, as is quite right, this debate has focused principally on questions related to the economic crisis facing the eurozone and on questions concerning the negotiation of the ongoing treaty. I should like to seek further information and guidance from Her Majesty's Government on how they are currently dealing with the unintended consequences of previous European regulation as it applies to the delivery of healthcare in our country. In so doing, I remind noble Lords of my entry in the declaration of interests as professor of surgery at University College, London, consultant surgeon at University College Hospital and an active biomedical researcher.

There are three important areas where there is consensus with regard to concerns about the application of European regulation and its incorporation into United Kingdom domestic legislation. The first is with regard to the ability of our national regulator, the General Medical Council, to assess the competence and language skills of doctors registered elsewhere in the European Union who come to work here in the United Kingdom. The General Medical Council currently has on its register 22,542 doctors registered elsewhere in the European Union who automatically have the

right to be registered in our country by the General Medical Council because they have been registered elsewhere in the European Union.

The General Medical Council is not entitled to make any assessment of their competence, their skills to practise medicine and their ability to communicate in the English language as a result of the way in which the European regulation has been interpreted and incorporated into UK domestic legislation. Clearly that is not appropriate. We have seen unintended consequences with the result that doctors have come to practise in our country, have been unable to communicate appropriately and have not been subjected to the same tests and safeguards as any other doctor would be prior to registering with the General Medical Council. As a result, patients in our country have been put in jeopardy and their safety has been compromised.

I had the privilege of introducing a Question for Short Debate on 11 January in your Lordships' House when this matter was discussed at some length. Following that debate and the subsequent media coverage, the European Union Commissioner for Internal Market and Services wrote an article for the *Daily Telegraph* in which he stated that it was an overinterpretation of current European regulation, with regard to the position which previous UK Governments have taken, that had resulted in an inability of the General Medical Council to perform the language and competence skills testing that our citizens would reasonably expect our national regulatory body would perform for any doctor registered to work in our country.

I ask Her Majesty's Government what plans they have to redress that issue. In particular I know it is not normal practice or convention to pre-announce any measures that might be dealt with in the gracious Speech, but is there an opportunity in the forthcoming Session to redress that issue and to deal with an amendment to the legislation to ensure that, in the future, the General Medical Council is able to undertake this type of competence, skills and language testing that is so very important to ensure that all doctors and healthcare professionals in our country practise to a high standard? I emphasise healthcare professionals because there is a similar problem with regard to the ability for the Nursing and Midwifery Council to undertake such competence and skills testing.

The second area is the application of the European working time regulation with regard to certain disciplines and specialties in the broader area of medicine. Here I speak to the craft specialties, such as my own of general surgery, where it is generally agreed that a 48-hour working week is an insufficient period in which to provide appropriate training for our young doctors who wish to go on eventually to practise as independent consultant practitioners in our healthcare system. Very recently two narrative verdicts by coroners in London identified the application of the working time regulation as a contributory cause to the deaths of two patients, one after an elective surgical procedure.

The imposition of the working time regulation with the restriction to a 48-hour working week has made it impossible for our healthcare system, in the way in which it is currently delivered, to organise rotas that allow continuity of care for patients in hospitals.

[LORD KAKKAR]

Clearly, that cannot have been an intended consequence of the working time regulation when it was adopted into UK domestic legislation. It is vital that we overcome that problem and ensure that our patients remain safe and properly cared for in our hospital system.

The third area is the adoption of the clinical trials directive into domestic legislation. When the clinical trials directive from Europe was originally proposed, it was proposed with very good reasons to try to improve the standards of clinical research across Europe. An unintended consequence of the clinical trial directive has been excessive bureaucracy, which has undermined the competitiveness of clinical research in our country. In 2000, 6 per cent of all patients in the world who entered into clinical trials came from the United Kingdom. The clinical trials directive was adopted in our country in 2003, and by 2006 that level of participation fell to just 2 per cent of all patients entered into clinical trials coming from our country; in 2010, the figure was 1.4 per cent.

That has had a serious impact on the competitiveness and the standing of our life sciences industry and our academic contribution to biomedical research globally. That is hugely important because research drives innovation in our healthcare system; it improves standards; and it allows us to become more effective and more efficient in terms of delivering higher standards of healthcare. However, the Prime Minister announced on 5 December last year a life sciences strategy for our country, recognising that life sciences represent the second most important industry to our economy after financial services. It is well recognised that unless the problem of our competitiveness in terms of being able to undertake clinical research is addressed, the broader ambition of promoting our country as an inward investment centre for life sciences will not be achieved.

It cannot be right that unintended consequences of European regulations, and the way in which they have been interpreted and incorporated into UK domestic legislation, should be allowed to undermine the training of our young doctors, which ensures that future generations of healthcare professionals provide the highest standards that the people of our country have rightly come to expect; that that incorporation of regulation is allowed to undermine such a vital area of economic and academic activity as life sciences and biomedical research; and, most importantly, that it puts the safety of patients in our healthcare system unintentionally in jeopardy. I very much hope that in the coming Session, and in answering the debate, the Minister may be able to provide some reassurance that, despite all the other problems and challenges that Her Majesty's Government face with regard to negotiations in Europe currently, they will continue to address actively these three important areas.

1.28 pm

Lord Higgins: My Lords, the noble Lord, Lord Kakkar, has raised—entirely appropriately, given the breadth of the Motion before us—a number of extremely important issues. One must hope that in reply the Minister can give him answers to the very specific three points that he has rightly made.

I wish to concentrate on the crisis in the eurozone. It is very unfortunate that our debate on this subject in the Moses Room was diluted by the fact that the Labour Party insisted on bringing in other, related economic issues. It is sad that we have still not had a debate on this specific issue. It reflects the serious problem that we now have in the relationship between the two Houses. Regrettably, the present Government have followed the practice of the previous one in dramatically guillotining debates in the other place, with the result that legislation arrives here in such a condition that it crowds out opportunities for debate on serious issues such as this one or, as has been mentioned, the Arab spring. To a large extent we are carrying the legislative burden, with the number of Committee days far in excess of what is normally accepted. This is not a criticism of the procedure of the other place; it is a criticism of the way in which the Government are dealing with these matters there. I hope that we will tackle the issue as soon as possible, because the balance between the Houses has been distorted.

Many of us in the past pointed out very clearly the dangers of the single currency. These were exacerbated as the eurozone grew ever larger. It is probably true that even my noble friend Lord Tebbit did not realise the extent of the approaching disaster or the problems that we now face. Of course, the failure to deal with them was to a large extent due to the rigorous approach of those who wished to see an ever closer economic and political union. A little while ago, Mrs Merkel said that if the eurozone broke up it would lead to the end of the European Union. This is simply not the case. What should stop is the headlong pressure toward closer political union.

The search for a solution to the present problems is hampered by confusion between the debt problem and the exchange rate problem. The two are of course related. The extent of the indebtedness of European countries is to a large extent due to the fact that they found themselves in an environment created by the single currency. However, the solution to the problem cannot be found in dealing with the debt problem alone. We need to deal with that, but it will not solve the underlying problem. We could go through bailouts ad nauseam until either German generosity runs out or the streets of Athens become even more dangerous, but we will not solve the problem through bailouts.

The only answer to the Greek situation is for Greece to leave the euro and adjust its exchange rate. However, as was pointed out in an earlier speech, it is not just a question of Greece; there are further problems because countries in the single currency have given up the main means of adjusting for differential movements in costs and prices. Therefore, it is likely that over time other countries such as Portugal, Spain and Italy will find themselves in the same situation. The reality is that the eurozone is too diverse in its present composition to accommodate a single currency. This was not the case when it was just Germany, France, Benelux and so on; but it is now too large an area for these variations in costs and prices over time to remain unadjusted. We may find that eventually a solution is found by an

adjustment of the exchange rate. Certainly it would benefit Greece, as well as the eurozone as a whole, if it were to leave.

We were told that the creation of the single currency would lead to convergence. In fact, that has not been the case. European countries have diverged. We were told that it would contribute to peaceful circumstances in Europe, whereas we now find bigger tensions between certain European countries than have existed probably at any time since World War II. There are difficulties here. The other problem, to which my noble friend Lord Lamont referred, is that we are simply seeing a rerun of the stability and growth pact, but with no mention of any growth. This involves a very significant loss of national sovereignty, which one has seen particularly in the Greek situation. Control over tax and spending has always been the hallmark of national sovereignty. Giving up that control—this is currently very apparent with some countries in the eurozone—inevitably leads to that country being undermined. Having said that, obviously a degree of fiscal co-ordination is necessary.

I have a couple of further points. One problem with the debt has been to get a degree of agreement with private creditors. It is constantly being said that there will be a deal and that the creditors will take a so-called haircut. It is understandable that they have been reluctant to do so because they do not know whether, if they write down the debt, there will be a subsequent devaluation that will further reduce the value of that debt. Until they know where they are—there is a high degree of uncertainty about exchange rates—they will be unlikely to be very enthusiastic about agreeing to a debt reduction.

My final point is that if a country—it is likely to be Greece—leaves the eurozone, it will not be a simple matter. My noble friend Lord Wolfson offered a prize of £250,000 for a paper explaining how it could be carried out. Some newspaper commentators think that it is just a question of printing more notes and coins. One certainly hopes that if the thing happens there will not be chaos for a very long time while they get around to printing the notes and coins. It would not be a good idea to go back to the drachma; it would be more appropriate to think up a new name for a euro-replacement currency.

It would be very dangerous if contingency plans were not made well in advance to deal with the problem. This is a matter for the British Government as much as for anyone else, because we will not be able to avoid the consequences, particularly for the banking system, which could be very serious. Therefore, I hope that Her Majesty's Government will be very active in making contingency plans to deal with these matters. It is not just a question of having a new currency established. There will be great dangers of flight from the existing currency in certain countries; there will be a great need for exchange controls, at any rate on a temporary basis; and one must have some doubts about the ability of the Governments concerned to direct a suitable system of exchange controls. These are all very serious matters and one must hope that the Government will take a very proactive line in providing

a contingency plan to deal with them. However, this will only be done by dealing with exchange rates and not with the debt alone.

1.38 pm

Lord Grenfell: My Lords, it is always a pleasure to follow the noble Lord, Lord Higgins. We first debated Britain's relationship with Europe more than 50 years ago at Cambridge, and I am extremely happy that we are still at it.

We have heard many wise words—and a few not so wise—about how to cope with and solve the crisis. I will not add to the substantial body of views that is informing today's debate. Rather, I will look a good way further forward into the future—even further than my noble friend Lord Mandelson did in his magisterial contribution. What I foresee may not happen in my lifetime; but that in no way weakens my conviction that it will come. What I foresee presupposes the EU's survival of the present crisis. That may appear to some to be a risky assumption, but I am and always have been an optimist about our European project. The then Community and the present Union have been through tough times before, though maybe none so testing as today. Less than two months ago we were being told by the media that there were 10 days to save the euro. It is still there. Would the eurozone survive a disorderly Greek default? Very likely it would. Would contagion spread? Possibly it would, but with every day that passes the Union's preparations to counter it become more convincing—and as one commentator said yesterday, the gaps between the dominos are lengthening. So we should not rush to write off the euro, the eurozone or the Union itself. If they emerge battered but intact, as I believe they will, they could also emerge strengthened by an experience that may finally have convinced both members and institutions that Europe now has to be rethought. So, what then might happen?

Some way ahead in the future lies a fully federal European Union. It will take some building, step by step—more purposeful than creep, less precipitous than a leap—but built it will be. First will come the fiscal union and then the political union. The distribution of power between the member states and the Commission will be substantially altered. From a fiscal union which embraces a common economic doctrine a political union will begin to take shape, organised around the existing institutions. The Commission will acquire more competences and act as a Government accountable to a strengthened European Parliament. The European Council of Heads of State or Government will become the Parliament's second Chamber, and in all likelihood a President of the EU will be popularly elected.

I hear noble Lords muttering, "That will never happen", but if there is the political will to create a federal Europe, it will happen. Not all will want it, but the great majority will probably see it as inevitable in the course of time. To them, more, not less, Europe will seem the logical way forward after a crisis like the present one. Chancellor Merkel is not alone in seeing that as the only way forward. Maybe she will not convince her electorate—on the other hand, maybe she will. I believe that she will. Elsewhere there are

[LORD GRENFELL]

straws in the wind. On Monday, France's equivalent of our CBI announced that the creation of a United States of Europe was now a top priority. It is imperative, it said, that there be common economic, monetary, defence and security policies across Europe.

What really convinces me of the inevitability of a federal Europe is the growing feeling among the younger generations of continental Europeans that it is the right goal if they and the generations to follow them are to enjoy peace and sustainable prosperity. I travel a lot in continental Europe and I listen a lot to the young. A small minority are unashamed nationalists, but the great majority want more, not less, Europe. In the face of globalisation and the burgeoning power of countries such as China, India, Brazil and other new economies on the rise, they want a strong, competitive Europe, with effective economic governance, greater solidarity, convergence of values and the more determined pursuit of common goals. I shall give a small example. Just yesterday I was approached by a newly founded group of German students called Euroskop. Next month, a group of them will embark on a tour of 21 European capitals to gather opinions on the future of Europe, and they will be coming here to the House of Lords. Their message is that Europe needs a new narrative. The quest for a shared vision of Europe is being crowded out by the necessary focus on dealing with the present economic and financial crises. All across Europe, protesters are voicing their discontent with the political class. They are asking whether European youth is calling their parents' idea of Europe into question. What brings these young people together and what separates them? This is the generation that is going to reshape Europe, and what will it look like? My strong hunch is that it will look like a federal Europe, and I hope that that will be the case.

The United Kingdom will probably not want to be a part of that. We may want to stay on the sidelines and find some convenient associative relationship with a federal union—and so be it, though it is not what I would want for this country. I doubt very much that it is what future generations here will want when they see what life is like on the sidelines, but I may not be around to see that. For the time being, I remain convinced that the rest of Europe will embrace the different future that now beckons. I believe that a federal Europe is inevitable—and if I were there, my bow to the inevitable would be one of reverence rather than surrender.

1.45 pm

The Earl of Sandwich: My Lords, I begin by regretting the absence of my noble friend Lord Williamson, who would like to have been here but is convalescent and will be joining us again after the Recess.

I am a Germanophile, and I have long admired the discreet position of Chancellor Merkel in Europe, representing first the unity of East and West and now encouraging and perhaps underwriting unity in Europe during and beyond the eurozone crisis. Unlike the noble Lord, Lord Grenfell, I am more cautious about her recent statement to students in Berlin. On the one hand she was promising greater integration, and on

the other defending her support for Monsieur Sarkozy in his forthcoming election. I do not see a huge appetite among European leaders generally for her thoughts of greater political union, let alone her unashamed interference in others' situations; and yet I understand her general point that, as we have seen during the crisis, EU members even outside the eurozone will have to put up with the inevitable cross-border criticism and influence which comes with a desire for the reconciliation of many interests.

After he left Parliament, my father was for 20 years an arch-Euro-sceptic as the chairman the Anti-Common Market League and the Common Market Safeguards Campaign. He was a friend and forerunner of the noble Lord, Lord Pearson, but as a physical presence he was a little more like the formidable Lord Bruce of Donington. My Liberal mother disagreed with him profoundly, and the coalition never worked. She persuaded me to read European languages and to work in Europe and later in India, so I may have ended up as a hybrid.

I am against moves towards European political unity or away from national sovereignty. I do not like referenda, or even talk of them, as an alternative to stable five-year government. I firmly believe in more enhanced co-operation rather than greater integration, and I see no reason why we cannot firmly extend the excellent principle of mutual recognition, which is already applied in European jurisprudence, to many aspects of internal judicial policy and the single market. The recent fiscal compact is a good example of what can be achieved even outside a formal treaty, and it would not surprise me if a qualified majority eventually ends up as unanimity.

Enhanced co-operation is in fashion. Schengen is another example of parallel structures: even Denmark brought in its own border force last summer. The Prime Minister's December intervention initially annoyed me as a committed European, but it was to forestall Back-Bench trouble. I see that it brought out some of the fault lines in Europe. For example, I congratulate him on making common cause with the Nordic and Baltic states last week. We need a wider Europe with more co-operation and less formal integration. We need to go on with the enlargement project, daunting as that may be, and we must keep our eye on emerging nations and their global ambitions, which I will return to in a moment.

When it comes to foreign affairs, it should always be a coalition of the willing and the powerful. I believe the noble Lord, Lord Howell, laid that out in his initial address. We have seen it in the effective Anglo-French alliance in Libya and in previous interventions in the Balkans, but I do not see those as precedents for Syria. We must concentrate on political and diplomatic influence there since we simply cannot afford further military intervention anywhere. We ought to put much more effort into stabilising the Balkans before we invite Turkey in, which I am sure we will have to do at the present rate of progress. Croatia is well in line and even Macedonia has jumped forward, provided that Greece will compromise on the name. Surely that is not an intractable problem and certainly not its most serious one.

Much more difficult is the Serbia-Kosovo issue. Kosovo celebrates the first anniversary of its independence tomorrow. I do not want to repeat the arguments the Minister has already heard from me in a previous debate, but I expect him to confirm that Serbia is making gradual progress in the EU dialogue. It certainly would like us to think it is making progress and that only three municipalities in northern Kosovo stand in the way of a peaceful settlement. This week's referendum result in their favour proves nothing and Belgrade is to be congratulated on opposing it.

Kosovo has a population of about 2 million. It is potentially a vibrant European nation and a strong candidate for the European Union, rich in minerals and a future tourist destination, and it must even now be given quite separate representation from Serbia at international meetings to give it its own identity. I hope the Minister will confirm that its nationhood and its future membership are a priority for this country as well as for the EAS and the Commission. Serbia must surely now accept that Serbs and Albanian Kosovars should live side by side without interference, as proposed by Martti Ahtisaari in 2006.

The rule of law and support for the judiciary in post-conflict states is an important priority, and one of the things that the EU is very good at, whether in the Balkans or in Africa. This Minister hardly needs convincing of Europe's influence in the wider world of commonwealth and trade, as I know he is personally committed to these issues, as is the noble Lord, Lord Howell. However, let us lift our sights for a moment beyond the Greek drama and the eurozone crisis and consider what Europe is doing for the emerging nations and developing countries.

For example, what can Europe do with China—apart from borrowing money? Does the Minister agree that one of the most promising developments is the interest that China is showing in Africa? This is largely for business reasons, but it is making a lot of headway in hearts and minds through the building of roads and infrastructure. This could be invaluable for African agriculture and should be a space which Europe can fill too. The EU-China partnership has been well symbolised by the new African Union building in Addis, which was donated by China, and overlooks the more traditional EU delegation building. Does the Minister accept that much more could be done to develop this partnership, and is it being discussed in the EU-China dialogue?

Six of the world's 10 fastest growing economies are in Africa, and the climate for business and investment there is improving. There are many opportunities for investors in agriculture to reverse the decline in agricultural exports over the last three decades, and I commend the new report by the All-Party Group on Agriculture and Food for Development. One country where China has invested is Sudan and—assuming the oil is allowed to flow again—South Sudan. The EU is ready to assist South Sudan, especially with humanitarian aid on a considerable scale, once it has signed the Cotonou agreement. Will the UK, with its strong interest in both countries, continue to support the EU's programmes and, of course, the office of the EU envoy to Sudan?

The EU has a range of governance programmes and support for democracy in Africa. Not many people know about them, but they include extensive election monitoring, co-ordinating the member states of the African Union. Yesterday saw the launch of the African Charter on Democracy, Elections and Governance, which embeds the principles of democracy, the rule of law and human rights across Africa, which should in turn contribute to improved peace and security across the continent. The existence of this charter will surely contribute to the credibility and transparency of the electoral process and of the institutions that we value so highly.

1.55 pm

Lord Brittan of Spennithorne: My Lords, the dramatic unfolding of the eurozone crisis, in particular the inevitable focus on the handling of the Greek situation, risks obscuring the more fundamental underlying debate about the eurozone that, in my view, has to take place. That debate is over the extent to which, for a monetary union to work, it needs to be accompanied by a fiscal union, and what the nature of such a fiscal union has to be. I am quite sure that the fiscal agreement reached by 25 of the 27 members of the EU is only a staging post in that debate.

The Government are absolutely right to say that not only is it in our interests that the problems of the eurozone should be resolved, but more specifically, as my noble friend Lord Sassoon said in this House last week,

“this intergovernmental agreement, which goes to the heart of strengthening the fiscal arrangements within the eurozone, is a necessary but not sufficient part of what we hope to see”.—[*Official Report*, 7/2/12; col. 124.]

I am also glad to note that the Government have backed away from what they appeared to be tempted to do—trying to block the use of EU institutions in the application of the new intergovernmental agreement—and have merely expressed what one might call generalised potential anxiety, saying that we will watch very carefully how that develops and reserve our position. This view was reflected in what my noble friend Lord Howell said in opening this debate.

With regard to the agreement that was reached, no one has been able to explain convincingly—to me, in any event—what that agreement, if we had signed up to it, would have forced us to do that we do not want to do or what it would have prevented us from doing that we do want to do. Leaving that broader question aside, at least we have backed away from trying to torpedo the agreement by preventing the use of the European Union institutions in its application. That not only would have caused us huge ill will but would have risked damaging the very interests that we have been trying to protect. The financial services industry is but one example. Now, why is that so? It is because for decades, under existing treaties, European legislation on, for example, financial services, can be passed by qualified majority voting. Not agreeing to the latest agreement has not changed that by one jot or tittle.

However, there has been an almost universal recognition of the very special importance for us of this sector and we have not been outvoted on any

[LORD BRITTAN OF SPENNITHORNE]

matters of great importance for us in the financial area. On the other hand, I vividly recall when I was in Brussels seeing Mr Tietmeyer absolutely fuming on one occasion when Germany was outvoted on such an issue. If we had sought to torpedo the new intergovernmental agreement, could we guarantee that the restraint by our partners would have continued to be exercised in the future? I very much doubt it.

Leaving aside our particular concerns, where should we stand on the debate on the extent to which monetary union can only work if accompanied by fiscal union? No one could disagree with the broad proposition that on the fiscal side the policy that is needed is budgetary austerity to reduce public debt, combined with structural reforms to boost competitiveness. However, to what extent does all that need to be enshrined in European legislation? The creation of the European stability mechanism does not answer that question, as that is a bailout mechanism to deal with a crisis, not a constitutional mechanism to create the degree of fiscal union needed to prevent a crisis arising.

Of course, the term fiscal union can mean many different things. Assuming agreement on the broad lines of the fiscal policy that is needed, fiscal union can range from organised peer group surveillance to broad rules on the permissible extent of budget deficits to the highly intrusive imposition of limits on national spending and taxation. If the authoritative article in last week's *Financial Times* is to be believed, the German position is that national taxes should be co-ordinated or even harmonised with national budgets supervised by the European Commission, with the EU able to insist on certain spending priorities designed to ensure that the competitiveness of growth targets are met. In addition, it has been proposed that a commitment to balance budgets should be required in national constitutions. If all those were agreed, it is suggested that Germany might then be prepared to agree to the issue of Eurobonds. Of course, it is possible that all that is a deliberately tough negotiating position floated to the *Financial Times*.

Whether that is so or not, I want to take this opportunity to say that I do not think that it is necessary for fiscal union to go anything like as far as that to make monetary union succeed. I have seen no evidence to support the contrary view. As long as there is an effective commitment to the fiscal policy that I have described and a mechanism of a general kind to enforce that, I see no need or reason to be more prescriptive than that. I believe that the intergovernmental agreement agreed by the 25 member states should and can provide that. I only wish that the United Kingdom had felt able to agree to join it.

If the mechanism can be established to make that agreement stick, I believe that the fiscal component required to make monetary union work would have been adequately provided. That will be necessary, but also sufficient, for the eurozone and the EU as a whole and in the interests of the UK. However, I cannot see why any further harmonisation or co-ordination would be necessary. Of course, we would be in a much stronger position to oppose such further harmonisation if we had been prepared to participate in the much

more limited agreement that has the support of 25 out of our 26 partners. I restate that I regret that we were not able to do so.

2.02 pm

Lord Radice: My Lords, it is always very good to follow the noble Lord, Lord Brittan, who, as usual, is extremely wise in his remarks on European matters. Clearly, this is a very important debate with a lot of people wanting to get in. We have already heard some impressive speeches. Perhaps I may just say something nice to the noble Lord, Lord Howell, whom I do not always praise. He made a very able tour d'horizon and put a very positive case for British membership, which was good to hear. My noble friend Lord Mandelson combined realism with vision in a most exemplary manner. I want to pay tribute to my noble friend Lord Harrison, who is not in his place, for his excellent Select Committee report, which he addressed very ably.

Of course, in this kind of debate some noble Lords who have spoken—for example, the noble Lords, Lord Lamont and Lord Higgins—and some still to speak who are listening to the debate, have always believed that the euro was a flawed project from the start which was bound to fail. Therefore, what has happened in the eurozone over the past year or so has merely confirmed their original, brilliant judgment and there has been a certain amount of Schadenfreude going around.

My position is different. I speak as someone who not only was in favour of European monetary union but also took the view that, if the circumstances were right, there was a strong case for the UK joining the euro. For a number of years, over the period of what has been called the great moderation, monetary union worked well. The euro was introduced with competence and speed. It rapidly became the world's second currency. The number of members of the eurozone increased to 17 and the eurozone by and large prospered.

