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TUESDAY 25 MARCH 2008

JIM MURPHY and MR ANANDA GUHA

Evidence heard in Public

Questions 1 - 41

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TUESDAY 25 MARCH 2008

Present

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

Witnesses: **Jim Murphy**, a Member of the House of Commons, Minister of State for Europe and **Mr Ananda Guha**, Deputy Head, EU Delivery Group, Foreign & Commonwealth Office, examined.

Q1 Chairman: Thank you, Minister, for taking the time to be with us; we much appreciate it. As you know, we are on the record and we are being televised and you will get a transcript in the usual manner shortly after the meeting. Would you like to make an opening statement?

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

Q2 Chairman: Thank you very much; that is succinct and welcome! Following the European Council 13-14 March, which is the purpose of this conversation with you, Minister, and the statement that was made subsequent to it, could we begin on the Lisbon Strategy and could I begin by asking you whether there is something behind the words “a renewed focus on competition policy in the EU single market”? Did the Council identify some specific problems here or was this just giving it a bit of a push?

Mr Murphy: It is largely giving it a push on the basis that there is a danger, I suspect, in some quarters of European politics to say that competition, undistorted markets, better

regulation is something that had its origins in the UK and other governments' initiatives, and Hampton Court and everything else, and it is certainly something that has been carried by the Commission I think pretty energetically and quite effectively in recent times. But it is about ensuring that that momentum is not lost. So there is continued action on cartels and on anti-competition measures; that is really the gist of it. It is not about announcing a whole new raft of initiatives that will come with revisiting the Lisbon Strategy more generally on jobs and growth; but in the current context it is about maintaining the momentum, the energy and the political will.

Q3 Chairman: Thank you very much. There was no indication from the French, for example, that they had any problem with a renewed focus on competition policy?

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

Q4 Chairman: Let us come on to the National Reform Programmes and ours in particular. Maybe you could tell us a little bit about where we stand with our own specific policy response to the Integrated Guidelines, etcetera, etcetera; what is going on?

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

Q5 Lord Kerr of Kinlochard: This Committee last year was puzzled that the Government did not pick up the call for all Member States to designate specific Lisbon ministers charged with the monitoring and national plans. Is the government still clear that the recommendation is one that we do not need to act on, as most other countries seem to have?

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

to have a substantial number of ministers across Government sharing the ownership. Clearly within some departments there is a natural fit as to who leads but in terms of delivery across government we think that is the proper way of doing it.

Q6 Lord Kerr of Kinlochard: You are not bidding for the job, Minister?

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

Q7 Lord Blackwell: To follow up on this National Reform Programme, the Conclusions are peppered with exhortations for the UK Government to do various things – to implement the agreement on common principles on flexicurity, to substantially reduce the number of young people who cannot read properly, to encourage universities to develop partnerships with the business community, etcetera, etcetera. Will any of this change anything that the UK Government does or are they all directed at other Members?

Mr Murphy: This approach is directed at all Members, of course, but with each Member State having to adopt its specific set of policy objectives over the following years when, as your Lordships are aware, in different European capitals the nature of this conversation is significantly different both in content and tone. But in terms of the UK the Conclusions in the statement that has just been read I think encapsulate what the Government is trying to do and trying to do in respect of the Welfare Reform Act, in terms of over two and a half million people on incapacity benefit, with this year seeing the end of that benefit and a much greater focus on skills, particularly amongst those with mental health difficulties. I think 40 per cent of people coming on to incapacity benefit at the moment have a mental health illness. There is a substantial number of younger workers or former workers on incapacity benefit, women in particular – 40 per cent of those coming on to incapacity benefit are women and again that is a dramatic change in just one generation. Of course, we used to think of incapacity benefit

in terms of the public conversation as a benefit for people who were basically decommissioned out of the former heavy industries – made redundant but also decommissioned in terms of career, unfortunately. But the way in which that benefit is now being phased and the employment support is being introduced is an important component of what we are signing up to here. There are the other aspects of the Leitch Review of Skills and there are the budget measures, so all of these are a specific policy prognosis for the particular problem that we have in the UK, which is, I would argue, generational unemployment, where two or perhaps indeed three generations of one family have not known anyone in work, and where it became the norm within a family structure – and in fact on occasion with a whole family tree – that certainly far too often very few people had a career, let alone a job. That is really what is captured by the Conclusions.