However, the banking crisis and the credit crunch of 2008, which we seem to have forgotten had its origins not on the continent of Europe but in the United States, also caused a crisis of confidence in the eurozone. That was most notably, of course, in Greece but it has spread to other countries, such as Ireland, Portugal, Spain and even Italy. As I freely admit, the crisis has revealed shortcomings in the original architecture of economic and monetary union, including asymmetry between a centralised monetary policy and a decentralised fiscal position, competitive imbalances between member states and a lack of an adequate bailout mechanism for countries in trouble.

The response of the leaders of the eurozone has been extremely slow and uncertain. As Professor Buiters said, their decision-making has been like “a caterpillar hurdling”. All the same, my view is that the eurozone remains part of the solution rather than the problem. That is the division in this debate. For those who think that that is incorrect, I ask them to imagine the reaction of the European countries without the EU and without the euro. First, there would be competitive devaluation, with all its impact on living standards. The idea that somehow devaluation is a soft option and that you do

not have to cut living standards is economically totally illiterate. Secondly, there would be the spread of self-defeating protectionism. Thirdly, as in the 1930s, there would be the rise of extremist nationalism. We should not think that somehow there is an easy world outside, which if you get rid of the eurozone will suddenly solve all the problems. It just is not there.

I believe that the monetary union, provided that it is reformed, affords a framework for recovery, to which I will devote the rest of my remarks. It is true that the eurozone is still not out of the woods by a long chalk but there are some encouraging signs. The Greek psychodrama continues but it is noticeable that since the end of last year borrowing rates have been falling for some other countries. In the survival of the euro, which I think will survive, Italy is the key country. It is noticeable that the spread between Italian and German 10-year bonds has narrowed by some 200 basis points and is continuing to shrink. There is no doubt that the advent of Mario Monti, the Italian Prime Minister, is making a real difference, not only in Italy but across Europe and in the markets as a whole.

There have been some other promising developments. First, the strengthening of the euro stabilisation mechanism will come into effect in July 2012. Secondly, the ECB under Mario Draghi has enhanced credit support for bank lending, as the noble Lord, Lord Lamont, pointed out. It has already provided 500 European banks with a total of nearly €500 billion in three-year low-interest loans. That will be repeated at the end of February. The noble Lord is right to say that this has been a game-changer. Thirdly, there has been the fiscal compact, which was agreed on 30 January 2012. There is something in what some people say, and the point has already been made in the debate, that this amounts to not much more than a beefed-up stability and growth pact. But it has a political point, which is key to ensuring the crucial German support for an effective bailout mechanism for the eurozone.

However, as in the UK, the big weakness of European policy at present is the lack of a credible growth strategy. Without growth, it will be difficult to reduce deficits and unemployment will continue to rise. We are told that Mario Monti went to Berlin to say that, and that something more was needed than austerity, while the head of the IMF, Christine Lagarde, has argued that countries which are in a position to expand should be able to do so. Certainly a sustained domestic expansion in Germany would do the eurozone a power of good. We have had two years of domestic expansion; let us have more. Also, we have the welcome prospect of a recovery gathering pace in the United States and it is hoped that this will be yet another example of the new world coming to the aid of the old.

Finally, I turn to the United Kingdom. I believe that it was a mistake for the UK to stay out of the so-called fiscal compact. I am afraid that during my political lifetime this country has had an unhappy tradition of either opting out of European projects or joining late when the parameters have already been set. But even though we are not in the euro, what happens in the eurozone has a major impact on our economy, as the noble Lord, Lord Howell, rightly said; we cannot escape it. It is also very much in our

interest to ensure, for example, that the integrity of the single market is preserved. The European Select Committee report is surely right when it states that:

“Shifting discussions outside the main EU channels to forums where the United Kingdom has no voice risks marginalising the UK over time”.

We may have very good advice for the eurozone—and we often think we do have—but no one will listen if we are not actually there. We cannot defend the City or protect the single market if we are not at the table. As a former Belgian Prime Minister graphically put it, “If you are not at the table, you are part of the menu”. There is a strong case for the UK becoming part of the so-called fiscal compact.

At a time of crisis for the eurozone, a crisis that affects us as much as it does the eurozone members, it is surely folly for the United Kingdom to stand outside. In the modern world, isolation is not splendid; it is foolish. If we are to defend our interests and help lead Europe out of its difficulties, as we ought to, it is our duty both to our citizens and to Europe to be involved and to participate.

2.12 pm

Lord Dykes: My Lords, I expected to enjoy and appreciate the speech of the noble Lord, Lord Radice, and I have done so even more than I thought I would. I shall embarrass him deliberately by thanking him for a speech which I envy because I wish I had had the chance to make it myself. However, I forgive the noble Lord because some years ago he said to me—I am happy to apologise if my memory is at fault—that despite having a distinguished Italian name, he is not a linguist and does not speak Italian. None the less, he has been a strong European over the years. I recall that in the mid-1990s he succeeded me as chairman of the European Movement in Britain and we have carried on not only a friendship, but also often a mutual appreciation of European matters to such an extent that all I would need to do today, if only the rules of procedure would allow it, would be to cross the Floor of the House, get the text of his speech and read it out again, such is the common sense and wisdom of many of his remarks.

I share with the noble Lord his appreciation of the positive tone in the speech of my noble friend Lord Howell. It certainly ended on a strong upbeat note by stressing the need for Britain to be fully engaged in developments in the European Union. I do not criticise him, but because of the circumstances of receiving notes which one does not have time to read at the Dispatch Box when they are handed to you, he stumbled a bit on the issue of the clarification of the safeguards. I can understand why because unfortunately, and through no fault of my noble friend Lord Howell, the issue remains a product of imagination rather than reality. It remains to be seen what will actually be done by the Government to rectify this most extraordinary omission in the history of international and European negotiations from 9 December onwards. It is not something you would normally expect. To be fair, the UK Government have come forward substantially and since then have been more positive by realising that we really do have to help our colleagues in the eurozone, both indirectly

[LORD DYKES]

and no doubt directly in some ways. That is the priority and it helps us as well, not just through trade but also in other things, not least the long-term development of the European Union.

I also pay tribute to the interesting, sensible and wise speeches made by the noble Lords, Lord Mandelson and Lord Grenfell. They themselves do not represent the more recent change in many Labour politicians and spokesmen to being keener on Europe than they were in the past; that really was consolidated when the Lisbon treaty was passing through both Houses. I now perceive Labour, particularly in this House but also in the other place, generally as a positive and pro-European party. There is a small number of exceptions among the rather older Labour MPs, but I do not see any other difference.

As our involvement in the EU grows with the passing years, I wish that that was so in the main party in the coalition. However, there have been setbacks in recent years which surprised me before the election and, indeed, surprised me afterwards. Normally, the old historical feature was that parties would become anti-European when they went into opposition. That was the pattern set by the Edward Heath Government, who as a Government were very keen on Europe with Edward Heath pointing the way forward when we first joined the Community. That pattern has been replaced by a new phenomenon of the main party in the Government now being more and more strongly anti-European. A huge number of Conservative MPs in the other place are viscerally opposed to Europe and all its works. Just look at the words they use in speeches in various European debates, and the glee and triumph that greeted the Prime Minister at Chequers when he returned from the 9 December meeting with his so-called deal, which obviously was beginning to unravel almost as soon as the ink was dry in the face of the reality of the situation in this country vis-à-vis our partners and fellow EU members dealing with eurozone problems. It is sad to note that the Conservative Party is like that now and I hope that it sheds this view as quickly as possible, given the reality of our position in the world and the need for us all to work together to deal with the worldwide crisis and the European recession.

The noble Lord, Lord Radice, may have inferred it but did not say it, but I imagine he would agree that you cannot have a genuine, full, single market—to which we are addicted and keep saying as much as a leitmotif—without having a single currency; that has to come. It may be painful on the way, but the European authorities, the heads of government and one head of state in the different countries, mainly France and Germany, are dealing with it and gradually getting there. Although it is a panicky and jittery process, which is inevitable given that these are enormously complicated negotiations in which people often lose their tempers—all the sovereign countries have to be fully consulted, which is very difficult—they are getting there step by step. Enormous progress has been made towards solving the eurozone problem.

I am also very optimistic that there will be a solution for Greece over the next days and weeks. Indeed, everything will have to be in place for the next bond auction date in, I think, the third week of March.

I believe it will happen because it has to. It is very distressing to see the animosity that has broken out in the international press, now picked up by the British press, between Germany and Greece, with the leading figures from both countries having a go at each other. That may be a function of the stresses of the day in trying to get the agreement going, and thus is understandable, but it is not something that is of any lasting significance. There is a great relationship historically, although of course I am not referring to the Second World War, over the long term not only between Germany and Greece but also between all other European countries, including ourselves. Greece does need help and she will respond. We shall see the details of the agreement very soon.

I pay tribute to the way this has been achieved very patiently by the people involved. We must now support it more and more rather than waiting with relish for things to collapse. The obsession, unfortunately again mainly in Conservative circles but also in UKIP and among other smaller political parties, with the concept of national sovereignty is now truly outdated and has to be overtaken by events as countries work more and more closely together. There is also an idea that we can shrug off the pronouncements of the credit rating agencies by saying that it does not matter if they downgrade various countries. The United States and, I think, France have now had a downgrade, but we still have our triple-A rating. However, the rating agencies are themselves flawed institutions and make lots of mistakes. They certainly did on their triple-A predictions for the credit rating levels of several institutions that then went bust a week later, sometimes even less than a week in the case of one or two hedge funds and housing loan corporations in the United States.

The United States is a heavily indebted, technically bankrupt federal system, and most of its individual states are technically bankrupt. If they were individuals or companies, they would already be in the bankruptcy court. They can do it because they are states and a federal country, with a \$16 trillion debt burden that is incapable of being reduced by the American political process. Those matters should be of greater concern to Conservative politicians than the temporary problems of the eurozone as we get through this very difficult period, which, as the noble Lord, Lord Radice, said, was quite likely caused by the international banking and speculators crisis from which we are all still suffering.

I add my words of praise to what has been said about the euro area crisis. We thank the noble Lord, Lord Harrison, and his team for having produced a very positive report on the way in which, once again, the eurozone is coming through this crisis. On 31 January, the Prime Minister said:

“The principle that the EU institutions should act only with the explicit authorisation of all member states remains. Let me be clear: this is a treaty outside the EU. We are not signing it”.—[*Official Report, Commons, 31/1/12; col. 678.*]

Since then, the Government have seen the light about the need to work with the other countries. I agree strongly with paragraph 150 of the EU Committee's report, which states:

“It is unacceptable that the Government have not released appropriate details of the safeguards which the Prime Minister sought at the December European Council. This makes it impossible

to form a balanced judgement about the outcome. Coming to the present, we invite the Government to indicate what necessary safeguards they think have yet to be achieved, and what provisions ... in the proposed treaty are objectionable to them”.

Until the Government give us that essential information, there will be no underpinning of the emotional support that we want to give them now for sounding more positive about European matters.

2.22 pm

Lord Flight: My Lords, a noble Lord in this debate and yesterday referred to Britain’s exports to the EU representing approximately 50 per cent of our exports. As many noble Lords may be aware, subsequent research on this figure finds that some 10 per cent of those are merely in transit, largely through Holland, to other parts of the world, and that the more accurate figure is some 40 per cent of our exports.

Perhaps I may appear rather aggressive in saying that the Prime Minister should at least have criticised, if not opposed, the December fiscal compact essentially because it was not about fiscal integration; it was about a framework and enforcement machinery for brutal and self-defeating internal devaluation measures, where the economies in trouble need growth and not to be ground into the dirt.

The key features of fiscal integration, as evidenced by the United States of America, are a single borrower, a central bank that can if necessary print money and buy government bonds, and, above all, transfer payments from the more prosperous to the less prosperous, keeping the less prosperous afloat. Within America, they amount to some 30 per cent of federal tax revenues to this day.

Germany, not surprisingly, has opposed all three key aspects of fiscal integration, largely because the estimates are that the transfer payments would need to be as large as some 35 per cent of German GDP, which is clearly impossible. But the failure is to face up to the conclusion of that: that is, there is really only one way of addressing the problems without imposing enormous hardship on millions of people, which is a currency reorganisation within the eurozone. I perceive what is being proposed and demanded of Greece as smacking of President Hoover in the 1930s, leading to the depression in America, and smacking of those Gold Standard bigots in Europe in the early 1930s having a similar effect on European economies then. The fact is that Greece has been in major recession for four years; its economy is downward-spiralling; and, very clearly, it is going to be vulnerable to political revolt, we hope through the ballot box. The words of Keynes, applied to the German reparation agreement at the end of the First World War, are appropriate: what is being looked for is,

“insincere acceptance of impossible conditions”.

This approach is not only economically mistaken but, in reality, unlikely to work, not just as regards Greece but other countries—it will be like the growth and stability pact. Back in 1953, when the then West was required to bail out Germany, which could not afford to service its debts, a very generous deal was provided—a 50 per cent debt cancellation and a five-year interest moratorium—and it was well understood that

it was necessary to give the German economy the oxygen to rebuild and grow. As the noble Lord, Lord Radice, pointed out, these problems are not soluble unless countries can grow their tax revenues. I would have thought that if poor old Adenauer was still around today, he would not make the disastrous mistakes made by the present German Administration, which in effect repeat the very reparations-type of approach that caused so much trouble in Germany after the Great War. Let us look at what is happening: the whole claim of the European Union was that it would get rid of nasty nationalism. Well, many countries in Europe are coming to take a very critical view towards Germany bossing them around and, not surprisingly, many Germans are pretty critical of having to pay up and bail everybody out. So the flames of nationalism are being stirred rather unpleasantly, as others have pointed out.

I am surprised that many whom I would describe as less capitalist than me in my economic views seem entirely happy to see thousands of people thrown out of work and thousands beggared purely in the name of having to maintain the euro unchanged rather than follow the sensible remedy of currency reorganisation. It will clearly be Portugal next and Spain, potentially, after that—Spain already has 23 per cent unemployment and 48.7 per cent youth unemployment.

Germany has subtly “done a China”. She has made herself super competitive within Europe when, if you like, the more pleasure-loving south was getting on with its usual practices and unit labour costs were rising. Germany since 2003 has cut unit labour costs by some 12 per cent. So there is about a 30 per cent competitiveness gap between Germany and its affiliated economies and the south. That is just too large to be able to be addressed by an internal devaluation programme. It is not surprising that we see Germany having had the best figures for years for job growth while southern Europe now has spiralling unemployment.

It is odds-on that Greece and Portugal will exit from the euro relatively soon. I would make the point made by others that, although there will be immediate pain, the process needs to be well planned and organised. Beyond immediate pain, there is the prospect of strong economic recovery, as Argentina has experienced as a result of going through a similar mechanism.

The ECB is financing banks to give them a large interest margin when they buy the debt particularly of southern European economies, which should keep the debt issue afloat in Italy and Spain for some time, but there remains a competitiveness problem with both economies. Unless the ECB’s action is used to buy time in which a sensible European currency reorganisation is planned, it will simply worsen the banking problems when things eventually blow up. I have suggested on previous occasions that there is an obvious case for a strong currency for northern Europe and a weak currency bloc for southern Europe. We do not necessarily have to go back to historic currencies.

This needs planning now. Indeed, it should have been planned a year ago when it was blindingly obvious that the inherent problems of the euro were coming to light. But there is a bigger issue to which many noble Lords have referred, including the noble Lord, Lord

[LORD FLIGHT]

Howell, and indeed the noble Lord, Lord Mandelson, which is that the world is a hugely changed place. We have huge success and competition from what are widely known as the BRICs and it is very clear that most of Europe and the UK are no longer attractive places in which to do business. The public sectors are way too big, regulation is wildly excessive and tax rates are far too high.

The diagnosis of that has to be that radical reform is needed across Europe and in the UK if we are to compete effectively with the new economies going forward. We are not going to get anywhere merely remaining uncompetitive and unattractive. A major ingredient preventing those reforms is of course the EU itself and its excessive detailed regulation. We heard today an interesting comment that the success in this country of the life science industries is being threatened by EU regulation. It is not just in that area that, I am afraid, EU regulation imported and often enhanced here makes this country uncompetitive.

The task of any responsible Government of the UK, whatever its political hue, over the next few years will be either to change and reform the EU enormously to make it into a vital economic unit and not a stagnant one or to find measures to extract the UK from the various aspects of its regulatory and other regimes which are damaging our economy. In particular, they are a major threat to our biggest industry; the financial services industry.

2.31 pm

Lord Stoddart of Swindon: My Lords, I am very pleased to be following the noble Lord, Lord Flight, and I am sure that the House enjoyed his very lively speech. I was also glad that he corrected the trade figures from 50 per cent to 40 per cent. Some people seem to believe that we did not trade with Europe before we joined the Common Market in 1973. But of course before 1973 we had very good trading relationships with Europe and made a profit on many of our exports; including cars, incidentally.

It is difficult to know where to start in a speech about the European Union because of the chaos that reigns in the Union, particularly in the eurozone. As usual, there have been some disparaging comments about those of us who are called Eurosceptics. I would remind those people that the Eurosceptics warned of the dangers of joining or having a single currency. We were told that if we did not join, we would be sidelined. We would miss the train and we would miss the boat. Indeed, people like me were called unpatriotic because we believed that it would be inimical to British interests to join the single currency.

We have been vindicated by events. We are not pleased about that, but we have been vindicated. We believe that the euro currency in the eurozone would not be good for this country even if it might be good for other countries. What surprises and amazes me—and we have heard it again this afternoon—is that the eurozealots who want to get rid of the pound still believe that the United Kingdom should join the euro. In spite of everything that has happened, they believe that we should still join. Even the Deputy Prime Minister believes that. I find that quite incredible.

Lord Gilbert: He is a Dutchman; that is why.

Lord Stoddart of Swindon: The eurozone has proved that a single currency cannot work without fiscal and political union. A lot of people have pointed that out this afternoon.

This debate is about developments in the European Union. So far we have heard about great issues, but all sorts of things are going on all the time in the European Union, many of which affect ordinary people in this country. For example, the Solvency II capital rules, which I believe are now being agreed, will cost the British financial industry £600 billion, according to JP Morgan. They will cause massive damage to the United Kingdom's pensions industry and will virtually kill off the last vestiges of final salary schemes. That will hurt ordinary British people. We should take note of that.

Then there is the proposal to make mortgages in default after 90 days in arrears, which conflicts with the Government's own policy of helping people, quite rightly, to hang onto their homes when they are in financial difficulty. Then there is the demand for another £9 billion to meet the additional commitments in the present financial round, which will cost the United Kingdom £1 billion. That is extra to the £10.3 billion that we have already committed and money that we do not have. We will have to borrow £1 billion more. Only on Tuesday, the EU Commission announced that 12 member states, including the United Kingdom, are suffering from severe economic imbalances leading to economic shocks and that they will be placed under stringent observation so that they do not compromise the stability of the EU.

That dictatorial language and action is now commonplace in the EU. The treatment and humiliation of Greece by the EU is alarming, disgraceful and completely undemocratic. Furthermore, the Greeks have had the right to govern themselves taken away and the leaders of the Government are unelected Prime Ministers. The political parties now have to guarantee that they will put into place measures that will hurt ordinary Greeks in a manner that is totally unacceptable in anything other than a third world country. That is in advance of what will be done.

Some of us predicted that eventually there would be fighting in the streets in the European Union or Common Market. We now have it. We have fighting in the streets not only in Greece but in other countries as well—

Baroness Falkner of Margravine: But that was happening in London in August.

Lord Stoddart of Swindon: Perhaps I may repeat that we have fighting in the streets in Greece and in other countries, such as Spain and Romania. That cannot be denied.

As usual, a crisis situation is being used to transfer more power to the EU institutions. The fiscal agreement was made between countries other than the United Kingdom and the Czech Republic. It may be intergovernmental at this stage. However, all experience has shown that inter-governmentalism eventually collapses

and becomes an EU competence. That happened following the Single European Act, the Maastricht treaty, the Amsterdam Treaty, the Nice Treaty and the Lisbon treaty, all of which transferred more powers from nation states to the institutions of the European Union.

However, even this does not go far enough for the European top dogs. Frau Merkel, for example, was recently reported in the German newspaper *Handelsblatt* as saying that step by step, European politics is merging with domestic politics. She called for closer political integration, with members ceding further powers to the European Commission, which ought to be the real government of Europe, with the Council of Ministers operating as a second chamber and adding strength to a European Parliament. That is the vision of people such as the Germans, which is also supported by the current President of France. The noble Lord, Lord Howell, does not agree with that. He is calling for a completely different sort of Europe—but Germany and France in particular are determined to go very much further than the noble Lord outlined in his speech. Of course it is not only the leaders of individual states who are doing this. Mr Barroso was this week telling the Chinese that the EU will become a fully fledged political union after the financial crisis. I hope that the Government will tell these people that that is not the vision that the United Kingdom has for the European Union; and, indeed, that the British people will not tolerate that. They want to continue to be governed by their own elected representatives and by institutions that have been built up and been successful over many hundreds of years.

2.43 pm

Lord Hamilton of Epsom: My Lords, like many noble Lords who are contributing to this debate, I am a member of Sub-Committee A of the European Union Committee, and we have contributed to this report today. However, it is quite difficult to find where our report features in this. It has been rather subsumed by the senior committee. If there are any lessons to be learnt from this, it might be that it would be better if Sub-Committee A produced its own reports, the top EU Committee produced theirs and we kept them separate.

While drawing up our report, we took evidence from the German ambassador, Mr Georg Boomgaarden—a charming man. At one stage when we were asking him questions, he said that you could not really expect the President of France and the Chancellor of Germany to take any notice of the markets. The markets are the elephant in the room, and whether you like or hate the markets, you cannot ignore them. One of the problems with the mishandling of this crisis—and it has been mishandled absolutely from its start—is the total misunderstanding of how the markets actually operate.

Just in case the elephant in the room was sitting there not doing anything much, the Chancellor of Germany, Mrs Merkel, decided to stick it very hard in the behind with a sharp stick when she started referring to “haircuts” in respect of the crisis in Ireland. The idea of haircuts, when she first mentioned them, was totally novel. The markets had worked on the cosy assumption up until that moment that the whole of

the eurozone was underwritten by the Germans. That was why interest rates paid on debt in Greece were something like 0.5 per cent above those in Germany. The market immediately panicked when the prospect of losing serious sums of money became apparent. Then, of course, President Sarkozy and Chancellor Merkel had to get together at the G20 meeting and, at that point, said that all eurozone debt would be redeemed at par, up until 2013. I wonder what has happened to that commitment. When you are talking about a 73 per cent default on debt with Greece, I am sure that it does not quite seem to be a question of eurozone debt being redeemed at par.

As this crisis has evolved, European institutions have always been behind the curve—everything has been too little and too late. The €440 billion eurozone mechanism, which took a long time to be ratified by different parliaments, might have been enough to stabilise the crisis if it had been produced early on. It arrived much too late of course, and by that time the whole crisis had moved on. Despite reassurances from the Germans that they would make sure that the eurozone remained intact, they were not prepared to underwrite the whole thing, so it was always going to face serious problems.

We now have the ridiculous situation in which the Germans are trying to turn Greeks—and indeed all the other Club Med members of the eurozone—into Germans, which is never going to work. There are enormous problems, which my noble friend Lord Flight has referred to, with competitiveness. The noble Lord, Lord Mandelson, referred to convergence, which was always one of the great hopes of the eurozone; but the eurozone economies have never converged and will never do so. We are never going to get to that position, which is why the whole project is basically doomed. What we have to do from here is manage the eurozone’s decline, and indeed its inevitable disintegration, because I do not believe that we will ever see this situation stabilised. My noble friend Lord Lamont mentioned that he has taken bets. I have bet my German son-in-law that Greece would be out by Easter and have not lost it yet. Although I am not sure I want to double up on that one, I would certainly be very surprised if Greece was still in the eurozone at the end of this year.

This has been one of the other problems with the way this has been handled. I think there was a presidential election in America when one candidate described another as being incapable of walking and chewing gum at the same time. I find it extraordinary that the EU institutions are mesmerised by Greece but at the same time are very worried about the whole problem of what happens if Greece goes down and of contagion. So why are they not handling Portugal, and conceivably Spain, at the same time? If those three countries could be stabilised, there is hope that perhaps the contagion will not spread as far as Italy.

As it is, the sooner Greece defaults, the better it will be, both for the eurozone and for Greece itself. The austerity programme to which Greece is being subjected at the moment is achieving absolutely nothing and is merely guaranteeing that the country is going to go on contracting and that its economy is going to get worse. There is no way forward for it whatever. I am not

[LORD HAMILTON OF EPSOM]

saying that default and returning to the drachma is a panacea for all Greece's problems, but it would give the Greeks a breathing space to reorganise themselves. One of the great advantages they have is an enormous tourist industry, which would benefit almost at once if they returned to the drachma and holidays for everyone became very cheap there the next day.

In the past, my noble friend Lord Higgins has always said that the complications of default are so great that you really cannot think about them. I do not go along with that. The Argentinians defaulted by closing down their banks at a weekend and overprinting all their existing bills with the new currency that they were issuing on Monday. They then opened the doors on Monday after the devaluation. We must not get overexcited and think that somehow default and returning to another currency is so traumatic that it cannot be entertained at all; it certainly can. Obviously, transitional arrangements have to be made for companies that owe very large amounts in euros, but that does not mean that these things are impossible.

The alternative is too awful to think about. Many noble Lords, including my noble friend Lord Flight, have referred to the problems of extremism that are now emerging. We have an extraordinary situation in which the Germans resent paying money to the Greeks, and the Greeks resent getting money from the Germans because of all the conditions that it comes with. This is breeding a very unpleasant form of politics in Europe. The very idea that this is somehow bringing Europe together is just fanciful. It is doing nothing of the sort; it is creating divisions, and it is going to make Europe a less and less pleasant place for anyone to live in.

We have to look at this anew. We should not be frightened of the concept of default, and we should try to manage the default of the really weak countries on the periphery of the eurozone. It is critical that we do what we can to save Italy from going down as well or the whole place will disintegrate, although at the end of the day we must not assume that there is an unlimited amount of money that the Germans can afford to pay to keep this thing afloat even if they wanted to. Germany has its own problems with an ageing population and enormous pension liabilities, and its pockets are not so deep that it can go on paying for all this either. We must learn some lessons from where we have got to. This project has failed and we must now manage its default so that it damages as few people as possible as the whole zone disintegrates.

2.51 pm

Lord Monks: My Lords, this debate has inevitably concentrated on the very difficult and testing economic situation in the eurozone and, to some extent, on the UK's awkward relationship with the EU. There has been no shortage of unsolicited advice to our neighbours and partners in the EU about all the things that they are doing wrong. I have one thing to say on that: never underestimate the determination of the leaders of Europe to keep the euro going. They will pay very heavy prices to do that. When we in this country preach such unsolicited advice from a background of an economy that rests to a large degree on devaluing

our currency and on quantitative easing, our message does not come across with the authority that it might seem to have to some in this House. It is not taken awfully seriously on this subject.

I want to spend some time on a different subject, a different angle, an issue that has been as controversial as economic and monetary union in this country over many years, if not just at the moment—the social dimension of the European Union. Let us remember some of the incidents in its chequered history in this country. Mrs Thatcher was very hostile to Jacques Delors' vision of a single market balanced by some social rules. She gave a fiery speech at Bruges that set in train some events that led to her downfall. Prime Minister Major negotiated an opt-out from the Maastricht treaty. It was the anniversary of that treaty just recently. Tony Blair ended the opt-out but was just as cautious—indeed, as hostile—on certain issues as the Major Government had been, and some were accepted only after many years of procrastination. The Conservative Party today is dedicated to the repatriation of certain powers, particularly on employment policy, although that has been watered down a bit in the coalition Government's programme to a review of the balance of competences.

Open Europe, a think tank that takes an interest in these matters, as do I, is estimating at the moment that the cost of social Europe measures adds up to £8 billion a year for UK employers. I dispute that figure and ask your Lordships to reflect on it for a moment. Are people really asking the UK to save money by reducing the minimum entitlement to four weeks' paid leave a year? Should that be scrapped? Are people saying that the UK should save money by scrapping the extensive health and safety regulations—many of which, by the way, are based on the UK's own practices, which are the best practices in the European Union? That is one of the few areas where we can say that we are actually at the top of the league of labour market measures. How much money would in effect be saved by scrapping those European rules?

Are people saying that we should save money by scrapping the requirement to inform and consult employees about proposed decisions in companies? After all, that was made rather a major part of the recent coalition Government's announcements on executive remuneration: that these channels should be used by the rest of the workforce to try to hold top earners to account. Are people saying that we should save money by scrapping the TUPE regulations on staff affected by transfers of ownership or privatisations? People are probably not saying those things specifically, although I will be interested to see whether some noble Lords do say them, but they are using these global sums, which I believe are fictitious, to justify the unjustifiable. Is that the direction that the UK would want to go in? I do not think so and I certainly hope not.

Another element of social Europe is not just the specific measures but the idea that the EU should have a strong social platform and embrace certain objectives—full employment, redistributive welfare states and the presence of institutions in the labour market, particularly social dialogue and collective bargaining—that seek to

embed social norms of fairness, the more egalitarian distribution of market incomes and a restraint of excess at the top. In the current economic situation, all that is at risk.

I used to be the general-secretary of the European Trade Union Confederation, which is currently arguing that the approach by the European authorities should be more Keynesian, more expansionary, concentrated more on growth than on austerity and more a Marshall plan than the reparations-tinged measures that are around at present, not just in relation to Greece but in relation to other countries too. We, along with others, have been arguing that no moral hazard doctrine was applied to the banks when they needed urgent rescue but, when it comes to individual countries, moral hazard is the headline, not just in German newspapers but across many other parts of Europe as well.

It is not just the rescue packages that are affected. The strengthened rules, including the fiscal pact, look to enshrine fiscal austerity and a rather monetarist approach to economic policy. I see the noble Lord, Lord Flight, nodding his head; I agree with him on that particular point. From a union perspective you can see the controls on unit labour costs in the fiscal pact, the hostility to wage indexation and to sector-wide collective bargaining, and the downward pressure on public sector pay and on some minimum wage levels, which are very much a part of the programme.

I am pro-European and do not like the fiscal pact—it is going in the wrong direction—but when you look at the world as a whole, you see that the EU is the one significant part of the world, and an important one, that enshrines the values that I believe in. The campaign should be to seek to influence the EU to go in a more expansionary and generous direction, one in which Keynesian principles play a bigger part and the spirit of the Marshall plan is remembered. After all, Marshall was inspired in that plan by what happened in Greece in 1946, and he launched that campaign to defend democracy. We are not so far away from that in some parts of peripheral Europe at present.

I hope that the unions can do in Europe what they did in the Scandinavian countries, particularly in Finland after the collapse of the Soviet Union, which was to form social pacts in individual countries where people pulled together to put the country back on its feet. They did that very well in Finland after a catastrophic drop in GDP of 15 per cent in three months. It can be done in Europe. The problem with this situation as we debate it here is that we are rather isolated from some of these debates. It is a bit like being spectators at a match rather than players on the field.

In my remaining few seconds, I draw to the Minister's attention the current situation in Hungary, where the Orbán regime, as he will know, has changed the constitution to recognise ethnic Hungarians in neighbouring countries, almost nostalgic for the borders of Hungary as they were at the end of the First World War. That Government have also sacked judges from courts that have not done things that comply with government policy. I understand, too, that there are new restrictions on churches: 14 have been legitimised and the rest have to apply for registration, including the Anglicans and Methodists. I ask the Minister what

representations the UK is making bilaterally to the Hungarian Government, and in the context of the EU, to ensure that Hungary is in line with the best traditions of the European Union and is not being nostalgic for a Hungary of the past, which I do not think anyone should want to go back to.

3.01 pm

Lord Newby: My Lords, like other noble Lords, I will concentrate my remarks on recent economic developments, particularly on growth. Although the EU is doing many other important things—on climate change, as the noble Lord, Lord Jay, pointed out, or in terms of social measures, as the noble Lord, Lord Monks, has just pointed out—economics has always been at the core of the EU. The extent to which the EU will be seen to succeed or fail will be the extent to which, over the longer term, it has been seen to deliver growth to its populations.

It has been tempting for me to follow a number of noble Lords this afternoon in discussing the twists and turns of the euro crisis, not least because, as Moody's reiterated on Monday, the biggest single short-term threat to growth in the UK is a failure of the EU to solve that crisis. However, I will resist the temptation because, at the end of the day, nobody within the eurozone is listening to what anybody in the UK is saying about the future of the eurozone. They do not need to listen because we have no lean on them. They have enough on their plate trying to resolve the conflicting pressures that they find themselves under, both domestically and within the eurozone. My only advice on this to the Government, and to the Prime Minister in particular, is that, having succeeded in annoying everybody by the way he behaved with the veto in December, he should not make things worse by publically lecturing the rest of the eurozone on the need for them to sort themselves out as though they were naughty schoolboys and girls, as he did in Davos. It may play well back here, but it has zero impact on what is actually going to happen and merely serves to build up a stock of resentment against the UK which will inevitably reduce our ability to promote our interests on non-eurozone issues.

I strongly agreed with the noble Lord, Lord Mandelson, when he said that the gravitational pull towards the eurozone and the development of its institutions will be at a cost to Britain's position and influence. That is the long-term position in which we find ourselves, whichever party or parties are in government. For the foreseeable future, the UK must accommodate itself to being outside the mainstream of those discussions. The irony, of course, is that our deficit reduction programme is exactly the kind of thing that the Germans and other north European countries wish to see for the rest of the eurozone. On macroeconomic policy, we are squarely in the middle of that thinking in the EU. That helps to explain why we are far from being the pariah that some of the headlines, particularly in December, have suggested. The challenge and opportunity for the Government for the remainder of this Parliament is how to use the commonality of interest which exists across much of the economic agenda to our best advantage—mainly via the mechanisms of developing

[LORD NEWBY]

the single market and on trade. If we are going to have greater engagement, it will be in those areas that we exercise it, rather than in discussions about the detailed management of the eurozone.

One of the more tangible ways in which this has been happening in recent months is via the so-called “like-minded growth group”, which was established by my colleague Ed Davey while he was at BIS. Launched in the middle of 2011, it initially had 14 members and was later joined by two more, including Germany. Interestingly, of the 16, eight were “euro-ins” and eight were “euro-outs”. The purpose of the group is to agree joint priorities and strategies for delivering core job and growth priorities linked to the development of the single market. Recent months have seen developments which have strengthened this group further. The Italian Government, who were frankly having none of it in their previous incarnation, have, with the advent of Mario Monti, become great enthusiasts for developing the social market. The new Government in Spain are taking a similarly positive view, as are the Government of Romania. You therefore now have a big majority of people and Governments who are prepared to put real impetus behind a positive single market agenda.

Many of the detailed measures under discussion are, of course, extremely arcane, but they all have the potential to increase trade within the EU and therefore promote growth. Some of these issues, like the immensely vexed question of the EU patent, are nearly concluded. One can hope only that, the intellectual problems having been resolved, the practical issue of where the headquarters of the patent court are located does not lead to another decade of delay in sorting this out. Other measures, such as the development of a digital single market, or on the mutual recognition of the myriad professional qualifications, have some way to go, but there is new impetus behind them. Of all of them, here, for many firms, the proposals from the Commission to simplify the EU public procurement rules will be welcome, particularly for SMEs. I would welcome anything that the Minister could, in winding up, say about progress on that matter.

While the single market is going to help to encourage growth via internal trade, the other area that we must put more emphasis on is that of measures to improve external trade. The noble Lord, Lord Lamont, and the right reverend Prelate the Bishop of Guildford referred to Sir Thomas More. Five hundred years ago, Thomas More was sent to Bruges by Henry VIII to conclude a new trade agreement on wool. When he got there, he found that the French were meddling with a new domestic Administration. Problems were so difficult that it took six months before he was able to get anything approaching an agreement. Like all good intellectuals, he did not waste the time and used it to write *Utopia*. I do not know whether the noble Lord, Lord Mandelson, in the *longueur* of his time in Brussels as trade commissioner, was similarly penning his chef d’oeuvre but, if so, we very much look forward to seeing it.

Trade has been largely forgotten in recent months. We know that the Doha process has completely run into the sand. However, there are major initiatives ahead—some concluded, as in South Korea, and others

underway, as with the EU/India summit this weekend. There are others that are small but potentially immensely significant for the countries involved; for example, the WTO’s agreement this week to preferential trade agreements with Pakistan, a country which needs all the help it can get. It will get it, in part, through having a more resilient economy, driven by trade.

The single market and trade progress slowly. The work is hard and unglamorous. But it is by taking a leading part in areas such as these that the UK, the euro notwithstanding, will remain fully engaged in the EU, to the tremendous benefit of both the UK and the EU as a whole.

3.10 pm

Lord Risby: My Lords, the eurozone crisis, the very weak European economies and excessive government debt have taken the spotlight away from some major and significant EU achievements of late. For example, if individual European countries tried separately to deal with problems such as Syria and Libya, their impact would be minimal. It is collective European action that has sent a clear and united message to an increasingly isolated and belligerent Iran. It is EU countries acting in concert, with others of course, that have promoted the beginnings of democracy returning to Burma. In the past few weeks, it must have been a wonderfully gratifying sight to all of us to see Aung San Suu Kyi being able to campaign politically. All these actions arise from a united view of common standards of governance and human rights, which are embraced by all EU countries, and appropriate political and economic responses. However, I believe it was Willy Brandt who once said that politicians go into politics to resolve a given set of problems and, once those problems are resolved, they cannot move on. We know of such individuals in our own country’s long political history but it applies to organisations and nations as well.

The EU has much to be proud of, including the single market, the pursuit of common, mutually acceptable standards across a whole range of activities, and the huge economic, political and judicial changes that EU membership helped to bring about in formerly totalitarian countries. For example, in an age of threatened energy security, a common position—if it is duly formalised—will be infinitely better in dealing with Russia’s politically driven differential gas pricing policies.

Having said that, as we survey the world today, most countries are growing. This is certainly not the early 1930s. However, the area of stubborn, sclerotic growth, for four years now with more to come, is Europe. The European Commission’s forecast of a paltry average annual growth rate of 1.5 per cent per annum for the next decade is alarming. In 2012 we may see no growth at all. We are all paying a bitter price in failed consumer and business confidence, with tragically high unemployment, especially among our young people.

The eurozone crisis is a symptom of this malaise. Something has gone very wrong. However much we may co-operate on promoting freer trade and access, foreign policy and the environment, it is on basic bread-and-butter issues that the story is most depressing.

Quite simply, the euro was an accident waiting to happen. Despite what some think, its origins had precious little to do with the single market. As many of us knew, you simply cannot have a common interest rate in Helsinki, Lisbon, Dublin and The Hague. It was never going to work for all European countries.

There are elections in Greece and France. The likely winners may take a wholly different view from the present incumbents. While the ECB will have to play its part, the IMF may well have to do so as well. However, we should remind ourselves that the traditional IMF package comprises three elements: reduced public expenditure, increased taxes and a depreciation of the currency, which is impossible in the eurozone. I fully accept that the bloated public sector and the wholesale tax avoidance in Greece are not the fault of Europe. However, if the IMF is to get its money back, it will need to facilitate a stabilisation process, given the increasing likelihood of Greece defaulting. If the eurozone breaks up, there will of course be huge short-term dislocations but, in the longer run, it will reflect the simple reality that vastly different economies cannot be unified in a common monetary zone with the ability and necessity to devalue taken away from them.

The very underpinnings of the European Union are under threat because of this crisis. Our whole way of life, with high levels of social protection, is being impacted by the tilt eastward of the world economy. However, even in the USA it costs just €644 to set up a business. In the EU it now costs €2,285, which says so much. The costly extension of EU influence over matters ranging from hours worked to the rights of temporary, agency and full-time workers does nothing to enhance the single market—quite the reverse. These should be matters for individual member states. While it is right that Britain continues to press home the need to cut the red tape and pointless bureaucracy that emanate from the EU, we are certainly pretty good at generating them ourselves here at home. However, we are quite right to do what we are doing now, which is to call for a new growth test to ensure that all EU actions support growth; to exempt micro-businesses from regulatory overkill; to accelerate the review of the implementation of the services directive; and to enforce proper single market rules. At a time of economic crisis, these are the things that we need to concentrate on intensely.

Inevitably, the eurozone crisis has led to a political crisis within the EU at a citizen's level. The Laeken declaration was meant to lead to a reconnection with the people of Europe and European institutions. I am afraid that its end product, the Lisbon treaty, was a failure on that score.

I conclude by referring to an article on this issue that was published in the *Economist* a few weeks ago. It says that the EU,

“intrudes deeply into the internal workings of its members ... the unelected European Commission ... is acquiring important powers over members, notably the authority to recommend sanctions. Yes, democratic governments grant independence to a lot of important jobs, from central bankers to judges. But the commission has a political as well as a technocratic role. And in the Council of Ministers, which represents elected governments, decisions are prone to opaque back-room deals. The European Parliament hardly commands voters' passion”.

It goes on to say:

“Citizens are thus left feeling impotent. Their governments are eviscerated at home, yet voters lack the means to throw—the powers that be—

“out of Brussels. This is dangerous. Bringing debt under control and, more importantly, promoting reforms to boost growth, will take years of sacrifice and suffering. It can be sustained only with a strong national mandate. Without that, both governments and the EU will eventually be discredited”.

If nothing else, the eurozone crisis has drowned out much that is good and further alienated European citizens from the institutions of the EU itself. The democratic deficit gets worse and gnaws away at the very legitimacy of the EU. If nothing else, the events of the past few months have made this crystal clear and the matter demands effective solution.

3.18 pm

Lord Kerr of Kinlochard: The Minister ranged widely in his elegant opening remarks but the debate has tended to concentrate on the eurozone crisis. It benefits from the report of the Select Committee under the noble Lord, Lord Roper, to which the noble Lord, Lord Hamilton, paid a sort of tribute. Like the noble Lord, Lord Hamilton, I sit on Sub-Committee A and, like him, I also wish to pay a tribute to the noble Lord, Lord Harrison, for his chairmanship. The noble Lord, Lord Hamilton, spoke of the markets as the elephant in the room. As I said, I serve on Sub-Committee A with the noble Lord: I can recognise an elephant in the room.

I want to talk about the new treaty to be signed on 1 March and to consider it in a totally deadpan, analytical style from four aspects: constitutional, legal, economic and political. I start with the economic aspect. I find myself in the awkward position of agreeing with the noble Lords, Lord Flight and Lord Hamilton, and the noble Lord, Lord Lamont, who has fled to avoiding hearing me saying this. They are entirely correct: the economic significance of the new treaty is virtually nil. I think that it is irrelevant, or nearly irrelevant, to the crisis we face. It is a new version of the stability and growth pact—this time we have the stability and no-growth pact, which is even more Germanic. The eurozone needs: greater growth and competitiveness, born of supply-side reform and the deepening of the single market of 27; the correction of current account imbalances; the further strengthening of the banking system; the resolution of the Greek crisis one way or the other; and more fire-power for the EFSF and the ESM to fight the contagion risk, though I would rate that risk much lower than do the noble Lords, Lord Hamilton and Lord Flight.

The treaty is narrowly drawn and addresses none of these issues. Moreover, the new mechanisms in the treaty add relatively little to those that already exist at 27, or are being considered at 27 under Article 136, which permit us to take part in the negotiation of measures applicable to the eurozone and would have been—but for the line we took—for us precisely the ideal vehicle for the new formulations that now find their place in the separate treaty. However, the principal economic significance—perhaps the only economic significance—of these formulations is indirect: promises of future southern virtue, written in treaty form, in

[LORD KERR OF KINLOCHARD]

blood, and into national constitutions, may make it easier for northern electorates to contemplate greater generosity. That, presumably, is Chancellor Merkel's calculation. I do not think this treaty matters much in straightforward economic terms. It probably does more harm than good. However, in institutional terms it matters a very great deal.

The key innovation, which is noted *en passant* at paragraph 77 of the Select Committee report, is that the treaty will come into force before all its signatories have ratified it. Once the 12th of the 25 signatories ratifies it, the treaty applies among those 12 and, when others ratify, it applies also to them. There is no EU precedent for that. Up to now the rule has been that the convoy moves at the speed of the slowest ship and a single failure to ratify sinks a treaty for all signatories. One could now envisage a member state—in this case hypothetically an Ireland unable to win a referendum, or a Hollande-led France talking of a renegotiation—stuck in a limbo, unwilling or unable to ratify but equally unable to prevent the convoy sailing on. I note that access to support from the ESM will depend on ratification. I think that tells us the answer to the question asked by the noble Lord, Lord King: how many will actually ratify? I would not bet on there being a referendum in Ireland.

The serious point, though, is that in the European convention in 2002-03, some argued that the constitutional treaty we were then drafting should have similar entry-into-force provisions, as the noble Lord, Lord Maclellan, will remember. However, I cannot recall that any single member-state Government supported them—now 25 have. An important precedent has been set and we in this House, with our EU referendum Bill debates fresh in our memories, would do well to reflect on it. As the noble Lord, Lord Howell, said of a different outcome, this really could profoundly change the nature of the EU. I am not sure that those who share his views on European integration have been firing at quite the right targets. I do not believe that this would have happened—that this would have been the entry-into-force provision—if this had been an EU treaty. In other words, this provision is here as a consequence of the position we took. Careful reflection is needed on whether that is a good or a bad thing.

I have a further point about the legal issues. None is as significant as the constitutional point that I have been addressing, but the treaty is a bit of a mess in legal terms, and that too is largely of our making. It is good that the Commission and the ECJ are allowed to do their job, not least because they are the best defence for us against eurozone countries infringing the prerogatives of the Union of 27. However, the various divergences and overlaps of existing provisions would have been better avoided. So I agree with the Select Committee's comments at paragraph 112 and 129 of its report that in the interests of all member states, including the United Kingdom, the folding of the new provisions into the main EU treaty framework would be desirable. I agree, and when that desirable outcome is achieved, all the legal issues that will worry the lawyers for the next couple of years will automatically fall away.

For the life of me, having read all six draft versions of the treaty, I really do not understand at all why we could not sign up to it. It contains no provisions that could damage UK interests. The provisions apply only to eurozone countries and to any others among the 25 signatories that choose to apply them. For us, there is no transfer of sovereignty involved, and there would therefore be no question of a referendum requirement. The UK negotiators who were involved in the negotiations did very well. I can see improvements, text to text. I see no sign that they were ever obliged to seek any of the mysterious "safeguards" that were sprung on the European Council in the middle of the night on 9 December and have been kept under wraps ever since, including today. That seems wise. I cannot for the life of me see any objective reason why we should not sign the treaty, but I am being entirely analytical and will not therefore press the point.

My final point is political. Does our self-exclusion matter? I fear so. I have argued previously in this House that leaving an empty chair is always unwise. The noble Lord, Lord Radice, must be right to say that it is easier to defend your interests if you are there. When the treaty becomes operational, our officials who helped in the drafting have to leave the room. Most of their colleagues from non-eurozone member states will be able to stick around. Are we sure that the Poles, the Danes and the Swedes have got this wrong and we have got this right? Why are we sure that they have got it wrong? When this group meets at European Council—Heads of Government—level, 25 Governments will be represented. The others will be able to influence the thinking of the eurozone and what it decides to do. Why do we not want to do that? For all this talk of a veto, all we vetoed was our own attendance. I cannot explain that. I shall have to ask our Czech friends—Kafka was a Czech, after all, so they may know.

I conclude with a personal reflection. I think I know what went wrong on the night of 9 December. We suddenly found ourselves without allies. This should never happen. There are alliances to be had all the time on every issue, bar one, in Brussels. Alliances overlap, they wax, they wane, they need continual cultivation, friends need to have the perception that they are being consulted—perhaps they really are being consulted—surprises need to be avoided, advice needs to be sought and taken, and other people's priorities need to be understood. That is what usually happens. In this negotiation, Mrs Merkel was our natural ally, until we contrived to drive her into the arms of the French. When we got into a hole, the Dutch and the Swedes rode to our rescue and tried to help us out, until we spurned their help. There are natural alliances all the time—the free trade alliance; the northern liberal alliance; the blue water alliance with us, the French and the Spanish; and the budget disciplinarian alliance with the Germans, the Dutch and us in the lead. To find oneself isolated in Brussels is extraordinary. There is a huge alliance over there of those who believe that the EU needs to retain one great big global financial centre on a par with Tokyo and New York. These people will fight for the interests of London, because it is the only plausible candidate to play that part.

We do best in Brussels for the City when we advance the EU arguments for the City. That is what we do, usually, and I agree with the noble Lord, Lord Mandelson: the Chancellor of the Exchequer is clearly good at this. But it is not what we do back home. Fleet Street wants to hear about a Manichaeian struggle, a gallant, lonely, Churchillian defiance of overwhelming odds. Everyone else is a monolithic bloc opposed to us. We stand alone. We triumph, or we veto.

It is not really like that over there. It would help us now to rebuild the alliances that we need if we could refrain from pleasing Fleet Street by shouting from the sidelines. I repeat the points made by the noble Lords, Lord Newby and Lord Monks. The raucous shouting from the stand to those who are engaged in a big fight to save their currency does not readily make friends and influence people. He who refuses to pay the piper should be cautious about calling the tune. Now I will follow President Sarkozy's sensible advice to the Prime Minister.

3.30 pm

Baroness Wheatcroft: My Lords, the European Union could and should be a thriving single market. That was the proclaimed aim when the grand project was launched, whatever ulterior motives some may have had. It remains a sensible ambition, although yet to be achieved. It is slow progress. It was only on Tuesday that the European Parliament passed a new regulation on the single European payments area, which should, eventually, mean that payments can be made from accounts within the EU much more cheaply and efficiently. That will benefit people and businesses and is exactly what a single market should be about. But there is too much that the EU does which seems to militate against increased productivity, whether it be restricting clinical trials, as we have heard today, or in loading new regulations on to businesses, such as prospective new rules on data protection.

I am not suggesting undoing all the measures to which the noble Lord, Lord Monks, referred, but we must not restrict the competitiveness of our business. Brussels ventures into too many areas where its presence is unnecessary. I was startled to see that, for the fifth year running, it is staging a "gender drawing competition" for eight to 11 year-olds. Too much, too soon, I thought. It turns out to be not anatomical but sociological, seeking drawings that show gender equality in action. We do not need Brussels to be doing that sort of thing.

No matter how far Brussels tries to reach its tentacles, Europe is not a single political entity, and what we are currently witnessing, as the Greek *débâcle* unfolds, is evidence that that is unlikely ever to be the case. There are, of course, occasions when Europe can talk as one, where we have the same aims. Burma is an obvious example. Fighting Somali pirates is another. However, we will not always be one political entity. There are many reluctant to acknowledge that. I was struck by the fact that, last week, the noble Baroness, Lady Ashton, who otherwise glories in the title of EU High Representative for Foreign Affairs and Security Policy, was in Brazil, explaining how the EU had started as a single market but that it had soon become clear that its strength will be in what she termed the "political

coming together". It was this strength, she explained, that had enabled the EU to come to the aid of Tunisia with a package of €4 billion to be distributed over three years.