Q8 Lord Blackwell: I am trying to understand what value the National Reform Programme adds because presumably those are things that you would want to tackle anyway?

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

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

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

Q9 Lord Wade of Chorlton: You will be aware that the Council's Conclusions create this fifth freedom – the free movement of knowledge. I would be most grateful if you could tell us how you think this is going to impact and what the impact of that decision is going to be, particularly in the UK? I am particularly interested in how it might affect innovation and enterprise?

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

Q10 Lord Wade of Chorlton: My reaction to that is what does it really mean then? What is the purpose of it? If it is not going to make information more freely available then what is the purpose of it?

Mr Murphy: I think what it usefully does is give those of us who have a genuine ambition in this field for better coordination of research development, for more effective work on patenting, on issues such as freedom of intellectual property rights, on climate change

technologies and all of those big issues, a single patenting process across the EU that really gives a degree of political commitment to make progress on things that we would wish to do in any case. I think that is the important part behind this. As I say to your Lordships it is not in the short or medium-term an attempt to enshrine an additional freedom with the same weight or significance as the existing four freedoms.

Q11 Lord Wade of Chorlton: You do not expect anything to change?

Mr Murphy: What will change is that the work currently taking place should become more effective as a consequence, but I do not expect – nor would it be inviting or welcome – a raft of centrally imposed bureaucratic solutions on new EU legislation in this field. But it really does give us an opportunity for those Member States who see this as an area where the EU has not been as active as it should be to maximise the political will that has been created by the description of it as a fifth freedom.

Q12 Baroness Symons of Vernham Dean: I am a bit confused about this, Minister. If we are going to be sharing more in terms of research and technologies and intellectual property what does that do for the competitive edge that some industries have within their own countries? Whilst cooperating in a lot of ways we all actually are competitors as well as cooperators. How does that work?

Mr Murphy: I know at one level we have the confidence and innovation of our great universities that in a truly competitive European environment we would be able to succeed. That is one response to it. So that is the intra-European market on technology and innovation. There is also the external challenge that we face. The EU is an economic community and your Lordships may either have personal experience or have other experiences of trying to patent an innovation across the EU, and despite the progress that is being made currently the fact that you have to go through the different processes, the different translations – I think

printed in up to 23 different official languages – all of those sorts of things, the time that it takes to bring a product, an innovation to attracting capital, to break through the bureaucracy and bring to market across the EU is far too long. I do not have the precise details with me today but it takes significantly longer than it should do if we had the political will to resolve it, and certainly it is a time constraint and timeline that our competitors in the US, Japan and increasingly China are not tied in by. So that type of competition within the EU and externally is important.

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

Q13 Lord Jopling: I think it is relevant, my Lord Chairman. I wonder if you could tell us how the creation of this fifth freedom for free movement of knowledge sits alongside the movements towards the data protection regime, and in particular how might the fifth freedom affect the aim and scope of the EU/US high level contact group on data protection, which was very prominent in the discussions of the Justice and Home Affairs Council on 28 February last?

Mr Murphy: The UK is supportive of this dialogue between the EU and the US in terms of data protection, and the work is still being carried out on the details of underlaying the principles. Your Lordships may find it helpful if I were to share with the Committee some of the thinking as to what these principles would be. They are being discussed and need to be finalised but it is around the purpose limitations of the data protection proposals, proportionality, information security, oversight, access, transparency and notice and also redress. I think the background to this is that of course with an exchange of information between the US and an EU Member State there has to be a recognition by the EU Member State about the adequacy of protection – I think that is the phrase that is used – and if the EU Member State has declared the protections and principles of adequate quality, then the

information exchange and data protection exchange can take place. I think the difficulty – and I am not a spokesman for the US government, far from it – the US had was differing definitions of adequacy and the barrier being set at different levels in terms of EU Member States' definition of adequacy, which has led to confusion, difficulty and particularly when there are two EU Member States involved in a tripartite way with the US. I think that is one of the major drivers of this initiative. The impact on competitiveness in a Single Market and the issues we have been discussing is largely about the movement of information regarding individuals – it does not affect it in respect of national security. I cannot see that it can hinder the competitive environment, the competitive completion of the single market that we have been talking about. I think it is an important improvement if we get it right, but we are still working on the details.