I applaud someone who chooses to look on the bright side, but a speech that can rejoice in the coming together of the EU and avoid any mention of a little local difficulty in Greece is perhaps taking optimism a little too far. The EU High Representative, however, has to try to think of the EU as a political entity, as she represents its foreign service. She has 136 diplomatic missions around the world, and she overspent a budget of £380 million last year. Quite what this has achieved so far is unclear but, when given money, Brussels has a habit of overspending it. It can always find a way. The fact is that the EU is not a political union and nor is the eurozone. That a single currency would falter if it were not accompanied by political and fiscal union was always likely, if not inevitable. We are now seeing that happen, exacerbated by the financial crisis that has erupted, but not caused by it.

It was clear two years ago that Greece could not continue with the level of debt that it had. Its problems were so bad that simply finding ways of lending it more money, no matter what strings were attached, would not be the answer. If a man is drowning in debt, you do not save him by throwing yet more debt at him. For two years the eurozone has struggled to find a way of dealing with Greece's problems. Despite the increasingly acrimonious rhetoric and posturing of the past few days, it may well be that more bail-out cash will be shovelled its way, but that will only further delay the inevitable. One has only to look at the scale of the pain now being suffered in Greece, and the anger of its people, to know that further austerity measures are going to be desperately difficult, if not impossible to impose, and that even if a Government made an attempt to do so, the end result would not be enough to enable Greece to cope with its debts. It has to default. It should never have been in the euro—its entry was a political fudge built on a concoction of lies.

The good news is that Greece is only a small country. In the first six weeks of this year, according to calculations from Goldman Sachs, China created half the GDP that Greece did in the whole of last year. However, its predicament is taking on more significance because of the eurozone's chronic delays in sorting it out. It is being allowed to increase doubts over the functioning of the entire euro area. That is why it is imperative that the posturing should stop and that action should be taken.

Greece, under the weight of austerity, is now shrinking, although those in need of a dose of Ashton optimism might look at a website entitled *Invest in Greece*, produced by the Greek Government. It is still predicting a rise in GDP this year and suggests that Germans are looking enthusiastically at investing in the Greek tourist industry. I am not sure that coach-loads of Germans arriving in Greece are going to get a great reception at the moment.

It is not only Greece that has problems, as we know. Only today it has been reported that Spain is back in recession for the first time in two years. And we should

[BARONESS WHEATCROFT]

not imagine that the banking crisis has finally been put to bed, for over the past couple of years what has become apparent is a dramatic rise in eurozone countries taking on their own country's debt. Holdings of sovereign debt since 2008 have moved dramatically. Spanish banks, for instance, are now holding 65 per cent more Spanish government debt than they were two years ago, and Italian banks have 50 per cent more of their own debt than two years ago. For Greece the figure is even higher, at 89 per cent, and significantly for Portugal the figure is 400 per cent. That may indicate that Greece is not the last country to have to exit the euro. Those holdings indicate that, as countries get deeper into trouble, the effects on their banking system will be dramatic.

My noble friend Lord Hamilton has highlighted the problems that the eurozone has had in getting to grips with what goes beyond the Greek borders. It is true. We have seen two years of vacillation. The noble Lord, Lord Mandelson, praised the role of the Chancellor of the Exchequer and the help that he has tried to give at this difficult stage for the euro. It is the role of supportive friend, not guarantor, and it is for the eurozone countries to decide whether they feel comfortable with shouldering the weight of the weaker European economies. Our role is that of a fully fledged member of the single market, anxious to play a pivotal role in making that market work at its optimum. That means looking for ways to limit bureaucracy and stimulate growth.

3.39 pm

Lord Clinton-Davis: My Lords, the single market is not the only feature of the European Union. I was very glad to hear my noble friend Lord Monks refer to the social dimension of the EU, a view which I put forward in the Commission some years ago. I am also very glad that the noble Lord, Lord Brittan, is here today and the noble Lord, Lord Tugendhat, who are members of the Commission.

The idea of Britain being isolated in the European Union is absolutely hopeless. In my view, we have a duty to align ourselves with those who think alike, not on everything, but on most things. That is why I think that our continued membership of the European Union is absolutely vital. The policy pursued by the present Government is quite wrong, in my view. We could say goodbye to our chances of being heard if it were applied. It would be a sure route to insignificance and wholly in line with the decision to quit the European People's Party. I have never agreed wholly with the EPP but I think that is a manifest mistake.

Of course, the Prime Minister is terrified of his own Eurosceptic Back-Benchers and at the same time most of the members of the eurozone. It is a somewhat uncomfortable posture and the very opposite of leadership.

We should always remember that our exports to the European Union constitute a significant proportion of the whole, even if we accept the view that they should be downgraded to 40 per cent from 50 per cent. Perhaps even more salient—this would be the view of the vast majority of the European Union—we should seek allies, as I have already said. Should you put both those objectives in jeopardy?

As the noble Lord, Lord Newby, has said, it is bizarre that our Prime Minister should invoke other members of the eurozone to,

“sort out the mess that is the euro”.

Do we have no responsibility? Is it all down to the Lib Dems? Do they really approve of the Cameron veto? In my view, Labour was right to assert that, in any event, this was a phantom veto because, as the Foreign Secretary has argued, no one really knows where Britain stands vis-à-vis the European Union, not even the Prime Minister. He walked out of the European Union negotiations last December. Was it less an act of defiance and more a frightened curtsy to his European sceptics? It makes it infinitely more difficult to be listened to, to be heeded and for our real interests to be protected. That is not, in my view, the right way to go. The success of the French in hanging on to their dubious agricultural policies has not been due to a walk-out, but quite the reverse.

I am not arguing that everything in the EU is rosy or is incapable of error—no Government can ever tame those objectives—but, in my view, we are better off in than in our present posture of being neither in nor out. Our voice should be heard; that is precisely why we joined the European enterprise in the first place.

The European Court of Justice must be the enforcer of financial rectitude in the eurozone. It should levy fines against eurozone members. In this regard at least, surely Angela Merkel is right to contend that this is immutable. I am not saying that I agree with all her views, but on that proposition she is absolutely correct.

As for Greece, the IMF has contended, via Poul Thomsen, a senior official with direct responsibility for Greece, that while reforms to modernise the economy should continue, the needs of Greek society must not be overlooked. That is not a view that I have always heard in this place or elsewhere.

It goes without saying that the EU is plagued by serious financial problems—but is severe austerity the only and right answer? Overdoing it, as the IMF acknowledged, can lead to deep recession. A compromise is essential. Some growth is indispensable. Public sector cuts must be accompanied by the ability of consumers and businesses to spend more sensibly.

What the Government are doing—alas, they are not the only ones—is aiming their axe at public expenditure, thus reducing economic activity, growth and tax revenue. Alternatively, right across the EU, public investment, cutting income tax for low earners, and attacking tax avoidance, along with deficit reduction, would promote employment and growth. It is never too late to change tack.

For Britain to withdraw from the EU would be a dangerous and perhaps fatal policy. The views of the public, for example on hanging, can be misleading. Something may be popular at one time, but the public are not always right. There is too much at stake on this issue. Those of us who believe in the fundamental purposes of the European Union must be more assertive in explaining that there is no realistic alternative if Britain's true interests are to be served.

3.48 pm

Lord Taverne: My Lords, I challenge the conventional wisdom that prevails in much of the media, and most of the Conservative Party, that the eurozone is a disaster; that it was always bound to be a disaster; and that we are wonderfully fortunate not to be part of it. Certainly, at its inception, the eurozone made very important mistakes. There was a lack of fiscal co-ordination. I always thought that Pisani-Ferry was right in advocating an economic directorate not dissimilar to what is now proposed.

There is also no doubt that a European monetary union faces considerable disadvantages. Having one interest rate to fit all is a disadvantage; it cannot be denied that it creates problems. There is a problem, too, as many have acknowledged, with peripheral countries competing without the ability to devalue. It has been said that this makes convergence impossible. However, there was convergence within the European monetary union involving many peripheral states until there was a complete breakdown in fiscal discipline and a failure to achieve structural reform.

I do not think it is possible to say that Poland could not possibly join a monetary union because it is on the periphery. I think Poland, with its fiscal discipline, is in a good position to join a monetary union. Nobody talks about Ireland. Ireland suffered severely from the recent crisis, but it is interesting that there is no call within any of the three major parties there to leave the monetary union. Their view is that, overall, they have benefited from the euro.

It is part of this official story that we have done brilliantly by staying out. I am not advocating at this particular moment that we should join the euro, but there is a general view that we are so much better off because we stayed out. The main question is: have we really done so well by staying out? That certainly was the implication of the Prime Minister's lecture to his partners at Davos, to which my noble friend Lord Newby referred. Have we had faster growth since the euro was first introduced? No, we have not. Have we had lower inflation than the eurozone during this period? No, we have not. Our inflation rate has been about double the eurozone average. In fact, inflation in Germany was lower than it was before the euro when it was still being governed by the Bundesbank. Have we achieved higher productivity? No, we have not. Have we achieved trade surpluses? No, we have not. When did we last have a current account surplus? Have we achieved lower budget deficits than most of the eurozone? Our budget deficit was about the same as that of Greece.

Of course the eurozone needs reform, but was it really appropriate for the Prime Minister to lecture his partners and suggest that they should follow our brilliant example? Also—I do not think he has much feel for Europe—was it wise for him at Mansion House to start by boasting that he was a Eurosceptic? That is not exactly the way to achieve the maximum co-operation from his partners.

A further boast is that the Anglo-Saxon model—this again was the implication of the Prime Minister's Davos lecture—is infinitely superior to the social capitalism model in Europe. Of course, the Anglo-Saxon model

has virtues and advantages, but today the disadvantages are rather more obvious. Our official declared principle is to maximise shareholder value, making assets sweat. What is the result? It is short-termism. In hard times, we reduce the labour force and seek to maintain dividends, even at the expense of investment. In Germany, in hard times, the tendency is to reduce dividends, minimise dismissals and maintain investment. Top pay as a ratio of the pay of the average employee is many times higher in the UK than it is Germany. Companies in Britain are for sale to the highest bidder, and employees' views do not count. In Germany, through *Mitbestimmung*, employees have more say. They feel more secure in their jobs, they are more committed to companies and they are more inclined to increase the efficiency of their company because through security they make suggestions for innovation. This is part of the reason that German companies are so efficient at exporting and are so competitive.

Then there is the other question to which many speakers have referred: our influence in the world. After the veto, some sections of the Conservative Party seemed to glory in our splendid isolation, but we have become less influential. In the past, the talk in Europe was about what would be the attitude of Germany, Britain and France; now it is only a question of what will be the views of Germany and France. As the eurozone will grow closer and more unified—that is certainly likely to be the trend—we will become more marginalised. We will have no voice, no influence and no votes in the summits of the eurozone.

Do we really want a stronger voice for Europe in the outside world? China is a very important case in point. China would like to see a more effective European Union. It wants more co-operation with the EU, but that depends very much on closer unity, both economic and in foreign affairs. A recent, very interesting paper for the Schuman Foundation by Karine Lisbonne-de Vergeron points out what the attitudes in China are. We are now in great danger that we will decline as a voice of influence inside the European Union, that our influence will decline in relation to Asia, and, if we move away from the European centre, that our influence will also decline in the United States.

The Government are now trying to move away from the heady days of the veto, when the Prime Minister was greeted with cheers from his Back-Benchers. I hope that the Government—as indeed the noble Lord, Lord Howell, indicated—are firm now in their apparent view that we must maximise our influence. This is no time for myopic little Englanders.

3.56 pm

Lord Dobbs: My Lords, it has been a true pleasure to listen to this debate. It has been insightful, it has filled me with fascination, and I have heard arguments—intellectual, hypothetical and institutional—that go way beyond my pay grade. I want to follow up on some of the remarks that the noble Baroness, Lady Wheatcroft, made in her very insightful speech about what the noble Lord, Lord Howell, called in his opening remarks the “noble country” of Greece.

Greece is much beloved by me. I have many friends there. One of them was telling me recently about what a dire state it is in. She said, “It is so dire that the

[LORD DOBBS]

Government have even increased the taxation on swimming pools". I said, "Surely that has helped", and she said, "Not very much because there are in the whole of Greece only 137 swimming pools known to the tax authorities". I said, "Surely there must be some industry that is growing in Greece", and she said, "Only one: camouflage netting".

I refer to this silly story to illustrate a very serious point. Greek accounting practices have always been colourful and creative, offering more optimism than insight. It is the way they do things; it is the way they have always done things. What we are witnessing in Greece today is not just a tragedy but a travesty. It was folly to invite Greece to join the eurozone. The Greeks should never have been let in—and that is not with hindsight; that was said at the time. But common sense at that time was buried to obliteration by the imperial dream. I think it was President Mitterand who said that it was inconceivable that we could have Europe without the birthplace of democracy, Greece, as a member.

So Greece was let in and now that birthplace of democracy has been reduced to what? We do not know for sure at the moment. We all harbour fears for that once great and proud nation, but we can be sure that it is reduced—humbled—by those it took to be its friends. When the crisis broke, these friends said it was impossible for Greece to leave the eurozone; it could not be done. A little later they said it was inconceivable that Greece could leave the eurozone; it could not be thought. Then they said it was wholly unlikely, but now we know that in every corner they are preparing for precisely that possibility.

The reduction of that great country of Greece has been a very degrading spectacle. The wise men who run these things came up with a stunning plan. Greece needed to be leaner, to run faster, so they decided to cut off a leg. When that did not work, they said they must continue with the same policy, and cut off another leg. It is Pythonesque in its stupidity, and so the tragedy goes on.

There is no prospect of Greece achieving what is demanded of it. It may have been the glorious birthplace of democracy but today even its democracy is in doubt. Its Prime Minister is unelected and its previous Prime Minister was cast aside for his temerity in suggesting that he should ask the people for their views. The forces of the extreme left and extreme right are gathering pace. Now every party in Greece is expected to sign a binding undertaking that, no matter what the result of any future election, it will do and will continue to do what it is being forced to do by others. The noble Lord, Lord Flight, talked about the situation being horribly like the folly of repatriation imposed upon Germany after the peace treaty of 1919. Once more, almost 100 years later, Europe is a continent of lions led by donkeys. Those leaders who object to what is going, like our own Prime Minister, are told that they have no right to object.

The noble Lord, Lord Lamont, talked about the recession in Greece, which has been going on for five years. Its GDP was down 6 per cent last year and 7 per cent in the past quarter. It is getting worse, not better.

Unemployment in Greece is 21 per cent and rising rapidly. Yet still the wise men who run these things want to hack and to cut deeper. Greece is a limbless body lying on the ground. It can no longer get to its feet, let alone run.

Will Greece default? It has already defaulted. We are simply arguing about the details. Will the eurozone break up? In my view, it will almost certainly—if not completely, partially at least. Greece will become adrift, like ballast from a plummeting balloon. We are witnessing a catastrophic failure of leadership in Europe. We sit here in our comfortable Chamber discussing plans and possibilities, and doing our best. But it would be better if we were on the streets of Athens, Patras and Thessaloniki, so that we could see what damage is being done by such plans when they go wrong.

In his opening remarks, my noble friend Lord Howell asked that we should look forward and how we should go forward. We have had many different suggestions. My noble friend Lord Dykes has been trying to offer me champagne over the past few days. I fear that instead of the champagne I am likely to get nothing but the ice bucket, because I listened to him and he talked of the temporary problems of the eurozone. There is nothing temporary about these problems. I much prefer—strangely for me and I hope that I will not embarrass him by saying so—the analysis given by the noble Lord, Lord Mandelson. He talked about the need for a fundamental review of the way in which the eurozone is conducted. I agree with many of his analyses, if not all his conclusions. Above all, we must remember to re-establish the democratic legitimacy which must lie at the heart of any Europe in the future.

In his opening remarks, my noble friend Lord Howell said that we are members of the EU "by choice". I think that I can see the noble Lord, Lord Pearson, almost fulminating at that idea. But let us cherish the words "by choice". We must continue to ensure that we remain in Europe by choice—the new and, we hope, fundamentally reformed Europe, which we have heard about and perhaps will be capable of building. We must not be part of a European enterprise simply because we are told, like the Greeks are being told, that there is no alternative and that we have no choice.

I fear for the future. I am not complacent. I fear that Greece will leave the eurozone with all the calamity that that will entail, but I fear even more that Greece will not leave the eurozone and that we will be stuck with a far greater calamity. But whatever that future will be, it must be driven not by egos or imperial arrogance but by popular consent. For that, at some point sooner rather than later, whether we succeed in refashioning Europe or not, we must seek the views of the British people in a referendum.

4.05 pm

Lord Willoughby de Broke: My Lords, it is a great pleasure to follow the noble Lord, Lord Dobbs. In his excellent speech, the right reverend Prelate the Bishop of Guildford talked about the earlier vision for Europe, and the noble Lord, Lord Grenfell, mentioned his own vision for the future of Europe. Well, visions are all very well, but as what the noble and learned Lord, Lord Davidson, would call a "blinkerered Europhobe", I prefer to look at the facts. The plain fact now is that

the southern states, what is referred to as the “Club Med”, have been badly failed by the political adventure of the EU and the euro. Nobody, not even the most ardent supporters of the euro—with due respect to the noble Lord, Lord Taverne—can really pretend that, so far, the euro has been a success. The Eurocentrists have had to fall back on the Merkel gambit to justify the pain it is causing to the poorer states. In one of her speeches, she said:

“Nobody should take for granted another 50 years of peace and prosperity in Europe ... If the euro fails, Europe fails”.

The argument appears to be that if you are against the euro or the EU, you are in favour of war. But as the noble Lord, Lord Flight, said in his speech, by any objective measure the euro itself is stoking the fires of national antagonism.

I can well remember the triumphant fanfares when the euro was introduced in 1999. Those of us who predicted that it could never work were dismissed as swivel-eyed, foam-flecked Europhobes hopelessly out of touch with the reality of the new Europe. I just want to remind the House what my noble friend Lord Pearson said as long as 15 years ago in a debate on the European Communities (Amendment) Act, talking about European monetary union:

“Personally, I do not believe that that is a bird which will ever fly, but if it is pushed off the top of the cliff by ignorant politicians I fear that it will do much damage when it crashes to the ground ... I believe that civil unrest will become a real probability”.—[*Official Report*, 31/1/97; col. 1332.]

That was 15 years ago, and who has been proved right? It is the foam-flecked ones who have been right and it is the “blinker Europhiles” who have been comprehensively and spectacularly proved wrong.

The political imperative behind the euro is so strong that the Eurocrats will go to any lengths, as the noble Lord, Lord Dobbs, said in his speech, to keep the political construct of the euro travelling along the road. But let us look at where this Europhile dogma has led us. Instead of the promised stability and prosperity, what do we have? We have riots in Greece, where the taramasalata has hit the fan badly; and we have demonstrations and riots in Italy, in Portugal and in Spain. Indeed, Spain has 50 per cent youth unemployment and 30 per cent total unemployment. That is the reality. Europe has turned into a weapon of mass economic destruction.

What is the remedy prescribed by the EU leeches? It is to take more blood in the form of more wage cuts, more unemployment, lower pensions. “Austerity macht frei” seems to be the remedy prescribed by the Germans, certainly to Greece and to the rest of the “Club Med” members of the eurozone when they are unable to meet the German requisites. They cannot, as one other speaker in the debate has said, turn themselves into Germans.

Lord Teverson: My Lords, can I just say that I find that remark offensive because it likens German economic policy, however wrong we may agree it is, to a camp that practised genocide? I think that that is utterly inappropriate.

Lord Willoughby de Broke: I am sorry that the noble Lord takes it like that. The fact is that the German Finance Minister, Herr Schaeuble, is recommending

more and more pain to be inflicted on Greece regardless of the fact that it is going to do the Greek population and Greece’s economy no good at all. That is what austerity is leading to. That is why I used that expression. He is saying that more austerity will bring you free—*austerity macht frei*. I repeat that.

As the noble Lord, Lord Hamilton, asked, will it really be worse for the Greeks or any of the other countries afflicted by the euro to leave it? I agree that it is not going to be easy, but will it be any worse than the pain inflicted by 10, 15 or 20 years of austerity, low employment, no jobs and lower pensions? That cannot be a viable alternative in a democratic country.

Worse, almost, than the financial pain which the euro ideology is inflicting on Europe is the failure and erosion of democracy. Ireland, Portugal, Greece and even Italy are now wholly owned subsidiaries of the European Commission. When the European Commission says jump, all they can ask is, “How high?”. I remind your Lordships of what happened to the Greek Prime Minister when he threatened to ask his countrymen whether they wanted to submit to the harsh criteria of the bailout fund. He was immediately given a sharp lesson in Euro democracy and told that, if he had the referendum, he would be out. In fact, he was out anyway, and there was, of course, no referendum. It is ironic that what scared the pants off the bureaucracy was the prospect of a democratic vote in Greece, the country that gave the world democracy.

I do not really understand why our Government are spending quite so much political capital and time supporting what is going on in Europe now. Our membership of the EU costs us £18 billion a year; EU regulations and red tape are costing our businesses fortunes every single year. We have lost control of our immigration policy; we have lost control of our energy policy; and the emissions directives have forced us into enormously expensive wind and energy policies which are putting many people in this country into fuel poverty. On the evidence so far, if the EU is the answer, we have been asking the wrong question.

However, I want to end on a more positive note. The noble Lord, Lord Howell, said in his opening speech that he supported the Commonwealth. We should stop being quite so Eurocentric and look, as he said, at our interests in the Commonwealth and beyond. After all, we have many ties with it, both legal and financial. The noble Lord, Lord Kerr, is not here, but I cannot resist reminding him of the words of Winston Churchill when he was challenged by De Gaulle. He said:

“If Britain must choose between Europe and the open sea, she must always choose the open sea”.

The political construct of the EU is yesterday’s idea. The future lies with the growth economies of the Commonwealth, the USA, South America, China and the Pacific rim, not with the moribund, zero-growth EU.

I remind the noble Lord, Lord Dykes, whom I am pleased to see in his place, that the UN has 193 members. 166 of those are nation states that do not belong to the EU, yet they manage to trade perfectly well with each other and with members of the European Union without being stifled by the panoply of directives and regulations that emanate from the Commission.

[LORD WILLOUGHBY DE BROKE]

To prosper in this world we do not need to belong to the EU club and its stifling rules. There is only one club in the world that we need to belong to—that is the world, and we are already a member.

4.14 pm

Lord Bates: My Lords, I wonder whether it is possible to be an economic sceptic but also a political enthusiast about Europe. I just want to unpick that a little from a slightly different perspective—that of having spent the past 10 months walking across Europe from Greece to the United Kingdom.

The noble Lord, Lord Dobbs, said that we must pitch ourselves to see what it would be like to stand on the streets of Athens. I was doing just that in April amid the tear gas and everything else that was going on. In fact, I arrived in Greece just as it had been downgraded. I arrived in Italy just as it was downgraded and I arrived in France just as it was downgraded. The Chancellor then begged me not to come back to the UK. I arrived back and there was a Moody's warning, but I promised him that I would return to France as soon as possible on that basis.

In the course of that walk, a couple of things began to crystallise in my mind. When I left this House in April, I would have described myself as moderately Eurosceptic in my approach to things. As I walked, two particular things struck me. The first was the point of Europe. This was brought home most forcefully to me a couple of weeks ago when I stood beneath the Menin Gate with the last post sounding in Ypres in Belgium. That incredibly moving event has been repeated every single evening since the First World War, apart from the time of German occupation. On that memorial are the names of 54,800 British and Commonwealth troops who died in that first Great War. They are part of nearly 1 million British and Commonwealth young lives that were lost in northern France and Belgium in the First World War.

As I walked the section from Arras to Lille and then Ypres towards Dunkirk, I walked alongside meticulous cemeteries maintained by the British and Commonwealth War Graves Commission. Their Portland stone headstones commemorate the incredible loss that was suffered in human life, not just on our side but throughout Europe. In many ways, the First World War gave birth to the Second World War, which gave birth to the Cold War. An incredible catastrophe was unleashed in Europe.

As a Conservative I resile from the petty bureaucracy and interference in the lives of business and ordinary citizens that constantly seems to come from the European Union. But I was left with a view that it might be better to be sitting arguing about what the label should read on the jar of Women's Institute jam than whose label should be on Alsace-Lorraine. It is far better that disputes, fallouts and arguments that we witnessed at the European Council meeting in November be played out in television studios, debating chambers and committee rooms than on the battlefields of Europe.

I know that that is an obvious point and that noble Lords know it well—very personally in many cases—but to me it was something of a dawning. The penny

dropped. This is why Europe is important. We could no more stand aside from Europe in its economic crisis than in its military and political crisis in 1914 or 1939. In a globalised world we are all connected to the economic mainland. To borrow a phrase from the Chancellor, we are all in this together.

I had lots of conversations in bars and restaurants—probably a few too many, otherwise I could have been back a little earlier. In those conversations I discovered a couple of things. First was the enormous affection for British people and British culture across Europe, not least in somewhere like Belgium where people know the sacrifice that was made by the armed services of this country in defence of their liberty. You see people on the high streets wearing and carrying the union jack on bags, watching Premier League football, and speaking the English language. There is a huge appetite for British education.

At the same time, there is the argument of Robbie Burns about seeing ourselves as other people see us. After spending some time outside the UK, I began to see a little of how other people saw us. In relation to Europe, they would see us perhaps as a touch arrogant sometimes in looking at the problems that they were facing, as if somehow we had it all right and were sitting pretty and driving ahead with no pain or dislocation—as if we did not have a banking crisis and billions and trillions of credit card debt in this country. It was as if we had got a perfect world and were going to tell everybody else how to get it right. That was just a perception that people had of us. There was another perception, which said that Britain gets a pretty good deal out of the European Union given that we are not part of economic and monetary union and the Schengen agreement. I had to go through passport control at the borders of Slovenia and Greece but not in other countries. We are not part of that agreement and have managed to get a few different opt-outs here and there along the way. The noble Lord referred to our contribution. In net terms, Germany pays about €9 billion, France and Italy pay around about €6 billion and we pay about €4 billion. I am not saying—

Lord Pearson of Rannoch: My Lords, would the noble Lord be interested in the Pink Book figures, which put our net cash contribution to the European budget at £10.3 billion last year, and rising?

Lord Bates: I would indeed be interested in that. I am going on other figures, which came from the European Union itself. I know that is inviting an immediate riposte, but I wanted to make that general point that there is a sense in which Britain does have an enormous influence within Europe and is respected. We need to view Europe as a community that we willingly chose and asked to be part of, and which is going through very tough economic times. There is a real desire for us all to pull together so that the reforms that are being suggested from an economic standpoint—which are absolutely necessary and which my right honourable friend the Prime Minister was putting forward—will strengthen Europe and therefore strengthen our greatest market. In strengthening the economy, it will also strengthen those political institutions that

have done so much to bring us peace for 70 years in this country. As a parent, looking at those headstones really brought it home that it is something to be thankful for, to not treat lightly and to take with care, so that we are humble in the way that we communicate our grievances.

4.24 pm

Lord Judd: My Lords, it has been very good to hear these inspiring words and we are glad that the noble Lord, Lord Bates, has had a successful return from his fascinating walk. In a sense, my remarks follow on quite naturally, because I am a bit disappointed about this debate so far in that I wish we had found time to send a stronger message of solidarity to the people of Greece. Whatever the misdemeanours and misguided policies of their leaders in the past, it is the innocent people of Greece who are going through the agony and the pain now. They need friends and solidarity, and I wish we could send that message.

I feel this particularly strongly because, as I have told the House before, I had the privilege of being the director of Oxfam. I do not think that many people know that Oxfam started in the library of the University Church in Oxford in the darkest years of the war in 1942. It was the famine in Greece that started Oxfam, as the Oxford Committee for Famine Relief. The prospect of these people going through agony again, in less than 100 years, is not a good sign. Look at the turmoil that followed in Greece after the experiences of the war. What are we going to encounter if Greece collapses economically? Strategically, it is intensely important on that wing of Europe, and there will be consequences for the world.

I come from the school that says the first reality of life is total global interdependence. I had my 15 year-old grandson to lunch here yesterday. I was looking at him and thinking about his future. We talked about it a bit in a good, cheerful way. I cannot think of a single major issue that is going to affect him and his contemporaries in his life that can be solved in a national context. They all demand international co-operation and international solutions. That is true of economics, the environment and climate change, and it is certainly true of security. Europe will be judged by the contribution that it makes to that global reality. Is it an effective instrument for meeting the global challenges that exist? Of course the rise of China and, even if we do not like to face it, the recovery of Russia are significant in this context.

Back in the 1970s, I was Minister of the State in the Foreign Office with responsibility for Europe. We had not long been in Europe at that stage, and I remember that there was still quite a real intellectual debate about which was the better road. Were we ultimately going to have a stronger Europe by increased harmonisation operating from Brussels, or were we going to have a stronger Europe on the basis of the co-operation of nation states? There was a debate about the European Assembly, as it then was: should it be a parliament or a representative assembly of parliamentarians from the member countries? Might that not bring a more real and significant political presence to the affairs of Europe? These were real debates.

I was quite certain that once we decided to go into Europe there was only one course to take, and to me it was blindingly clear: we had to be second to no one in our commitment to Europe. That was how we would bring influence and how we could play a real part in shaping Europe. Over and again, under successive Governments, we have not done that; we have been the reluctant partner. So often, the name of the game for Ministers—let us be honest about the nitty-gritty of what happens—is to come out of some deliberation and say how well you have done for Britain, how well you have held this reality at bay and how you have defended the British people, instead of coming out of the meeting and saying, “This is what we’ve been able to contribute to the long-term well-being of the British people by what we’ve been able to do together in Europe”. Are we surprised that we now find these tensions coming home to roost?

It is clear to me—I just do not know why we go on agonising over this—that for the eurozone to work it will need a unified fiscal and monetary approach. I happen to think that we were right not to become part of that. We were not ready to be part of it or to play the role that was necessary. It was not just that we were anxious about our own selfish needs. It did not make sense and it would not make sense now. But that is the logic and I suspect that the membership that comes out of this grim experience will be smaller than it is now.

What are we learning from this experience? It is being driven by the concept of single markets. We have heard a great deal about how we want to preserve a single market on our terms. My political experience, and I urge noble Lords to believe that I have never regarded myself as an ideologue, leads me to believe that we are discovering that single markets are just not enough. For stability and security we have to have social agendas and a social programme. Without social justice and fairness in society as a whole, how on earth are we going to hold this economic monster together? It therefore seems to me that we need to reassert the importance of the social agenda in the future of Europe.

If Portugal and Spain follow Greece into the kind of grave calamity that has come about there, I am quite certain that the argument about the kind of Europe that we want will begin to re-emerge. Do we want a confederal Europe or a unified Europe? We have to be open to the argument that the stronger, most realistic kind of Europe, meeting all the objectives about which the noble Lord, Lord Bates, spoke so warmly, would be one that had the full-hearted support of the nations. Nations are made up of people. If there is anyone in this House who is stupid enough to believe that there is not a real issue here about the democratic deficit in the functioning of Europe, they are blind to themselves and everybody else. The reality is that Europe has been seen as remote, run by technocrats, and not part of the real life and political experience of ordinary people. We have to address that problem.

The noble Lord, Lord Jay of Ewelme, was absolutely right to urge us to speak more often about the positive things that are coming out of Europe in spite of everything else. One thing has been pretty central to

[LORD JUDD]

my life; I have talked about my time with Oxfam. The European Union is the world's biggest multilateral donor—bigger than the World Bank—with an annual aid budget in 2010 of around €12 billion. This size and the presence of the 130 EU delegations, recently upgraded to represent the whole of the EU around the world, allow the European Union to implement development programmes on a scale which bilateral donors simply cannot match and, in places, cannot reach. For the UK, for example, aid channelled through the European Union is supporting countries across west Africa, some of the poorest in the world, which are currently experiencing a critical food crisis where DfID does not have significant bilateral programming. Specifically in the context of the current, emerging food crisis in west Africa, the EU has so far played an important role in drawing attention to the crisis and the need for an early response. It has been swift to provide funds—an extra €10 million was committed in November 2011—and it is playing an important diplomatic role in encouraging other donors to start unlocking funds.

The millennium development goal contracts launched by the European Union in eight countries in 2008 are an example of very well designed aid. They link delivery of aid to results in a way that helps developing countries reach the millennium development goals. They provide general budget support to developing-country governments over a six-year period, with at least 15 per cent of the finance linked to the country's performance in meeting a series of MDG-related targets, which are assessed midway through the agreement. The approach is arguably a win-win for donors and recipients. It allows developing-country governments a substantial degree of predictable up-front financing directly to their budgets, which is vital to enable scaling up in the provision of much needed basic services such as health and education. It also provides an incentive for good performance by withholding sums of money until results have been delivered.

As we debate, proposals are underway within the European Union for a financial transaction tax to be adopted in Europe in some form. While there were hopes that this would be an EU-wide tax, the fact that the UK will certainly veto this means that many countries are now pushing for a proposal that can be taken up by the majority of EU countries, without everyone within the EU. Nine countries recently wrote to the Commission calling for this process to be speeded up. Those countries were France, Germany, Italy, Austria, Belgium, Finland, Greece, Portugal and Spain. A recent report by distinguished academics has brought home that there is far more reason to be positive about the prospects of this financial transaction tax than has sometimes been assumed. One very authentic report recently calculated that the benefit to the European Union would be, initially, at least 0.25 per cent. I simply do not understand the Government's intransigence on this. It is a small tax which spread across could have huge results and benefits for Europe and the wider world. I hope we will hear something about the Government's deeper thinking on this when the Minister comes to reply.

4.36 pm

Lord Hannay of Chiswick: My Lords, it is a pleasure to follow the noble Lord, Lord Judd. We are both on the same committee and discuss many EU matters in great amity. However, I have to say that I do not follow him on the financial transaction tax.

I make no apologies for focusing the major part of my contribution to today's long overdue debate on the economic and financial travails of the eurozone, particularly those aspects of the crisis that directly concern this country. This long-running saga still has far to go and, however it ends, will have profound effects on all members of the European Union, not just on the members of the eurozone. That basic reality has been grasped from the outset by the Government. I pay tribute to the firm and repeated conclusion of the Prime Minister and the Chancellor of the Exchequer that it is in Britain's national interest that the eurozone should surmount this crisis; and to their rejection of the view, expressed on the wilder shores of their own Back Benches in another place, that we could regard the disintegration of the eurozone with equanimity, or even with glee.

A second reality, which the Government have been less willing to grasp, is that as a non-participant in the eurozone—in saying that I do not intend to stray into a discussion of the pros and cons of our joining the euro at the outset—our views on the handling of the crisis are neither particularly welcome nor at all influential. There is a lesson to be learnt from this about the consequences of being absent and our subsequent marginalisation in the decision-making processes of the European Union.

That lesson leads me directly to the events of last December's European Council and the serious error of judgment that was made on that occasion. It is first necessary to dissipate some of the myths that have accumulated around that meeting and which now, like layers of varnish on an old master's painting, obscure the picture beneath. I fear that several more layers of varnish went on in the introductory statement of the noble Lord, Lord Howell.

Myth No. 1 was propagated by the Prime Minister himself when, in his Statement to Parliament after the December Council, he said that he had refused his signature on changes to the treaty. No such signature was proposed in Brussels on 9 December; there was no text to sign. The past two months have been taken up by negotiating a text, which is to be signed next month by 25 of the 27 member states, with Britain a mere observer of the process. Why the Prime Minister rejected the tried and trusted precedent set by the noble Baroness, Lady Thatcher, in the context of both the Single European Act and the Maastricht treaty—the practice of participating in negotiations to ensure that British interests were safeguarded, while keeping in reserve the right to refuse to sign if they were not—remains a complete mystery to me.

Myth No. 2 is that there was a veto at all on 9 December. All that happened was that the other member states, whose determination to move ahead was not in doubt well before that meeting, felt compelled to use an entirely predictable procedural bypass to achieve their objective of strengthening the fiscal disciplines

attached to eurozone membership. Incidentally, the Government have said that they strongly support that objective and believe that it is entirely logical and reasonable.

Myth No. 3 is that the treaty to be signed in March is in some way objectionable to the United Kingdom, thus justifying our refusal to sign it. On three successive occasions I have asked three separate Ministers—the Leader of the House, the noble Lord, Lord Howell, and the noble Lord, Lord Sassoon—to state what provisions in the treaty are objectionable to the United Kingdom and on three occasions—alas, a little bit like St Peter—they have each refused to answer. I scored a fourth one last night with an official from the Foreign Office who the noble Lord, Lord Howell, very kindly brought along to brief Members of the House before today's debate, and who spent a very long time failing to answer that question for the fourth time. I think it is reasonable to draw the conclusion that the honest answer to the question is none. That is not a surprise really since the main safeguards we needed were to ensure that the treaty's objectives did not have any mandatory effect on non-eurozone members such as the UK unless and until they decided to join the eurozone; and, secondly, that single market issues will continue to be decided inside the normal EU treaty procedures. They are now there, enshrined on the face of the treaty.

Lord Howell of Guildford: I know we have been told not to interrupt each others' speeches, and I apologise for doing so, but I think that the noble Lord is confusing varnish with lacquer. Layers of lacquer improve an object rather than destroy it or obscure it. In my opening speech I set out four very detailed areas in which—as the Chancellor made clear to the Treasury Committee subsequently—the safeguards were not available, and were not going to be available had this been a European Union treaty. If we had signed it, or gone ahead with the agreement that night, it would have become a European Union treaty. That would have changed the nature of the European Union. We did not want that. We do not want to be part of a fiscal union. We do not particularly want to be part of a political union. Therefore, we stood outside, and the remaining signatories have to work out intergovernmentally how they will solve their problem. I see no difficulty with that and I cannot understand why the noble Lord, with his considerable experience and brilliant mind, if I may say so, cannot get hold of this basic, simple, central fact.

Lord Hannay of Chiswick: I am very grateful to the noble Lord for having, after two and a half months, actually managed to extract an answer to some questions that I have been asking. The answer is, alas, unconvincing, because it does not relate to the text of the treaty that is going to be signed in March; it relates to the wonderful Cheshire cat smile protocol which we are not allowed to see, which the Prime Minister put forward on 9 December, and which there seems to be a singular lack of enthusiasm for communicating to Parliament, despite Parliament's role in scrutinising matters which are liable to become EU law, which was obviously the intention of the Government. Naturally I respect what the noble Lord said about the reasons relating to the protocol, but they do not relate to the treaty. However, I move away from that.

Myth No. 4 is that, in some mysterious way, the events of 9 December have strengthened the British Government's hand in negotiating single market legislation regulating the financial services industry. The Government's refusal to share with Parliament the text of the proposals they put forward on 9 December in that respect means that we cannot judge their value. What we do know is that they were rejected by all other member states. The situation with regard to financial services regulation thus remains exactly as it was on the day before the December Council. That, too, seems to be the view taken by the City in the briefing that the City Remembrancer has sent, I think, to all Members of this House, and which I received yesterday.

Myth No. 5 is that the treaty somehow makes improper use of the EU's institutions, in particular the Commission and the Court of Justice. Fortunately, the Government have decided not to pursue that legal will o' the wisp for the moment. If we really have ended up somewhere where it is not in Britain's national interest to be, as I believe is the case—on the outside looking in, as decisions that could have a considerable impact on this country's economy are taken—what is to be done? The simplest answer would be to sign the treaty, but I have no illusion that the Government are currently prepared to run the gauntlet of their rebellious Eurosceptic Back-Benchers. Alternatively, the Government could, if and when this treaty enters into force following ratification by 12 of the eurozone countries, give serious and constructive consideration to triggering the provisions of Article 16 of the new treaty, which envisage it being brought within the EU treaty structure. That is the course that follows the logic of the conclusions of the report that your Lordships' EU Select Committee has made to the House, and I hope that the Minister who is to reply—and I am not asking for an immediate response—will recognise that and reflect carefully on it.

It may not be surprising that the eurozone crisis has dominated all other policy aspects at recent meetings of the European Council and seems set to continue to do so, but it obscures the fact that events in the world outside the EU continue to occur at a dizzying rate. The EU is now far too important an international player to be able to take time out from those events. Nor has it been doing so, and the Minister very reasonably brought us up to date on a number of the things that the EU has been doing. Recent decisions to tighten economic sanctions against Iran and Syria, and contemplating relaxing such sanctions following the welcome easing of repression in Burma, are all decisions of considerable significance and are welcome. They underline how much more effectively the EU can work in the foreign and security policy field when its members act together. The admission of Croatia in 2013 is a reminder, too, of the unfinished business of further enlargement, which holds the key to the stability of the Balkans and the eastern Mediterranean.

I conclude my remarks with a plea to the Government to put more effort and eloquence into promoting a positive agenda for the European Union. If Britain has plenty of positive ideas in addition to those that I have already mentioned, as I believe it does—such as completing the single market in services, energy and the digital industry, pushing ahead with negotiations for freer and fairer international trade, supporting the

[LORD HANNAY OF CHISWICK]

Arab spring and strengthening the EU's strategic partnerships with the main emerging powers, such as China, India, Indonesia, Brazil and Mexico—the Government should surely be speaking out about these ideas, loud and clear. They should do it not only outside this country but inside it, where so much that is negative about the EU dominates the public commentary. Above all, the three main parties that support our EU membership should be finding ways of articulating the fundamental political and economic case in terms that update for a modern audience but do not supersede the arguments that led us to join the EU 40 years ago—I pay tribute the noble Lord, Lord Bates, who reminded us that those early arguments on the foundation of the European Union have not lost their value—and which were endorsed in the 1975 referendum by a two-to-one majority.

4.49 pm

Lord Tugendhat: My Lords, it is many years since the noble Lord, Lord Hannay, and I were working not together but in the same place, in Brussels. I shall always look back with pride on my time as a European Commissioner because I believe that I played a small part in the most exciting and hopeful political initiative to have been undertaken in Europe in modern times. However, I have never been under any illusion as to the fragility of the project. However much political leaders might proclaim grand principles and grand ambitions, popular support in all member states has always been conditional. It has always ultimately depended on the extent to which public opinion in each member state has perceived the European Union to be contributing to the solution of that country's national problems—be they political, economic, social or, in many cases, historic. For as long as the EU is perceived to be contributing to the solution of major national problems, it enjoys widespread popular support. Once that ceases to be the case, support cools. Once it comes to be seen as part of the problem rather than part of the solution, public opinion is likely to turn sharply against it.

We have seen that happen even in such a formerly staunch supporter, one of the original six, as the Netherlands. Now I fear that, thanks to the travails of the eurozone and the policies primarily laid down in Berlin to resolve them, it is becoming increasingly true of wide swathes of public opinion across the European Union.

That brings me to the delicate point which underlies all recent events in the European Union. That is the profound shift in the balance of power between the member states of the eurozone in favour of Germany. That was not a position sought by Germany. Germany never set out to be a hegemonic power. That is the precise opposite of what economic and monetary union, which Germany supported, was supposed to achieve, but, thanks to the success of German economic policy and the self-discipline of its people, on the one hand, and the way that the euro has worked out on the other, Germany is now overwhelmingly the dominant power in the eurozone.

That is the antithesis of the theory on which the European Union is based. That theory was the principle of the equality of rights between member states. In

reality, of course, it was always recognised that some were larger and more influential than others, but, for long, the power of even the largest member states was tempered, partly by convention and restraint and partly by the fact that there were three big powers within the European Union, each with different attributes, and several others that were quite large. The fact that decisions were formally taken in Councils of various sorts, with input from the European Parliament and implemented by the European Commission, maintained that European character.

Now, within the eurozone, all can see that nothing can be achieved without German support nor against the will of Germany. What Germany wants, Germany gets, and others, whatever their doubts, can make only relatively minor modifications. That is a dangerous situation. Dominant powers are never popular and, for reasons of history, German actions and motives are more open to mistrust and misrepresentation than would be the case with any other country. Anti-German feeling is already rife in many European countries and rising all the time. That is a disturbing feature of the present crisis.

The danger is compounded by the fact that Germany insists on a one-size-fits-all diagnosis and treatment of the economic problems of other member states. The proposed new treaty, about which we have heard so much during the course of this debate, is an example of that. Regardless of the differing causes of the different national problems, Germany insists on the same austerity measures for all.

Of course, one understands why. First, German politicians, economists and public opinion believe that that medicine is in the best interests of the other member states and of the EU as a whole. Last week I heard the former Chancellor, Gerhard Schroeder, make a powerful speech in which he was explaining why everybody should set about resolving their problems in the way that Germany did. It is of course also the price demanded by German electors for helping others, yet it takes no account of the fact that Germany is the biggest single beneficiary of the eurozone both in terms of the huge surpluses that it has built up trading with other members states and through the great success that its exports have achieved elsewhere in the world, partly of course because of their outstanding quality and partly because they meet the needs of the market, but also because of the relatively low external value of the euro, thanks to the travails of the other member states.

Therefore, I fear very much that the longer Germany maintains its present stance, the worse the possible consequences might become. One is of several countries—not just Greece—being condemned to prolonged recessions. Another is that the protests will not stop in the streets. Extremist political forces will gather strength and there will be an explosion against the whole euro edifice and perhaps even against the European Union itself. I fear that all the European Union's great achievements, built up over many years, could be put at risk. I fear, too, that democracy may be put at risk in some member states.

I hope very much that Germany will see the dangers and modify its stance in two important respects before it is too late. One is to respond to the sage advice of

Prime Minister Monti of Italy, among others, and to indicate that it is willing to co-operate in the formulation of a eurozone growth strategy without ruling out any possible initiatives beforehand. The other is to indicate that it is willing to negotiate on a multilateral basis with other member states to find the best way forward, as distinct from laying down a menu of preconditions.

Since the 1950s, no country has done more to build the European Union than Germany. We should all pay tribute to it for that. It has contributed generously in financial terms; it has been a constant source of ideas and constructive proposals; and it has produced many very high-quality officials and politicians who have contributed greatly to the building up of policies in many areas. It would be tragic if Germany were now to become the instrument of the dismantlement of so much that has been achieved.

4.58 pm

Lord Giddens: My Lords, noble Lords will forgive me if this point has been made but it is very odd that of 39 speakers only two are noble Baronesses. I do not know whether there is something about the European project that is specifically male but, if there is, it perhaps explains part of its failure to appeal to large sectors of the electorate.

In my contribution I want to ask, and attempt to answer, a simple question: where will the jobs come from in the future in European Union countries? Like all simple questions, it is fiendishly difficult to answer. It is not quite up there with, "What is the nature of reality?"; nevertheless, at this point in time it is a crucial issue for the European Union. Once you examine it forensically rather than superficially, it proves to be an extremely difficult issue, but I should like to do my bit in trying to think it through. To do so, we have to retrace somewhat the origins of the current crisis. Everybody knows that this crisis stems from the famous flaws in the construction of the euro and from what happened in global financial markets. It is important to recognise that second point: many traders acted on the assumption that sovereign debt would always be repaid, and we know that this is much more iffy now than was thought at the time.

However, there is a second strand to the current crisis in European Union countries that has not been examined as much as the crisis in the euro itself, and that is the failure of the Lisbon agenda. Noble Lords will not need reminding that the Lisbon agenda was supposed to make the European economies the most competitive economies in the world by the year 2010, a claim which looks somewhat ironic in light of the happenings today. The Lisbon agenda was supposed to apply to all EU countries but it was actually a crucial part of the eurozone project because the Lisbon agenda was supposed to produce convergence between the very different economies which were part of the eurozone project.

From the beginning, convergence was seen as a key part of the eurozone project. Instead of producing convergence, we had divergence especially between the northern and the southern countries. Baldly put, those countries which reformed were mainly the northern countries; they became successful within the confines

of the euro. Those countries that did not reform, but simply borrowed, now experience the sort of epicentre of the crisis that we see.

It is obvious that austerity programmes will not bring about growth in and of themselves and that they will not reinstate high levels of employment. Therefore, how can competitiveness be restored in EU economies? I would like to offer a few points about that. First, some aspects of the Lisbon agenda remain relevant. One example is the insider-outsider labour markets, as economists call them, which are particularly pronounced in countries such as Italy, Spain and Greece. The persistence of such strongly protected labour markets is one of the main reasons why youth unemployment is so high in those countries; it is notably very high in all three. However, I do not think that any of the provisions found in EU forward planning at the moment are sufficiently innovative to answer the question which I posed. The Lisbon agenda is not powerful enough; it is not innovative enough; and it is not relevant enough to the contemporary world.

Secondly, the same is true of Europe 2020, which is supposedly the main kind of planning vehicle for job creation in the European Union. It is a kind of road map, but to my mind not an effective one, and nor, I am afraid, is completing the single market. That can make a contribution, but it is nowhere near enough to reinstate the level of job creation that we need in EU countries if we are to compete effectively in what is a very different world from even 10 years ago. I argue that we need a huge effort of imagination on a policy level and on an intellectual level, and we need to rethink some of the existing nostrums that we have about economic growth and job creation.

Thirdly, I argue that, although the European economies will remain service economies, we have to look at reviving manufacture. Looking at Euro 2020, and at existing European plans, we see how inadequate they are. Most of the plans for the revival of manufacturing in the European economies are based on the idea that Europe can develop high-tech economies which can keep European countries ahead of Asian competition. If you look at a concrete example, you can show that this model is quite flawed. An illustration of that would be German pre-eminence in solar technology. The Germans were leading the world in solar technology and in the production of solar panels until relatively recently, but then China entered the market, the price of solar panels fell dramatically and German industry was simply undercut by that process. Therefore, it is not clear that we will be able to preserve a cutting edge that will rejuvenate manufacturing.

For this reason, we in Europe should take seriously the debate that is going on in the US about reshoring. This is the opposite of offshoring; it is the drawing back of industries from countries to which they have been lost. This is one of many examples that I would look to for innovative thinking. As a practising social scientist, one principle I have always applied is that a current trend will always at some point turn into its opposite. There is a cogent argument for this in respect of offshoring, and American economists have done a lot of recent work on it. Why is it happening? Wage rates are rising in Chinese manufacturing centres;

[LORD GIDDENS]

real wages in the United States and in EU countries are falling; the price of oil looks set to stay high because of potential disruptions to the global supply chain; and there are problems sustaining patents in countries that do not have effective legal systems.

The Boston Consulting Group in the US has done an intensive study of American industries and recognises something like nine industrial clusters where there are already signs of manufacture returning to the US economy. The clusters are not the ones that one would predict. For example, they include furniture manufacture and other mundane branches of industry. I offer this not as a solution to the question of where jobs will come from but as an example of the need to use our imagination and think differently from the ways in which we have thought until now.

A rethinking of the processes of job creation and competitiveness in EU economies should be part of a root-and-branch rethinking of the European project. I admire the noble Lord, Lord Willoughby de Broke, as a tennis player and fellow member of the parliamentary tennis team. I do not completely agree with his view of the European Union. I am pro-European, and believe that by coming together, countries have more power in a fractured, globalised world than they could possibly have individually. However, pro-Europeans should recognise that the critics make very important points, and we should rethink the European project in relation to them. The European Union is too slow-moving and bureaucratic. It simultaneously lacks leadership, capacity and democratic participation. If we pro-Europeans cannot address these fundamental shortcomings, Europe may become what many people fear: a theme park for affluent Chinese tourists. This is surely a vision to avoid.

5.08 pm

Lord Teverson: My Lords, we have heard an excellent diversity of views around the Chamber. I will take up one point. On a number of occasions Greece was described as a victim. My noble friend Lord Dobbs, who is not in his place, used the term. It is worth remembering that Greece and its Governments—perhaps not its people, although the Governments were elected—are completely responsible for their fiscal condition. I absolutely agree that they should not have been allowed into the eurozone. Again, however, the Greek Government applied to join, and although the other eurozone states should take some responsibility for not refusing the application, it would be wrong to say that Greece is purely a victim. However, when it comes to dealing with Greece now, screwing it down further and further is not a solution. We need solidarity and we need to find a way forward, whether through a Marshall plan or otherwise, that does not breach the moral hazard of sovereign states and debts. I will come back to that theme later. Another thing I have found delightful in this debate is that so many of my Conservative coalition colleagues are Keynesians and are for growth as well as fiscal rectitude. I join them in that.

I want to follow up the point made by my noble friend Lord Risby, who made an excellent case for where the European Union has been successful. Indeed, I see it as the most successful multinational organisation,

apart from Coca-Cola, that there has been since the Second World War and perhaps since well before that. It is far more decisive and has far more power than the United Nations. It has performed rather better than OPEC and has been able to fulfil its objectives. The African Union is nowhere near, and although NATO has been a very successful and important organisation, it has not been as able to fulfil its mission as the European Union. The European Union has done it largely through soft power, but it has generally managed to make things happen. There is a long waiting list from Iceland to Turkey with a lot of western Balkan countries in between. It is the largest single market in the world. It has a reserve currency. At the moment, 26 per cent, I think, of all international reserves are in the euro, while 4 per cent are in the UK pound and around 60 per cent are in the dollar. It has produced stability—military, democratic and market—across central Europe.

That success in Europe has been, and will increasingly be, more important because Europe is becoming relatively less important. We are all aware of the growth of China and the Asian economies. China passed Germany as well as Japan, I believe, in the past year. United States Secretary of Defense Panetta recently announced defence cuts including a reduction of 100,000 armed forces personnel and half a trillion dollars over the next 10 years. In that context, there is no way that the United States is going to take its eye off the ball in the Asian theatre so, whatever is said, that can only mean that its focus on Europe and European defence is going to become far less in future. Europe has to look to its own security and defence far more, whether as part of NATO or through the European Union. I believe it has to be through both. If it is through either, then both benefit.

This region has also become less important because it has less authority since the 2008 financial crisis which was in many ways seen as the end of western financial hegemony over the rest of the globe. The western model of finance and capitalism, as opposed to state capitalism or whatever, was brought into question. This watershed in 2008 was a great irony because, as this House will know, at that time the Lisbon treaty was ratified and came into force. At the time when we expected Europe to raise its game in terms of democratic accountability and, particularly, in terms of world presence, it was totally tripped up in global public opinion by three of its smallest economies: Ireland, although it is recovering well, Portugal and Greece, which accounts for 2 per cent of total EU GDP. The European Union, which contains three of the old G7 members, was completely unable to sort out its own economic future and to solve a problem that, to the rest of the world, seemed quite minute: debt issues in one of its 27 member states.

What happened after that? Angela Merkel went to China and started negotiating—as Europe still is—about whether China could help us out with our financial difficulties. This was summed up very well by Martin Wolf in the *Financial Times* on 31 January when he described the European Union as “stuck on life support”. As for Herman Van Rompuy, the President of the European Council, I do not even know where he is or what he has done. For someone who believes that

Europe is critically important for the future, not just of our own region but of the world, this is a very difficult time indeed.

Where is the UK in this? As many other Members of this House have mentioned, we opted out—although perhaps saying that we have been opted out would be more accurate. Before that fateful night when we did not manage to do the deal with the other 26, I read a letter in the *Evening Standard* from a Back-Bencher from the other place, which said that the Prime Minister needed to call Angela Merkel's bluff and that we should make sure to leverage all the benefits out of this crisis. Of course, the bluff that was called was our own, not Europe's, and we are in the situation that we are.

Unfortunately, we continue to lecture but, I have to say, nothing like how we used to under the previous premiership, which was even worse. We continue to exercise all our discussions around red lines. Some of these are important, like the fact that the EU budget should not increase in real terms in the short term, but a lot of the others are far more minor, which makes the UK brand rather toxic and, I believe, demeans us.

We are at a turning point. It is quite clear to me that despite all the difficulties, the eurozone and the euro will survive. There will be increased membership of the eurozone, as a number are still queuing up to join, strange though that may be. As the noble Lord, Lord Tugendhat, said, we have a German leadership, but that is a bit like the Americans in Libya saying that they were driving from the back; we have Germany in the driving seat but without the leadership that a lot of the rest of Europe is asking for. Although there may be some resentment in the rest of Europe, I remember the Polish Foreign Minister actually demanding more leadership at this time from Germany, given its unique position.

Europe is a part of the world that must not be marginalised. We are far too important for that. Securing the future of the European Union is one way to prevent that. I do not believe that the fiscal pact is a sufficient as a way forward. We have to find a way for growth and we have to persuade the other 26 in the European Union to modify that policy so that we can move forward in growth and not have the lost decade that was the fate of Japan.

Baroness Stowell of Beeston: My Lords, I hesitate to rise in a debate that is not time-limited, but perhaps noble Lords will find it helpful if I advise the House that we are running slightly behind schedule, based on the guidance that my noble friend issued at the start of the debate, and that is bearing in mind that two noble Lords have scratched. Most noble Lords have been very diligent in keeping to the guidance, but I thought it would be useful for me to remind noble Lords that the guidance is for about nine minutes.

Baroness Falkner of Margravine: My Lords, perhaps I could respectfully say to the noble Baroness that the Order Paper says that the House is intended to rise at 7 pm. We only have four speakers remaining, plus the substantive wind-ups. They have sat here patiently through many hours of this very interesting debate, and I am sure the House would prefer to hear everyone in line with their own aspirations to be heard, rather than now to be time-limited or curtailed.

5.20 pm

Lord James of Blackheath: My Lords, I hope the minute that that has taken has not come off my time. I do not wish noble Lords to get too encouraged when I start with my conclusions but I will not sit down when I have made them. I will then give the evidence to support them and, I hope, present the reasons why I want support for an official inquiry into the mischief I shall unfold this afternoon. I have been engaged in pursuit of this issue for nearly two years and I am no further forward in getting to the truth.

There are three possible conclusions which may come from it. First, there may have been a massive piece of money-laundering committed by a major Government who should know better. Effectively, it undermined the integrity of a British bank, the Royal Bank of Scotland, in doing so. The second possibility is that a major American department has an agency which has gone rogue on it because it has been wound up and has created a structure out of which it is seeking to get at least €50 billion as a pay-off. The third possibility is that this is an extraordinarily elaborate fraud, which has not been carried out, but which has been prepared to provide a threat to one Government or more if they do not make a pay-off. These three possibilities need an urgent review.

In April and May 2009, the situation started with the alleged transfer of \$5 trillion to HSBC in the United Kingdom. Seven days later, another \$5 trillion came to HSBC and three weeks later another \$5 trillion. A total of \$15 trillion is alleged to have been passed into the hands of HSBC for onward transit to the Royal Bank of Scotland. We need to look to where this came from and the history of this money. I have been trying to sort out the sequence by which this money has been created and where it has come from for a long time.

It starts off apparently as the property of Yohannes Riyadi, who has some claims to be considered the richest man in the world. He would be if all the money that was owed to him was paid but I have seen some accounts of his showing that he owns \$36 trillion in a bank. It is a ridiculous sum of money. However, \$36 trillion would be consistent with the dynasty from which he comes and the fact that it had been effectively the emperors of Indo-China in times gone by. A lot of that money has been taken away from him, with his consent, by the American Treasury over the years for the specific purpose of helping to support the dollar.

Mr Riyadi has sent me a remarkable document dated February 2006 in which the American Government have called him to a meeting with the Federal Reserve Bank of New York, which is neither the Federal Reserve nor a bank. It is a bit like "Celebrity Big Brother". It has three names to describe it and none of them is true. This astonishing document purports to have been a meeting, which was witnessed by Mr Alan Greenspan, who signed for the Federal Reserve Bank of New York of which he was chairman, as well as chairman of the real Federal Reserve in Washington. It is signed by Mr Timothy Geithner as a witness on behalf of the International Monetary Fund. The IMF sent two witnesses, the other being Mr Yusuke Horiguchi. These gentlemen have signed as witnesses to the effect

[LORD JAMES OF BLACKHEATH]

that this deal is a proper deal. There are a lot of other signatures on the document. I do not have a photocopy; I have an original version of the contract.

Under the contract, the American Treasury has apparently got the Federal Reserve Bank of New York to offer to buy out the bonds issued to Mr Riyadi to replace the cash which has been taken from him over the previous 10 years. It is giving him \$500 million as a cash payment to buy out worthless bonds. That is all in the agreement and it is very remarkable. Establishing whether I have a correct piece of paper is just two phone calls away—one to Mr Geithner and one to Mr Greenspan, both of whom still prosper and live. They could easily confirm whether they signed it. Mr Riyadi, by passing these bonds over, has also put at the disposal of the US Treasury the entire asset backing which he was alleged to have for the \$15 trillion. I have a letter from the Bank of Indonesia which says that the whole thing was a pack of lies. He did not have the 750,000 tonnes of gold which was supposed to be backing it; he had only 700 tonnes. This is a piece of complete fabrication.

Finally, I have a letter from Mr Riyadi himself, who tells me that he was put up to do this, that none of it is true, and that he has been robbed of all his money. I am quite prepared to recognise that one of the possibilities is that Mr Riyadi is himself putting this together as a forgery in order to try to win some recovery. But it gets more complicated than that because each of the \$5 trillion payments that came in has been acknowledged and receipted by senior executives at HSBC and again receipted by senior executives at the Royal Bank of Scotland. I have a set of receipts for all of this money. Why would any bank want to file \$5 trillion-worth—\$15 trillion in total—of receipts if the money did not exist? The money was first said to have come from the Riyadi account to the Federal Reserve Bank of New York and from there it was passed to JP MorganChase in New York for onward transit to London. The means of sending it was a SWIFT note which, if it was genuine, ought to have been registered with the Bank of England.

When this came about, I took it to my noble friend Lord Strathclyde and asked what we should do with it. He said, “Give it to Lord Sassoon. He is the Treasury”. So I did, and my noble friend Lord Sassoon looked at it and said immediately, “This is rubbish. It is far too much money. It would stick out like a sore thumb and you cannot see it in the Royal Bank of Scotland accounts”. He went on to say, “The gold backing it is ridiculous. Only 1,507 tonnes of gold has been mined in the history of the world, so you cannot have 750,000 tonnes”. That is true. The third thing he said was, “It is a scam”, and I agree with him. The problem is that at that point we stopped looking, but we should have asked what the scam was instead of just nodding it off.

We have never resolved it. Today, I have this quite frightening piece of paper, which is my justification for bringing it into this meeting. It is available on the internet and I am astonished that it has not already been unearthed by the Treasury because every alarm bell in the land should be ringing if it has. It is from the general audit office of the Federal Reserve in Washington—the real Federal Reserve—and its audit

review to the end of July 2010 on the Federal Reserve Bank of New York. It has on it some 20 banks listed to which \$16.115 trillion is outstanding in loans. That is the sore thumb that was being looked for by my noble friend Lord Sassoon. But more particularly there are two other interesting things. The first is that Barclays Bank has \$868 billion of loan, and the Royal Bank of Scotland has \$541 billion, in which case one has to ask a question, because they could have earned back in three weeks their entire indebtedness and could pay off the taxpayers of Britain. Why have they not done so and could we please ask them to put a cheque in the post tonight for the whole \$46 billion?

The next thing that is wrong with it is that every bank on this list, without exception, is an MTN-registered bank, which means that they are registered to use medium-term notes to move funds between themselves with an agreed profit-share formula, in which case these banks are investing this money and, most extraordinarily, not a penny of interest does the Federal Bank of New York want paid on that vast amount, \$16 trillion. Anyone who knows what the IMF rules are will immediately smell a rat. The IMF has very strict rules for validating dodgy money. There are two ways of doing it. You either pass it through a major central bank like the Bank of England, which apparently refused to touch this, or you put it through an MTN-trading bank, which is then able to use the funds on the overnight European MTN trading market where they can earn between 1 per cent and 2.5 per cent profit per night. The compound interest on that sum is huge. If it is genuine, a vast profit is being made on this money somewhere.

I believe that this is now such an important issue that I have put everything that I have got on the subject on to a 104-megabyte memory thumb. I want the Government to take it all, put it to some suitable investigative bureau and find out the truth of what is going on here, because something is very seriously wrong. Either we have a huge amount of tax uncollected on profits made or we have a vast amount of money festering away in the European banking system which is not real money, in which case we need to take it back. I ask for an investigation and for noble Lords to support my plea.

5.30 pm

Lord Lea of Crondall: My Lords, I am quite happy to believe everything that the noble Lord, Lord James of Blackheath, has said. I will be very disappointed if the noble Lord, Lord Pearson of Rannoch, is unable to explain how this is all a conspiracy by Brussels. Will the Minister confirm that if you want to buy up the whole world you need a quadrillion? That is the latest figure.

This debate began with a presumption that what happened on 9 December was something of a mystery. It remains a mystery. In answer to the question posed by the noble Lord, Lord Kerr, as to why we walked away on that fateful night, I can only assume, because no other explanation has been offered, that in the middle of the night David Cameron's phone was being hacked into by Rupert Murdoch. The events of that night provided quite useful bulldog headlines for the

following day's newspapers, including the *Daily Telegraph* and the *Daily Mail*. The bulldog in question, cited by the chairman of the 1922 Committee, was, of course, Winston Churchill. It is worth quoting against that background of bulldogs from volume 3 of Churchill's *A History of the English-Speaking Peoples*, which he wrote in the late 1930s although it was published only in 1956. He said:

"But the Tories were now in one of their moods of violent reaction from continental intervention".

That is where we are at the moment.

The noble Lord, Lord Lamont, had sat down when I intervened on him—we all know about the problems with whether you have sat down or not in this place—but I would have asked him a key question. He said that the people of Greece were suffering an enormous cut in their living standard and asked whether they would not be better off outside the euro—I think that that is a reasonable précis of what he said. My question was going to be: what devaluation would not make them even worse off? If the devaluation was by 30 or 40 per cent, would they not be even worse off? Now is not the time for the noble Lord to wish to answer—he looks as if he might spring up, but I think not—but what the living standard of the Greeks will be if they leave the euro is the question. Why they got there in the first place and why we were so tolerant in those days was down to some falsification—although it was not on the scale that the noble Lord, Lord James of Blackheath, referred to—of the accounts in Athens. One reason for the Germans perhaps being over-intrusive now is that we were led by the nose by the Greeks those years ago.

I was intrigued by a remark made by the noble Lord, Lord Risby, who said that the single interest rate was never going to work. That is so often said. I disagree and I will say why. If you join at 50 per cent of the average GNI and you remain at 50 per cent of the average GNI, your real wages are 50 per cent of the average GNI. In what sense is it *prima facie* obvious that you cannot live with that position? Naturally, we hope that countries will improve their relative positions and not deteriorate in terms of their competitiveness and productivity. But I do not think that that has anything to do with the interest rate.

As regards falling behind generally, a lot of inaccurate things have been said. I will not personalise this, but there has been so much loose talk about the EU falling behind somebody here or somebody there. We must be consistent in our language. Are we talking about per capita or gross product? In Europe, we are three times bigger than China. If people mean by falling behind that when your children are aged 10 you have fallen behind when they reach 15, well of course you have in relative terms if you are the parents. But it is a ridiculous way of describing falling behind. We have been growing at a lower rate than China and India: that is true. But that is what we spent donkeys' years trying to do in the international development movement in Africa and Latin America—to make them grow faster. It is a ridiculous objection to make to what has been happening.

As regards divergence within the EU, here are all the statistics for 10 years and 20 years, where the median equals 100. It is not as simple as saying that there is the north and the south. There is obviously the

east and the west apart from anything else. I will read out some numbers. We begin with 1995 and we cut off at 2010. The median in every year is 100. In 1995, Denmark was 131: the 2010 figure is 127. Germany was 129: the latest figure is 118. Estonia was 36: the latest figure is 64. Ireland was 103: the latest figure is 128. Greece was 84: the latest figure is 90. Those are 2010 figures, which we all know are the latest figures. Spain was 91: the latest figure is 100. France was 116: the latest figure is 108. Italy was 121: the latest figure is 101. I will not go through them all.

Noble Lords: Oh!

Lord Lea of Crondall: Okay I will. The UK was 113: the latest figure is 112. This will read much more easily in *Hansard*. Switzerland was 152: the latest figure is 147. Those are all relative to the EU median which equals 100. The United States was 159 in 1995 and 148 in 2010. Those are the GNI figures. I may be in an eccentric minority in thinking that numbers are the only way to debate these matters, but there we are.

I go along with those people who do not like the fiscal pact. We cannot, if we are Keynesians, ignore international trade imbalances, which is where the analysis of the 1930s was begun by Keynes at Bretton Woods. These trade imbalances put the eurozone on the road to macroeconomic difficulty. External imbalances led to high indebtedness, excessive borrowings and sudden stops in lending. Co-ordinated adjustment, which spreads the burden of adjustment on deficit in surplus countries, is the only way out. That would mean demand expansion in surplus countries to match demand contraction in deficit ones, thus sustaining aggregate demand and growth for the eurozone as a whole. In saying that, I think I am agreeing with the noble Lord, Lord Tugendhat, but he may not agree.

In my last one and a half minutes I must say that I very much agree with what the very noble Lord, Lord Grenfell, said about young people. We see so much of the opposite claptrap in our newspapers, but it is worth saying that many young people want more Europe rather than less. They are fed up with paying 10 per cent, 8 per cent or 6 per cent depending on how you measure it when you change your money at Heathrow Airport and all the rest of it. Having a single market and single money is pretty obvious. At a popular level—people say that you cannot get anywhere near the demotic in this debate but of course you can—I think that will be a growing trend of public opinion.

One very specific point I wanted to challenge—if I have got his ear—was that made by the noble Lord, Lord Kakkar, when he complained about the effect of the working time directive on the hours of doctors, surgeons and consultants. He mentioned two fatalities. I was very disappointed that he chose those statistics so selectively. I have already given this quote to the Minister, but the noble Lord, Lord Darzi, a very distinguished surgeon, said in this House that in the United States, which has no restrictions on working hours:

"The evidence is quite clear ... In 1999, between 44,000 and 98,000 people died in hospitals from adverse effects. The single and most important contributor is sleep deprivation and fatigue".

[LORD LEA OF CRONDALL]

This is what we are talking about, among surgeons—human error by doctors. He went on to say:

“The reduction to 48 hours a week is to enhance patient safety”.—[*Official Report*, 29/6/09; col. 2.]

That is why we have a much better and safer set of hospital arrangements in this country. Perhaps at some point the noble Lord, Lord Kakkar, will look at that and not be so selective.

Finally, I mentioned to the Minister yesterday that I wanted to mention the EU’s role in Madagascar. I am the chairman of the All-Party Parliamentary Group on Madagascar, where there has been a very bad cyclone in the past two days. The EU co-ordinator has done a good job in Antananarivo and I would be very happy if the Minister could tell us what the EU mission there has been able to do to help.

5.42 pm

Lord Pearson of Rannoch: My Lords, I hesitated to put my name down to speak today because I have already said most of what I have to say about the European Union—some of it several times, thanks to your Lordships’ enormous patience over the last few years. Most recently, I addressed the crippling economic costs of our EU membership on 25 November last year, at the Second Reading of my Bill to secure an impartial cost-benefit analysis. I dealt then with the Europhile propaganda, which confuses our membership of the EU with our access to the single market by claiming that we need to be in the EU to trade in the single market and by claiming that by being in the EU we influence its policies and benefit from its negotiating strength in the World Trade Organisation. As I tried to explain then, none of this stands up to rational examination and I regret that we have heard so much of it again today from noble and Europhile Lords.

Lord Lea of Crondall: Noble and Europhile.

Lord Pearson of Rannoch: Yes, I would not remove their nobility. That Bill passed through your Lordships’ House unamended and was killed off in the House of Commons by the Government, presumably because they do not want the British people to understand that we can no longer afford our membership. Nowadays of course, all eyes are focused on the euro and the suffering it—and it alone—is causing to the people of Greece and, soon, elsewhere. Much has been said about that today, so I will say no more, except that I am with those who favour Greece’s orderly return to the drachma, after which it could be supported by the IMF and return to growth with its own interest and exchange rates.

However, I will have another try at getting your Lordships and the Government to see that it is not just the euro that is designed for disaster. It is the whole project of European integration. I repeat, yet again, the big idea that launched it all: that the nation states of Europe had caused two world wars and much bloodshed over the centuries, so they and their unreliable democracies had to be emasculated and diluted into a new form of supranational government run by technocrats. That was the big idea that underpins the whole project.

This well meaning but misguided experiment was supposed to bring peace and prosperity to Europe. Indeed, the Eurocrats still airbrush NATO out of history, and even have the nerve to justify their expensive and unaccountable existence by claiming that the EU has brought peace to Europe since 1945 and still does so today.

Surely, though, we can all now see that that big idea has gone wrong. The EU has instead brought austerity, slump and civil unrest, and will go on doing so. Apart from the tragedy of the euro, the debate in this country focuses on whether we should stay in the European Union, or on whether there should be a referendum to decide that question. However, I want to take the debate one stage further to its logical conclusion, as I have tried to do in Oral Questions without getting a satisfactory Answer: now that the idea that spawned it has failed, what is the point of the European Union at all? We clearly do not need it for our trade or jobs, it has been irrelevant for peace and it is now causing violent unrest. Can the Government tell us why the planet needs it?

For instance, do the Government think that the EU’s vast new foreign service is a help or a hindrance? Did we not have an adequate Foreign Office before? Why do we need the EU’s common agricultural and fisheries policies, with the immense suffering that the CAP has inflicted on the developing world? Why does Brussels need to have overall supervision of our vital financial services? Could we not do all these things, and much more, better by ourselves?

Why do we need the 70,000 expensive and unaccountable bureaucrats in Brussels with little to do but misspend our billions and strangle the European economies with their endless overregulation? Why should they blight the democracies of Europe with their interference in our immigration, rubbish collection, post offices, light bulbs, herbal medicines, car premiums, pension funds and working times? I think noble Lords know that I could go on with that list for a very long time; it now includes every aspect of our lives. Are the democracies of Europe not perfectly capable of deciding these things for themselves in friendly collaboration and free trade?

I ask the Government again: would Europe not be a happier and more prosperous place if the EU simply were not there—if we got rid of it altogether? What is the EU now for? I look forward to the Minister’s reply.

5.48 pm

Lord Cormack: My Lords, at the end of such a long debate, the last speaker can only take some consolation, especially as a right reverend Prelate is here, from the parable of the labourers in the vineyard. We have had a number of extremely distinguished speeches and many indistinguishable ones. I will not usurp the Minister’s role by seeking to answer the noble Lord, Lord Pearson of Rannoch, save to say that by his very presence in this House he goes a long way to justifying its existence.

I have listened to almost all the speeches during this debate—I apologise to the noble Lord, Lord Grenfell, and the noble Earl, Lord Sandwich, that I dashed out to take some sustenance and missed their contributions—

and there seem to have been three questions hanging in the air: who are we, what do we want and where are we going?

When I try to answer the question, “Who am I?”, I say that my identity is English because I have spent virtually all my life in England, although my family comes from Scotland. I say emphatically that my nationality is British, and I do not want anything ever to take that away. However, I say with equal emphasis that the culture and civilisation of which I am a tiny part is European, and Christian European at that. I was very glad that that point came out in the admirable speech of the right reverend Prelate the Bishop of Guildford.

Over the past 40 or more years since I first entered the other place I have been a passionate believer in a Europe of nation states. I voted in 1971 for us to enter what was then the European Common Market. I campaigned alongside Labour colleagues—the late Sir Geoffrey de Freitas and David Marquand—in my constituency during the referendum campaign of 1975 when, as we were reminded earlier in this debate, the country voted emphatically for our remaining in Europe.

Of course, whether we like it or not, we are an integral part of Europe. I have been worried, over recent years in particular, that some in my party have behaved and spoken as if those across the Channel are aliens called “Europeans”, and have seemed to believe that the other nations of the European Union were foes rather than friends. I deplore that. The Prime Minister was entirely justified in the decision that he took in December last year which many have criticised today, although I think that the noble Lord who said that he probably took this decision because he felt isolated was very close to the mark. I will say a bit more about that in a second or two.

However, although I believe that the Prime Minister was justified and that, in the building of the European Union, some hasty and wrong decisions have been made, that does not invalidate the whole system. The noble Lord, Lord Judd, in a very interesting speech, talked about people in this country feeling that it is all very remote. I spoke and voted against direct elections to the European Parliament in 1979. I thought that it was too soon, and that we ought to continue with the delegated assembly for a few more years so that there was a closer connection between the parliaments of the nation states and the assembly—I deliberately call it that—in Brussels and Strasbourg. It was a terrible mistake to go forward with the single currency, as was the way in which it was done.

I remind your Lordships of a distinguished former Member of this House, whom I was privileged to call a close friend: the late Lord Dahrendorf. There was no finer European anywhere within the continent of Europe. He was strongly opposed to our joining the single currency. He was very sceptical about the whole concept, believing that you could not really have it unless you had a degree of political union, which he himself did not warm to. He felt that it would be, in any event, far too premature to do anything along those lines. If people had listened a little more to Lord Dahrendorf, the European Union might be a better and saner institution than it is.

We must now look at what is, specifically, our role. Where are we going? In his very interesting speech, the noble Lord, Lord Kerr, talked about the isolation that he felt that the Prime Minister had been under. He talked, although not specifically in these terms, of the importance of bilateral relationships. It is essential, as we have stepped aside from that treaty, that we do all that we can to build strong bilateral relationships within the European Union.

Many countries within the European Union look to this country not only with great affection—my noble friend Lord Bates talked movingly about that—but for leadership. I remember taking a group from the all-party heritage group to Greece way back in 1993. It was not, I hasten to say to your Lordships, a freebie; we all paid our own way. We had a wonderful tour of Greece and were marvellously received. It was clear that there was a palpable affection wherever we went. Therefore, I echo what the noble Lord, Lord Judd, said about our being sympathetic to Greece in its hour of need.

I agree with those who think that there is probably only one solution for Greece: to exit the eurozone. Nevertheless, if that is the painful solution—it will be painful for us all—the Greeks merit and deserve the friendship of the nation of Byron more than they have ever merited and deserved it since the days of Byron. I very much hope that we will all, individually as well as collectively, show Greece that we have sympathy with the perhaps slightly ill tempered remarks of the President yesterday. He was, in effect, asserting Greece’s right to be a nation state and not to be dictated to.

It is crucial that in the difficult days ahead—there will be many of them—we spend great time on and devote infinite patience to developing our bilateral relations with the other nations of the European Union. Bearing in mind the extremely thoughtful, sobering speech of my noble friend Lord Tugendhat, we should have particular regard for the position of Germany. I do not believe that Germany has demonstrated the leadership—albeit reluctant leadership, as he said—that it perhaps could have done over the past couple of years. However, we have to remember that the Germany that we now talk of is a new nation, following reunification. Many were against reunification but it has worked. There has been great courage. Remember, the Chancellor herself comes from eastern Germany. One must have regard to all those facts and factors in seeking to understand why Germany is as it is at the moment.

Therefore, behind the scenes and behind the photographs of the embraces of leaders, we have to do all we can to build trust between the nations of Europe. In a world that will be increasingly dominated by power blocs, and where it is by no means certain that the United States will not become more isolationist, we in Europe—here is a part-answer to the noble Lord, Lord Pearson of Rannoch—must work closely with our neighbours and friends, not only for our peace and prosperity but for the mutual peace and prosperity of the wider world.

5.59 pm

Lord Liddle: My Lords, this has been a mammoth debate and a serious one, without any partisanship. In that spirit, I congratulate the noble Lord, Lord Howell, on his efforts to give a positive view of the Government's European policy. I also thank my noble and learned friend Lord Davidson of Glen Clova for his analysis of that policy's weaknesses. We have heard many excellent contributions and it is a privilege to listen to noble Lords with their vast experience as former commissioners, former diplomats and even as former Chancellors of the Exchequer, with their different perspectives from my own.

In particular, I pay tribute to the noble Lords who spoke up in favour of European unity. The noble Lord, Lord Bates, made an excellent argument for Europe. The noble Earl, Lord Sandwich, on the Cross Benches talked about his belief in a Europe of the peoples. From my own Benches, the noble Lord, Lord Grenfell, spoke about a federal Europe and the noble Lord, Lord Radice, said that it was not time to give up on the euro. The noble Lord, Lord Judd, talked about a social Europe, as did the noble Lords, Lord Monks and Lord Lea. These were inspiring contributions. Obviously, I cannot commit the Labour Party to every detail of what they said; none the less this is the case for Europe that needs to be made.

There have been two big themes in this debate: first, the trials of the eurozone; and, secondly, Britain's position in Europe. On the trials of the eurozone, I think we have heard rather too much of a flavour from the Benches opposite of how the euro is doomed, and too much of the view that it is impossible to restore competitiveness without the recreation of depreciating national currencies. An internal devaluation is, of course, painful but it can be done. You only have to look at what Germany has achieved from the mid-1990s until the middle of the previous decade to know that adjustments in competitiveness can be made within a fixed currency arrangement. Therefore, that can be done, but obviously I would like to see a stronger plan for growth. Like the IMF, I would like to see countries that have room for manoeuvre to expand their economies taking advantage of it. We would like to see—as the noble Lord, Lord Newby, proposed—a greater emphasis on the single market and trade to create more job opportunities. However, we also agree with the noble Lord, Lord Giddens, that that has to be done in the context of a much wider reform strategy to which we all need to give much deeper thought.

The noble Lord, Lord Tugendhat, made an excellent speech in which he expressed fears about German policy. I did not entirely agree with that aspect. I read an excellent speech that Helmut Schmidt made to the SPD congress in December in which, at the age of 93, he spoke to 2,000 people. It was a most inspiring speech about Germany's role in Europe which I recommend to all Members of the House. Like the noble Lord, Lord Monks, my own view is that we should never underestimate the political commitment to make the euro succeed. I suspect that the new Franco-German arrangements that come out of the French elections in May will result in a better balanced policy.

However, on the more significant point of Britain's position in Europe, we on this side understand the inability of the noble Lords, Lord Kerr and Lord Hannay, to understand what the Government did in December, and why they did it. The noble Lord, Lord Howell, tried to explain that to us but I thought there was a fundamental contradiction in what he said between our objection to a fiscal union, which is a matter of principle, and the question of whether we would have signed up if certain safeguards had been met. However, I think that looking ahead is far more important. If we look ahead, there is a choice to be made for Britain between the view expressed by the noble Lord, Lord Lamont, that 20 years ago we made the choice not to be in the euro and we have to live with it, and the view expressed by my noble friend Lord Mandelson that in fact to make the euro work—which is going to happen—there is going to be a euro mark 2, which will have deep implications for the United Kingdom and its policies, and that we have to think through what those implications are. The noble Lord, Lord Brittan, made an excellent point in saying that he was not sure how deep integration had to go in fiscal terms to make the euro work. We need to think much more about these issues in our future discussions and debates.

I also agree with the noble Lord, Lord Cormack, that what the coalition seems to lack is a bigger-picture view of Britain's place in Europe and the world. The Churchill view on this at the end of the Second World War was of three circles: the maintenance of the British Empire, with the US relationship and Europe overlapping it, half a century later we know that the empire has become a Commonwealth. We know that there are a lot of good things about the Commonwealth but that it is not a trade bloc or a guarantee of economic benefits. We had a painful lesson on that with the Indian air force contract in the past few weeks.

As for our relationship with the United States, President Obama flattered us when he came to Westminster last year and talked about the special relationship. That was an easy compliment but the reality is rather different. It is of an America that is increasingly inward-focused, Pacific-facing, and cutting back on global engagement, and a Britain that, however much we may will the ends, can no longer financially bear the means of that kind of global role.

That leaves us with the third of Churchill's three circles: Europe. To rework inelegantly Dean Acheson's famous quote from the early 1960s, Great Britain exchanged an empire for a Commonwealth half a century ago, its relationship with America is no longer so special, but it has yet to find its confident European role. The idea of the European role has always been anathema to the anti-Europeans in this House such as the noble Lords, Lord Pearson and Lord Willoughby de Broke, but what I find worrying is the half-heartedness on the Benches opposite about the European commitment. It is the people who say, "Yes, we are in favour of political—".

Lord Pearson of Rannoch: My Lords, does the noble Lord accept that we Eurosceptics are not anti-European; we are merely against the ill-fated project of European integration?

Lord Liddle: You are anti-European Union. I should have corrected myself—but you are anti.

Lord Deben: Given that the noble Lord has been interrupted, perhaps I may point out that there are some on these Benches who are in no way uncertain about the future of Britain in the European Union and support every word that he is saying.

Lord Liddle: That is a nice compliment from the noble Lord. What worries me is when people say, “Yes, we want Europe because it is good where we can have political co-operation on where we agree. Yes, of course the single market matters, but let us draw a clear line at that”. Whereas in the post-war era it is said that we had the myth of Britain standing alone at Dunkirk, which kept us out of effective engagement with Europe for 30 years, we are now recreating a new myth about Britain’s role in the world, whereby Britain alone in the new globalised world of the 21st century can thrive without the “shackles”—as the anti-European Union people put it—of engagement in Europe.

Of course Britain has global reach and global interests, and it can be an influential and effective networker in this new global world, but there is the idea of Europe as a shackle, that the single market is no more than a monster of bureaucratic regulation, that free movement of labour stops us having our own immigration policy, and that the things that people do not like—such as the rights culture and the health and safety culture—are all because of Europe.

I noticed that the noble Lord, Lord Flight, was almost cheering when my noble friend Lord Monks said that four weeks’ statutory holiday for people would be scrapped if we were no longer part of Europe. That is a dangerous and seductive myth that may well seriously cloud our judgment as a nation as to where our future best interests lie. We must recognise that the health of the European Union is absolutely central to our global interests. British-based businesses sell a higher proportion of their exports into the single market than German exporters do of theirs. That is partly because, due to the single market, Britain has become such an attractive base for inward investment. It is because of the base of the single market that we can specialise and compete in world markets.

We do not strengthen our position in the single market by diplomatically putting ourselves out of the room when, for all the paper promises made, key economic questions affecting this country will be discussed. It is nonsense to think that the world will pay more heed to a Britain that accounts for—what?—2 per cent of world GDP than the European Union, which still represents the biggest economy in the world. People who think that Europe is putting us in shackles to meet the challenges of the global economy have to explain why Germany is one of the world’s most successful exporters to China and the emerging economies.

The anti-Europeans have a vision of how Britain can make its living in the 21st-century that is deeply antipathetic to the instincts of those on our Benches. We believe in a European vision of a modern social market economy, a Europe that takes the high road to

competitiveness and combines the opportunity for successful private enterprise with decent regulatory standards and essential public investment in low-carbon infrastructure, research, education, early years, a modern welfare state, and so on. The vision against that is essentially the vision of an offshore Britain, a deregulatory tax haven, a Hong Kong-type vision, which would be a disaster for most of our people but for the City of London as well.

The coalition would like to think that we can have the best of both worlds, to keep the benefits of the single market while avoiding most of Europe’s obligations and political commitments. Of course, we should try to do our best to shape Europe in a British image, and there is a huge agenda of European reform that we need to pursue, but if we are saying that we will stay apart for ever from the single currency, we will have nothing to do with the fiscal stability union, we will be no longer in Schengen or part of the justice and home affairs parts of the treaties, what other nation in Europe shares that vision of Europe’s future? Where are we looking for allies if we are trying to stay out of everything?

The European Union is an exercise in pooled sovereignty or it is nothing. If we are not prepared to join in and do our bit, we will ultimately make ourselves irrelevant. We cannot indefinitely achieve our objectives by staying out of the room when we do not like what is being discussed, and we cannot achieve them by opting out of so much that it begins to look as if we might as well not be in.

We have to resolve this issue as a country: is our future European or not? That is the lead that we are looking for from the Government.

6.15 pm

Lord Wallace of Saltaire: My Lords, at the end of a seven-hour debate in which a very wide range of points have been made and perspectives have been introduced, it is of course impossible to answer everything that has been raised, so I promise that either I or my noble friend Lord Howell will write to noble Lords to answer the points that I am not able to reach. In some ways, it has also been a debate on the just-published EU Committee report, *The Euro Area Crisis*. It is unusual to have a debate on a report that is close to publication, and I am sure that the noble Lord, Lord Harrison, is pleased about that. The Government are very pleased with the report and we will of course be responding in due course.

The coalition Government have no doubt that the UK is better off in the EU, not better off out of it. We support a prosperous and competitive Europe and a strong single market. These are good for Britain. It is therefore in Britain’s interests that the eurozone sorts out its current serious problems. We want to see a reformed and strengthened European Union, better able to cope with the new international pattern of powers and influence. We want Europe to succeed not just as an economic force but as a political force—that is, as an association of countries with the political will, the shared values and the voice to make a difference in the world. European countries acting together pack a bigger punch in a changing world. To repeat what my

[LORD WALLACE OF SALTIRE]

noble friend Lord Howell said in opening this debate, Britain is part of the European Union not by default but by choice. It fundamentally reflects our national interest to be part of the single market on our doorstep and we have no intention of walking away.

The benefits of the single market are hard-wired into the UK economy. Half our trade is with Europe—not surprisingly, as this is our nearest and most open market. This trade has been growing faster than our overall trade without diverting British companies with global ambitions from trading more and more with the big emerging markets. There is an absurd view which I see when I look at some of the Eurosceptic blogs that somehow being in the European Union prevents us trading more with China and Brazil. They do not look at the figures which show that German trade with China and Brazil is four times as large as that of Britain and that currently French trade with China is twice that of Britain. These are not contradictions. The UK therefore continues to play an active role and to lead the way in the European Union, and the Government continue to act decisively to defend our national interests within it, as do other Governments within the European Union.

In October, the eurozone countries set out the package of measures that will be needed in the short term if the euro is to resolve its ongoing problems: Europe's banks need to be recapitalised properly; the uncertainty in Greece needs to be brought to an end; and the firewall must be big enough to deal with the full scale of the crisis. In the longer run, proper fiscal discipline in the eurozone is essential, and the question at the December European Council was on how this process should be taken forward. My right honourable friend the Prime Minister sought sensible and reasonable safeguards to protect the integrity of the single market, and my noble friend Lord Howell has spelt out what those safeguards were. The eurozone countries and others have since reached an intergovernmental agreement outside the European Union.

With the eurozone at the centre of the crisis, the UK is to some extent unavoidably at one side. Some say that we should have been more active, engaged and critical; others, such as the noble Lords, Lord Newby and Lord Kerr, say that we should not intervene too far—that unsolicited advice only irritates those who have to sort out the mess in which they find themselves. The Prime Minister, the Chancellor and the Foreign Secretary have all made it clear that the UK wants the eurozone to survive and prosper. However, we have also made it clear that the single market must not be threatened or sidelined, and there have been a number of noises from some other Governments who have suggested that they would not be unhappy to see aspects of the single market threatened. Europe needs economic recovery and growth, not the stability and no-growth pact of which the noble Lord, Lord Kerr, spoke. We are continuing to pursue that agenda in Brussels through active bilateral conversations as well as with groups of like-minded countries, with which the Government are fully engaged. We are neither isolated, nor ignored. There are many active exchanges in which all of us are fully engaged.

In a rather underreported speech the other day in Berlin, Chancellor Merkel went out of her way to say:

“Britain is essential and also more pro-European than some other countries. We want to have Great Britain in the European Union. We need Britain, by the way. I want to say this emphatically, because Britain has always given us strong orientation in matters of competitiveness and freedom and in the development of the single European market”.

This Government are actively engaged in close relations with Germany. After all, Germany is now the central power—the central economy—in the single market and therefore we all have to ensure that we are fully engaged with it.

Many noble Lords have quoted Keynes and said that they are already Keynesians. Halfway through the debate, I dashed out to find my copy of *The Economic Consequences of the Peace*, where on page 14 the young John Maynard Keynes argues against the very harsh reparations being imposed on Germany and that Germany was, after all, the natural centre of the European economy. I quote:

“Round Germany as a central support the rest of the European economic system grouped itself”—

it is talking about the 1890s and the 1910s—

“and on the prosperity and enterprise of Germany the prosperity of the rest of the Continent mainly depended. The increasing pace of Germany gave her neighbors an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements”.

We are back to that position and we need to ensure that we erect the complex political mechanisms and exchanges in which we can ensure that we all manage to return to growth together.

There are tremendous problems in the European political system in which we operate about rhetoric and practice. Part of the problem, including in the past two or three months, has been that what people say is very often different from what they mean. The fiscal pact itself is a good example of that. The noble Lord, Lord Kerr, argues that we should have signed after all because it would not make any difference, to which one has to say that, if it will not make any difference, then it is not worth signing.

There are some very large issues in that respect. Institutional construction has been too frequent an alternative to policy change. The rhetoric on political union is still with us. Years ago when I was a graduate student, I remember Karl Deutsche saying that the concept of political union was immensely attractive to politicians because it means so many different things—indeed contradictory things—to many different people. The French and German Governments often believe contradictory things about what they mean by political union. “The European project” and “ever closer union” are phrases that are very loosely defined. We started with the threat of a financial transactions tax which was thought to be, and puffed up in Paris to be, a threat to the City of London. We are now in the process of discovering that what the French will propose is a stamp tax on share transactions at a much lower rate than the British already have for the City of London. What appeared to be an enormous threat turns out to be a very small step forward and a tax on

Anglo-Saxon capitalism from Governments whose banks have been very rash in how far they have overextended themselves in lending to Greece and Portugal.

We need to promote, among other things, a greater interchange among economists, or at least a dialogue among economists. When I taught at the London School of Economics, I used to say to my international relations students that, if they went to lectures in the economics department, they would discover that according to the economics taught in the London School of Economics the German economy should have collapsed about 25 years before. I fear, at present, that if one follows the economics taught in German universities, we are pushing the Greek economy into collapse. We need to learn from each other and begin to understand how interdependent our approaches to financial economics and real market economics need to be. We also need to recognise that passing regulations is not the same as implementing them. Part of what we discovered about Greece was the extent to which it had simply ignored the rules of the single market. The noble Lord, Lord Pearson of Rannoch, said absurdly that the euro alone brought down Greece. What we are now discovering about the extent to which the Greek economy was running, with a structure of expensive restrictive practices and very extensive tax evasion, demonstrates that there was always a very large and deep domestically oriented problem there.

Lord Pearson of Rannoch: My Lords, perhaps I may put the question slightly differently. Would the Greek people be suffering as they are today without the project of European integration and its euro?

Lord Wallace of Saltaire: My Lords, in the context of a global recession, the Greeks would be facing a very severe run on the drachma and quite possibly also a default. As a number of people have remarked, the Greeks defaulted on a number of occasions over the past 120 years.

People talk also about a common European foreign and defence policy. When I am in Germany, politicians there often tell me they are deeply committed to it—and to a European army. However, they cannot explain the strategy, funding, structure or command structure that it would have. In practice, the United Kingdom contributes a great deal to a European foreign policy and to European co-operation in defence. The UK/France defence relationship continues to move forward very well. We are working with others to cope with the immensely complicated problems of the Syrian crisis. In Libya, we flew missions with our French, Belgian, Danish, Swedish and Italian partners. We have been working in Helmand with Estonian troops embedded in British battalions. When I went some weeks ago to the joint command centre at Northwood, I was briefed by a Latvian naval officer on the anti-piracy patrol. In practice we are very deeply embedded in co-operative defence and foreign policy in Europe.

We will have to work hard to defend liberalism in a recession. I mean liberalism in the broader sense of liberal societies, open markets and international co-operation. The noble Lord, Lord Judd, made a wonderfully liberal and internationalist speech.

Nationalism, populism and protectionism thrive when unemployment rises and incomes go down. The noble Lord, Lord Monks, mentioned the problems in Hungary. The Commission is now in active dialogue with the Hungarian Government about the extent to which some of their new laws will fit with EU rules. I was fascinated to hear from my Finnish friends that there is now a sort of Eurosceptic International across the European Union, with Eurosceptics in Britain working with their Danish, Finnish and other colleagues internationally against internationalism, so to speak.

The problem of popular opinion across Europe is very severe. I suggest to the noble Lord, Lord Grenfell, that young people in Europe are often not immensely committed to internationalism. They take what they have for granted and they do not support the distant co-operation of elites through international organisations, which is what the European Union provides. It would be easy for us to give way to similar forces in the United Kingdom, in the belief that leaving the European Union would relieve us of international regulation. The demonisation of Germany is part of the way in which one finds easy answers to very complicated problems.

A number of noble Lords said that the fundamental underlying issue was that of Britain's place in the world. On my blog this morning, I came across references to a speech by Daniel Hannan MEP to the Conservative Political Action Committee in the United States, in which he praised Newt Gingrich and was in turn praised by Fox News. He made all the obvious references to Churchill and the Nazi threat, and suggested that Britain should leave Europe and blindly follow wherever the next American Republican Administration might lead us. Others would like us to become Switzerland with nuclear missiles or Norway without having to pay the very substantial sums that Norway contributes on a "voluntary basis" to the European Union. Our political leadership over the past 25 years, including the previous Labour Government, has failed to make the case for active engagement in Europe.

Lord Lamont of Lerwick: The noble Lord is enjoying himself attacking Eurosceptics right, left and centre. Is he going to answer some of the points in the debate? In particular, will he answer the questions asked by the noble Lord, Lord Kakkar, about the working time directive as it affects hospitals? Or will his answer be that it means different things to different people, or that it does not really mean what it says?

Lord Wallace of Saltaire: The coalition Government are clear that Europe is our firm base from which we look outwards. France, Germany, the Netherlands and Ireland are our closest neighbours and our natural partners, and with them we work to promote our shared values, economic and political, across the world.

Perhaps I may answer some of the points that have been made. The net British contribution to the EU budget was raised but, according to Treasury figures—which are, as always, entirely reliable—last year it was €7.4 billion and not the €10 billion that the noble Lord, Lord Pearson, suggested.

Lord Pearson of Rannoch: I was going on Pink Book figures, which include a number of contributions which we make to the European Union that are outside the ambit of the Treasury. The Pink Book figure of €10.3 billion last year is the correct net figure.

Lord Wallace of Saltaire: We will continue to disagree.

The noble Lord, Lord Kakkar, raised the working time directive and asked a number of other questions. We are working to ensure that it retains a secure economy-wide opt-out. We would welcome more flexibility on the areas of on-call time and compensatory rest. On the General Medical Council and the overinterpretation of language testing, I am confident that that is also an issue on which the British Government are actively engaged. I will write to the noble Lord further about that.

Lord Lea of Crondall: It is not the case that we have a general opt-out on the working time directive. I do not know what the Minister is referring to.

Lord Wallace of Saltaire: As I understand it, there is an individual right to opt-out voluntarily from the working time directive. That is precisely what I was explaining. I am sorry that the noble Lord misheard.

On the clinical trials directive, we are working with the Commission on revising the directive, and the Commission will publish proposals this year.

On other matters, the noble Lord, Lord Willoughby de Broke, suggested that the European Union is forcing regulations on the UK. In terms of climate change, the coalition Government, like the previous Government, are committed to climate change and work through the European Union. It is not Brussels forcing that on the United Kingdom.

In other areas, noble Lords may well be aware that some of what comes back from Brussels—the zoo regulation, for example, and a lot of the animal welfare stuff—has been promoted in Brussels extremely actively by British lobbies and is intended to implement and enforce new rules on other Governments across the European Union. That is the way in which democratic politics takes place to some extent above the national level.

The noble Lord, Lord Monks, talked about rebalancing. There is a good case for rebalancing competences between the European Union and its member states, but this would require the agreement of all 27 member states on the basis of negotiation and agreement. It would not be achieved through a unilateral decision.

The noble Earl, Lord Sandwich, asked a number of questions about the Balkans and Africa. Briefly, we are strongly in favour of Serbia finding its place within the European Union. We all understand the conditions which are required for that. We also support Kosovo coming into the European Union, but it will be a slow process for all the remaining Balkan countries. We have to make sure that they meet the criteria.

On the question of co-operation with China in Africa, the EU and the United Kingdom are working very closely on that. I hope the noble Lord noted Andrew Mitchell's visit to China, during which he persuaded the Chinese to take part in the conference in Korea on the quality of aid. That is the basis on which we hope to find a closer partnership with the Chinese.

The noble Lord, Lord Newby, raised the issue of procurement. In December 2011, the Commission published new proposals to modernise the procurement rules, and I will write to the noble Lord in more detail on that.

The noble Lord, Lord Lea, asked about the Madagascar cyclone. The European Commission humanitarian office has provided nearly €20 million over the past five years for humanitarian response and disaster risk reduction, including cyclone-related support. Any future UK support is likely to be through multilateral channels, notably the European Union, UNICEF and the International Committee of the Red Cross.

I recognise that I cannot have covered all the points raised, but I will conclude by saying that the European Union as a whole is not in an easy position, as we all recognise. We are caught in a financial crisis that is also partly a fiscal crisis and which has contributed to a wider economic recession. We have to work together to resolve these crises—each member state is hobbled by its own domestic politics and the myths that float through the different national debates. It is not at all easy, facing successive rounds of domestic elections, for Governments and political leaders to rise above immediate interests and provide enlightened European statesmanship. The noises coming out of the French presidential election campaign this week illustrate that well. All of us, in all political parties, need to navigate carefully and reasonably between the pressures of our own domestic opinion and the obstacles created by domestic opinion in other countries. That is the task we all face and must all share.

Motion agreed.

House adjourned at 6.38 pm.

Written Answers

Thursday 16 February 2012

Benefits

Question

Asked by **Lord Newton of Braintree**

To ask Her Majesty's Government in what circumstances child benefit is legally regarded as the income of (1) one parent, (2) both parents, (3) one parent and a third party, and (4) a third party or parties. [HL15504]

The Commercial Secretary to the Treasury (Lord Sassoon): Child benefit is treated as being properly paid to the person who is entitled to it.

Child benefit is paid to the person who has responsibility for the child or young person and who meets the conditions of entitlement. This can be by having the child or young person living with them, or by contributing to the cost of providing for them by an amount equivalent to the weekly rate of child benefit.

Only one person can be in receipt of child benefit. If more than one person makes a claim for the same child, entitlement will be determined by the rules of priority set out in the legislation; for example the person with whom the child lives will have priority over someone who is contributing to the child's upkeep and a parent would have priority over a non-parent.

A person entitled to child benefit can choose to have their benefit paid into a bank account in their name, a joint account with their partner, or a person acting on their behalf. Whichever payment option is chosen, the benefit is treated as being properly paid to the person who is entitled to it.

For tax purposes, child benefit is not treated as income.

Disabled People: Grants

Question

Asked by **Lord German**

To ask Her Majesty's Government what safeguards are in place to ensure that the additional £20 million disabled facilities grant funding, announced on 3 January, is spent on home adaptations. [HL15441]

The Parliamentary Under-Secretary of State, Department for Communities and Local Government (Baroness Hanham): The disabled facilities grant is a statutory entitlement administered by local housing authorities. This extra funding brings the total disabled facilities grant to £200 million for 2011-12. The funding is un-ring-fenced, which provides local authorities with greater freedom and flexibility in delivering adaptations and the ability to commission services more innovatively.

Education: Three to Four Year-olds

Questions

Asked by **Baroness Nye**

To ask Her Majesty's Government what action they are taking to address the concerns in the National Audit Office report on *Delivering the Free Entitlement to Education for Three- and Four Year-olds* about the wide variations in take-up between local authorities. [HL15459]

To ask Her Majesty's Government what action they are taking to ensure that families of three- and four-year-olds from the most disadvantaged families take up their entitlement to free childcare. [HL15460]

To ask Her Majesty's Government what they are doing to ensure that three- and four-year-olds in areas of high deprivation have access to high-quality childcare provision. [HL15461]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): The National Audit Office (NAO) report on delivering the free entitlement to education for three and four year-olds noted that, nationally, take-up of the free entitlement is high at 95 per cent overall (93 per cent for three year-olds).

Take-up figures are derived from comparing the actual number of children accessing the free entitlement in each local authority area with Office for National Statistics estimates of the child population in each area. These estimates suggest that take-up of early education among three and four year-olds varies across local authorities. The NAO report states that this variation ranges from 77 per cent to 117 per cent of the eligible children in each area taking up their free entitlement. Children accessing the free entitlement are counted in the area where they attend nursery, rather than in the area they live. This means some local authorities achieve take-up rates of more than 100 per cent.

Reasons for this variability include: cross-border movements potentially influenced by parental employment arrangements and the location of childcare providers; parents opting out of free early education in more affluent areas; and changes in demographics since the 2001 population census.

National research, based on the annual childcare and early years survey of parents, shows that the 5 per cent of children not taking up free early education are disproportionately from multiply disadvantaged families.

We are taking a number of actions to increase take-up of early education by disadvantaged children.

The Government are committed to extending free early education to around 40 per cent of two year-olds from 2014, which we expect to lead to increased take-up of early education at age three. Sure Start children's centres, in particular, will have a key role to play in identifying and supporting disadvantaged children to access early education places.

New funding arrangements which we introduced from April 2010 required every local authority to include a mandatory deprivation supplement in their Early Years Single Funding Formula. The intention

was to require local authorities to incentivise providers financially to engage more disadvantaged families and ensure that their children are able to access the free entitlement.

We have recently consulted on a more rigorous and consistent way of ensuring that only higher quality providers deliver free early education. The consultation proposed a new basket of quality measures that local authorities should use to determine which providers are eligible to deliver free early education places. This new basket of quality measures, and Ofsted's commitment to making inspection reports more accessible, should improve information for parents and help them to choose better quality early education provision for their children.

Staff qualifications and pedagogy are vital in improving the quality of all early years settings. The new early years foundation stage, to be introduced from September 2012, reflects the skills and teaching practices needed to raise the quality of early years provision and to support all children to be ready for school, particularly those who need the most help.

Family and Parenting Institute

Question

Asked by **Lord Laird**

To ask Her Majesty's Government what funding they have provided to the Family and Parenting Institute and for what purposes; and whether any such funding has been spent on lobbying Government.

[HL15298]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): The department has given a total of £9 million funding to the National Family and Parenting Institute in financial years 2010-11 and to date in 2011-12.

The funding provided was for the following activities: grant funding of £1.2 million (2010-11). This was for research, design, test and promotion of family-friendly services throughout the sector;

payments totalling £7.4 million (2010-11). In partnership with PriceWaterhouseCoopers (PwC), the National Family and Parenting Institute was contracted as managing body for the parenting fund. The objective of this fund was to increase the provision of parenting support services, particularly for less well served groups; to develop a strategic approach to the provision of parenting support services; and, in working closely with local projects, to help them secure their future sustainability. As well as grant administration, the institute also co-ordinated capacity building and infrastructure support for the projects;

grant funding of £0.154 million (2011-12) awarded under the department's voluntary and community sector (VCS) grant. The grant paid was under theme 1: families and relationship support and is for a family-friendly scheme to support the institute in seeking to improve the outcomes for families, engage families,

influence the shape of public services and develop the capacity of organisations working within families; and

payments totalling £0.249 million (2010-11) for a study on provider influence on early home learning environment to identify what nurseries and other early years settings could do to support parents to develop their children's learning at home.

None of the activities listed above was regarded by the department as for lobbying purposes.

Freedom of Information

Question

Asked by **Lord Myners**

To ask Her Majesty's Government why a request under the Freedom of Information Act 2000 dated 30 March 2011 to HM Treasury concerning contact between Treasury Ministers and officials and representatives of WPP has not been answered.

[HL15676]

The Commercial Secretary to the Treasury (Lord Sassoon): The request of 30 March 2011 was answered on 3 May 2011, citing Section 43(2), and claiming more time under the Freedom of Information Act to assess the public interest factors associated with the information in question. A final reply was issued on 27 September 2011, setting out the Treasury's decision to uphold the exemption and refuse release. The internal review, which was sought at the end of October, has been completed today and a letter has been sent to the noble Lord.

Government Departments: Opinion Polls

Question

Asked by **Lord Laird**

To ask Her Majesty's Government how many opinion polls have been carried out for the Department for Education in the past two years; on what issues each poll was conducted, and when; what was the cost of each poll; and how many people were polled.

[HL15531]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): The Department for Education has not carried out opinion polls in the past two years.

Government Departments: Staff

Question

Asked by **Lord Oakeshott of Seagrove Bay**

To ask Her Majesty's Government whether they will list any individuals in HM Treasury or nominated by HM Treasury or Ministers in that department who hold posts remunerated on the basis of at least 100 days' work per annum and who are paid through a company for their services, with the pay band in each case.

[HL15590]

The Commercial Secretary to the Treasury (Lord Sassoon): The information requested will form part of an urgent Treasury review of the tax arrangements of public sector appointments. The review will report to the Chief Secretary to the Treasury by the end of March 2012. The results of the review will be provided to the Public Accounts Committee, and placed in the House of Commons Library.

Gross Value Added

Question

Asked by **Lord Wigley**

To ask Her Majesty's Government what, for the most recent available year, was the average gross value added per head in Scotland, Northern Ireland, Wales, England, each of the regions of England, and the United Kingdom; and whether the disparity between the richest and poorest regions is in line with the Government's economic policy. [HL15646]

The Commercial Secretary to the Treasury (Lord Sassoon): Average gross value added per head in the United Kingdom, the English regions, England, Wales, Scotland and Northern Ireland for 2010 is estimated by the Office for National Statistics as follows:

	<i>Per head (£)</i>
United Kingdom	20,476
North-East	15,744
North-West	17,381
Yorkshire and The Humber	16,917
East Midlands	18,090
West Midlands	17,060
East of England	18,996
London	35,026
South-East	21,924
South-West	18,669
England	20,974
Wales	15,145
Scotland	20,220
Northern Ireland	15,651

Economic development policy is devolved. In England the Government are supporting regional growth by introducing 24 new enterprise zones where all business rates will be retained by local enterprise partnerships for re-investment; making 100 per cent capital allowances available in six enterprise zones; allocating £1.4 billion of investment through the regional growth fund (with a further £1 billion allocated by the Chancellor at the Autumn Statement); and providing £500 million to local enterprise partnerships through the growth places fund.

Following the local government resource review we are also working on introducing a business rates retention scheme, which would enable local authorities which succeed in growing their local economy to get a direct boost to their income.

Health: Pain Management

Question

Asked by **Lord Luce**

To ask Her Majesty's Government what steps are being taken to improve the management of the quality of life of people with long-term conditions, such as chronic pain, through the quality and outcomes framework. [HL15500]

The Parliamentary Under-Secretary of State, Department of Health (Earl Howe): The Government will hold the National Health Service to account for improving patient outcomes as specified in the NHS outcomes framework. The second domain of the framework relates to improvements in the quality of life of people with long-term conditions such as chronic pain. Pain is one of the five dimensions of the overarching indicator used to assess improvements in this domain.

House of Lords: Waste Paper

Question

Asked by **Baroness Jones of Whitchurch**

To ask the Chairman of Committees what facilities are in place to collect waste paper in House of Lords offices; what is the estimated proportion of members and staff using these facilities; and what proportion of waste paper collected is recycled. [HL15583]

The Chairman of Committees (Lord Brabazon of Tara): Paper is collected from offices using a two-bin system whereby dry recyclable materials such as paper and cardboard are collected separately from other general office waste. Dedicated paper and cardboard recycling bins are also available in photocopying areas throughout the House. It is not possible to estimate the proportion of Members and staff who use these facilities.

Where possible, paper that is mixed through with general office waste is segregated by the House's waste collection contractor. All paper and cardboard that can be segregated is recycled. Any paper that cannot be segregated is disposed of as general waste and is incinerated to generate energy. No paper or cardboard is sent to landfill.

Houses of Parliament: Recess Dates

Question

Asked by **Lord Grocott**

To ask the Chairman of Committees what is the additional cost resulting from the discrepancy in the dates of the February Recess between the House of Commons and the House of Lords in relation to (1) security, (2) catering, (3) administration, and (4) maintenance and engineering. [HL15657]

The Chairman of Committees (Lord Brabazon of Tara): No additional cost to the House of Lords Administration will arise from the difference in dates of the February Recess between the two Houses, under any of the four headings referred to.

Legal Aid

Question

Asked by *Lord Newton of Braintree*

To ask Her Majesty's Government whether the Department of Health, the National Health Service or the NHS Litigation Authority have made any estimate of the costs or savings to them of the Government's current legislative proposals on legal aid; and, if so, what those estimates are. [HL15503]

The Parliamentary Under-Secretary of State, Department of Health (Earl Howe): The department believes that the potential effect on the National Health Service of removing clinical negligence from the scope of legal aid will be cost-neutral.

Migrant Workers: Bulgarians and Romanians

Question

Asked by *Lord Laird*

To ask Her Majesty's Government, further to the Written Answer by Lord Freud on 6 February (*WA 16*), how many self-employed Bulgarian and Romanian nationals are exempt from paying tax and national insurance contributions, having been issued by HM Revenue and Customs with small earnings exemption certificates confirming that they are not required to pay as their earnings are below the tax and national insurance threshold; what evidence of earnings under £5315 is required; and what are the nationality and employment or earnings criteria that would prevent entitlement to housing benefit. [HL15612]

The Commercial Secretary to the Treasury (Lord Sassoon): Self-employed persons with small earnings (less than £5,315 in the 2011-12 tax year) are eligible to apply for an exception from paying class 2 NICs. The small earnings exception (SEE) does not apply for tax purposes and whether tax is payable depends on there being business profits, or other income, which exceed the personal allowance.

Based on a 3 per cent sample of the national insurance and PAYE service computer system, HMRC estimates that there are approximately 500 Bulgarian and 1,300 Romanian nationals with SEE. As with UK nationals, when they first commence their business, a person is initially able to self-assess their anticipated earnings. Once the business is established, the claim to SEE may be the subject of risk-based checks, using accounts information supplied by the worker and sources of information available to HMRC, including the self assessment tax return.

Housing benefit provides help with rental costs for people who are out of work or who are working but on low incomes. There are no employment or earnings criteria which prevent entitlement. A person can qualify for housing benefit if their income and capital are below a certain level. That level is calculated on a case-by-case basis by comparing their income and capital to their personal allowance (correctly known as an applicable amount). The applicable amount takes into account the size and circumstances of the claimant's household (for example, the number of children, whether someone is disabled, etc).

Sixty five per cent of any income that exceeds their applicable amount is deducted from their eligible rent and the balance, if there is any, is their benefit entitlement. Anyone of working age who has more than £16,000 in savings will not qualify for housing benefit.

Anyone claiming housing benefit must satisfy the habitual residence test, which includes having a right to reside and being habitually resident in the common travel area (the UK, the Isle of Man, the Channel Islands and the Republic of Ireland).

NHS: Cluster Boards

Question

Asked by *Lord Newton of Braintree*

To ask Her Majesty's Government what are the statutory responsibilities of (1) a primary care trust board, (2) a primary care trust cluster board, (3) a strategic health authority board, and (4) a strategic health authority cluster board. [HL15501]

The Parliamentary Under-Secretary of State, Department of Health (Earl Howe): Primary care trusts (PCTs) have a number of statutory responsibilities (which are, in practice, the responsibility of the PCT board). These include a responsibility:

to secure the provision of certain health services for the population registered with general practitioner practices in the PCT's area, and to secure other specified services for all persons present in the PCT's area, within the resources delegated by Parliament;

regarding emergency planning to work with other appropriate authorities (e.g. police and local authorities); to engage and involve the public and stakeholders in the planning of services and to consult formally on changes in service provision; and

to comply with the Nolan principles, standing financial instructions and have robust internal controls and governance.

Strategic health authorities (SHAs) have a number of statutory responsibilities (which are, in practice, the responsibility of the SHA board). These include a responsibility for:

ensuring that patients have access to high-quality services in its area;

supporting National Health Service trusts to reach foundation trust status;

overseeing the performance of PCTs and NHS trusts; and

holding PCTs to account for delivery of their respective statutory responsibilities.

Bringing PCTs and SHAs together into clusters is a tool to protect management capacity and make sure PCTs and SHAs are able to maintain performance and carry out their statutory functions during the transition. However, PCTs and SHAs still exist as legal entities and their boards retain all their statutory responsibilities until, subject to parliamentary approval, they are abolished in 2013.

A PCT or SHA cluster board can only take decisions in areas where each individual PCT or SHA in the cluster has delegated functions to it, and only for as long as that delegation continues.

NHS: Consultancy Services

Question

Asked by **Lord Wills**

To ask Her Majesty's Government what estimate they have made of the cost of non-medical consultants employed by the National Health Service in each of the past five years. [HL15467]

To ask Her Majesty's Government what criteria are used by the National Health Service in deciding upon the employment of non-medical consultants; and how their rates of remuneration are determined. [HL15468]

The Parliamentary Under-Secretary of State, Department of Health (Earl Howe): The cost of non-medical consultants employed by the National Health Service is shown in the following table:

Management Consultancy expenditure 2006-07 to 2010-11

	2010-11 £000s	2009-10 £000s	2008-09 £000s	2007-08 £000s	2006-07 £000s
NHS bodies (excluding foundation trusts) ¹	291,047	455,213	419,579	308,462	n/a

¹ Primary Care Trusts (PCTs), Strategic Health Authorities (SHAs) and NHS Trusts. The department does not collect data from NHS Foundation Trusts. Where an NHS Trust obtains Foundation Trust status part way through any year, the data provided are only for the part of the year the organisation operated as an NHS trust. Data for consultancy services expenditure was collected from NHS bodies for the first time in 2007-08.

Source: NHS audited summarisation schedules.

NHS trusts source non-medical non-clinical staff directly, and this information is not collated by the department.

There are national frameworks in place by Government Procurement Service for non-medical non-clinical staff, this includes white and blue collar roles and frameworks for management consultancy which are in place for government departments and the wider public sector including health.

A spreadsheet can be accessed at the following website which indicates band and range. This does not include the agency charges: http://www.buyingsolutions.gov.uk/services/ResourcingServices/resourcing_solutionshealth/nonmedicalnonclinical.

The *NHS Trust Model Standing Orders, Reservation and Delegation of Powers and Standing Financial Instructions* document states, under Paragraph 17 tendering and contracting procedures, that the procurement procedures used shall demonstrate that the award of the contract was that best value for money was achieved.

NHS: Primary Care Trusts

Question

Asked by **Lord Mawhinney**

To ask Her Majesty's Government what was the average size of primary care trusts before clustering, and what is the current average size of primary care trust clusters. [HL15721]

The Parliamentary Under-Secretary of State, Department of Health (Earl Howe): There are 151 primary care trusts (PCTs) in England which are grouped into 50 clusters. The mean size of each PCT, in terms of the population they serve, is 348,570. The mean size of each PCT cluster, in terms of the population they serve, is 1,052,683.

Parental Alienation Syndrome

Question

Asked by **Lord Roberts of Llandudno**

To ask Her Majesty's Government what figures they hold regarding the prevalence of parental alienation syndrome. [HL15328]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): The Government do not hold figures for the prevalence of parental alienation syndrome. We do however recognise the potential for lasting emotional harm if one parent turns their child against the other parent. The Government's response to the family justice review sets out a range of reforms to the private law system that should help to limit the consequences arising from disputes between separated parents. Support to help parents focus on the needs of their children and resolve their own disputes will be backed by a legislative statement reinforcing the principle that most children benefit from a continuing relationship with both parents. We will also look carefully at how the enforcement of court orders can be swifter and more effective.

Population

Question

Asked by **Lord Kilclooney**

To ask Her Majesty's Government what percentage of the United Kingdom population are estimated to live in (1) Scotland, (2) Wales, (3) Northern Ireland, and (4) England; and what was the percentage of inward foreign investment in the most recent year for which figures are available into each of those four nations. [HL15615]

Lord Wallace of Saltaire: The information requested falls within the responsibility of the UK Statistics Authority. I have asked the authority to reply.

Letter from Stephen Penneck, Director General for ONS, to Lord Kilclooney, dated February 2012.

As Director General for the Office for National Statistics, I have been asked to reply to your Parliamentary Question asking what percentage of the United Kingdom population are estimated to live in (1) Scotland, (2) Wales, (3) Northern Ireland, and (4) England, and what was the percentage of inward foreign investment in the most recent year for which figures are available into each of those four nations (HL15615).

Table 1 shows the percentage of the usually resident population of the UK estimated to live in each of the four UK constituent countries in mid-2010. These are the latest available population estimates

Table 1: Percentage of UK population resident in UK constituent countries, mid-2010

Country	Percentage
United Kingdom	100
England	84
Wales	5
Scotland	8
Northern Ireland	3

Foreign Direct Investment (FDI) estimates at the UK constituent country level is not available. This would require information that ONS does not collect as part of the FDI survey.

Public Toilets

Question

Asked by Lord Roberts of Llandudno

To ask Her Majesty's Government what action they are able to take to ensure that local authorities provide adequate public toilet facilities. [HL15286]

The Parliamentary Under-Secretary of State, Department for Communities and Local Government (Baroness Hanham): While most local authorities provide public toilets, they have no duty to do so. Public toilets are provided by a range of organisations including local councils, transport operators and the private sector. In addition, many local authorities are taking positive steps to enhance public access to toilets in their area through approaches like community toilet schemes, where local shops and businesses receive a small fee for allowing free access to their toilets.

The previous administration published guidance in 2008 on *Improving Public Access to Better Quality Toilets*.

Schools: Asbestos

Question

Asked by Baroness Jones of Whitchurch

To ask Her Majesty's Government what action they will take to address the dangers of asbestos in schools. [HL15579]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): The issue of asbestos in schools is being managed through the joint actions of Partnerships for Schools and the Health and Safety Executive (HSE) with the advice of the department's Asbestos in Schools Steering Group.

In January, HSE issued advice and guidance on asbestos management in schools based on their recent inspections. HSE is also gathering intelligence to see whether further inspections of schools are necessary.

In September this year the department will launch an asbestos awareness raising website and e-learning modules for headteachers, governors and school staff. As well as training, the website will allow schools and local authorities to share good practice and documentation in respect of asbestos management.

Last year the department asked the Committee on Carcinogenicity to look at the relative vulnerability of children to low-level asbestos exposure. This will be the first such assessment as previous assessments have been for adults exposed to high exposure levels. We will review our policy on asbestos management and our advice to schools when we receive their report.

Schools: Satellite Schools

Questions

Asked by Lord Lewis of Newnham

To ask Her Majesty's Government what is the procedure for the establishment of a satellite school by an established grammar school. [HL15206]

To ask Her Majesty's Government whether there is any limit on the distance of a satellite school from the grammar school which initiates its foundation. [HL15207]

To ask Her Majesty's Government whether there are any restrictions or external controls on the selection of the teaching content of the courses given in a satellite school, and selection of the teaching staff, by the established grammar school. [HL15208]

To ask Her Majesty's Government whether the grammar school founding a satellite school is involved in the selection of students admitted to the satellite school. [HL15209]

To ask Her Majesty's Government how many satellite schools have been founded to date by established grammar schools. [HL15210]

The Parliamentary Under-Secretary of State for Schools (Lord Hill of Oareford): Section 39 EIA 2006 and S104 SSFA effectively mean there can be no new maintained schools with selective admission arrangements and we have not proposed any changes to that legislation. The Academies Act 2010 only provides for existing grammar schools to convert to academy status and does not allow any new selective academies to be established.

The school admissions code, which came into force on 1 February, gives greater freedom to all schools to expand, including for those schools that are their own admission authority (foundation schools, voluntary aided schools, academies and trust schools). It is possible for an existing maintained grammar school or academy

with selective arrangements to expand the number of places they offer, including by extending onto another site; split-site schools are not a new concept. There are, however, limitations on that sort of expansion, meaning it could only be a continuation of the existing school. The school admissions code is written from a presumption that those schools with a split site are a single school.

The department does not collect information on how many schools operate with a split site.

Taxation: Corporation Taxation

Questions

Asked by **Lord Empey**

To ask Her Majesty's Government what representations they have received from the Northern Ireland Executive with regard to the devolution of corporation tax-levying powers to the Northern Ireland Assembly. [HL15544]

To ask Her Majesty's Government when they will make a decision on the proposals to devolve corporation tax-levying powers to the Northern Ireland Assembly. [HL15545]

To ask Her Majesty's Government what representations they have received from the government of the Republic of Ireland about the proposal to devolve corporation tax-levying powers to the Northern Ireland Assembly. [HL15547]

To ask Her Majesty's Government what discussions they have had with the European Commission about the proposal to devolve corporation tax-levying powers to the Northern Ireland Assembly. [HL15548]

To ask Her Majesty's Government whether they have established a figure for the annual yield of corporation tax from Northern Ireland; and, if so, what that figure is for the last three financial years. [HL15549]

The Commercial Secretary to the Treasury (Lord Sassoon): The Government published a consultation document *Rebalancing the Northern Ireland Economy* on 24 March 2011. This considered a number of options, including the potential to devolve corporation tax rate setting powers to the Northern Ireland Executive.

Estimates of the annual yield of corporation tax for Northern Ireland were included in paragraph 4.35 of this document. The value of corporation tax receipts in Northern Ireland in 2009-10 is estimated at around £465 million. As set out in the consultation document, the analysis implies that Northern Ireland corporation tax receipts excluding North Sea oil and gas, and also excluding branches, varied between 1.3 per cent and 1.6 per cent of UK corporation tax receipts between 2002-03 and 2007-08, broadly averaging 1.5 per cent. In 2008-09, the Northern Ireland tax base dipped to 1.1 per cent of UK corporation tax receipts.

As would be normal for policy development, officials have had informal contact with the Commission, which suggests that it should be possible to design a state aids compliant system.

The Government have subsequently announced the establishment of a joint ministerial working group, comprising ministers of the Her Majesty's Government and the Northern Ireland Executive to consider issues raised by the consultation.

A comprehensive programme of work has been agreed, aimed at examining in greater detail issues relating to the potential devolution to the Northern Ireland Assembly of powers to vary the rate of corporation tax.

This includes further work on: the potential costs to the Northern Ireland block grant of a reduction in corporation tax beyond those estimates already published in the consultation document; and the need to ensure that any proposal to devolve corporation tax powers is compliant with the Azores judgment of the European Court of Justice. The Secretary of State for Northern Ireland has discussed this ongoing work with colleagues in the Irish Government.

No decision has yet been made on whether to devolve corporation tax. A decision will be taken following the conclusion of work developed by the joint ministerial working group, which is expected in the summer.

Water Management: Overseas

Question

Asked by **The Lord Bishop of Bath and Wells**

To ask Her Majesty's Government whether they are participating in the high level meeting to be held by Sanitation and Water for All in Washington on 20 April; and, if so, what are their objectives for the meeting. [HL15450]

Baroness Northover: The Department for International Development (DfID) strongly supports the work of the Sanitation and Water for All partnership to increase accountability of both developing countries and donors for delivering results on the ground. We recognise that it will be important to have a strong UK presence at the next high-level meeting in April 2012 and the Secretary of State for International Development, Andrew Mitchell, has signalled his intent to be there. The UK will continue to provide support and guidance for the Sanitation and Water for All partnership, as it has done since its inception.

The challenge of providing safe water and sanitation to those who presently do not have these most basic of services remains a high priority for the British Government. DfID officials are in discussion with our international partners ahead of the April meeting in order to plan how to ensure that it is a success.

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