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

Q14 Lord Blackwell: Minister, the European Council Conclusions stressed the importance of the report on the Better Regulation agenda, and in particular asked for the redoubling of efforts on the target set last year on reducing administrative burdens arising from EU legislation by 25 per cent by 2012. Firstly, could you confirm my understanding that that target applies to all EU legislation? It is under the section on SMEs but my understanding is that it is not just SMEs, it is all regulation. Secondly, given that all EU legislation, however well intentioned, tends to end up producing a burden on business – and I am assuming, and maybe you can confirm, that this 25 per cent means reducing from the baseline in 2007, it is not just reducing new burdens by 25 per cent and it is an absolute reduction – in which case, do you have any real expectation about how it will be met and has the UK Government or

could the UK Government table its own proposals to the Council on how regulations could be reduced by 25 per cent by 2012? Is that something you have considered?

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

value of future projections because of course Impact Assessments often, and indeed on most occasions, are a projection of expected impact and I think we need to have a greater degree of retrospective analysis of how accurate they were? Those are relatively frank – and certainly the first one was a personal reflection on the “something must be done” ism.

Q15 Lord Blackwell: Minister, if I could just press you on this and I would not in any way want to discourage the efforts you are making, but the points you have just made are things that I could see might help in limiting the flood of new legislation and new regulation against, as you have pointed out, the tendency for increasing the activist in you to want to do more and more things in more and measures. Every time a new regulation is passed, every time a new law is passed it adds to the burdens of business on the whole and, as we also know, most of the burdens on British business now come from European legislation rather than what you do at Westminster. So I wonder whether you really have any expectation in reducing – not just stopping the flow or reducing the flow – the burdens on business by 25 per cent unless you are able to identify some things that you want the EU simply to stop doing?

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

conclusion to this answer, if we ever felt that the momentum was ebbing then we see as our role as trying to enforce it again.

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

Q16 Lord Harrison: Minister, two Fridays ago we debated our report on the Single Market, in which we called for less regulation, better implementation of existing legislation and more liberalisation and competition – and I would also include better monitoring of legislation. In the light of that what progress has been made with regard to transposition and implementation of the Services Directive? And bearing in mind the United Kingdom as well as the European Union, what instruments can the EU adopt to help small businesses take full advantage of the Single Market – and I do draw a differentiation between what we can do collectively and what we can do in this country, because I sometimes fear that we spend half our time telling small businesses that the Single Market is a frightful place to enter where they use foreign languages and different money and strange things will happen to them, and we really should be painting the other picture that it is a real opportunity, particularly in the light of something like the Services Directive?

Mr Murphy: I absolutely agree. The sense is and the assessment is that the effective implementation of the Directive would create about 600,000 additional jobs across the EU, which is a remarkable opportunity across the 27 Member States. In terms of the Directive, again it may be helpful, just for the record, your Lordships, for me to very quickly outline really what we would like to see as part of the completion in response to the specific question. The Service Directive – four things – will firstly remove unfair barriers to cross-border trade; secondly, create an online information portal for service providers; thirdly, improve cooperation between service regulators; and fourthly, and finally, improve the quality of service provision to consumers through stimulating competition and easier accesses to

services. In terms of the UK in the internal challenge function within Government – and I am sure business will have its own perspective on it and we welcome their continuing challenge – we are on track for transposition, which is important strategically for the UK economy, with 70 per cent of the UK economy composed of services, of course. In terms of SMEs specifically there is of course the proposal for the EU Small Business Act. When I read about this initially the idea of an Act runs contrary to much of the UK Government’s ambition, but it has not yet been decided as to whether that is legislative or non-legislative, and that is the conversation that is continuing. But it is about how do you transpose the Services Directive in such a way that it is as friendly as possible and as sensitive as possible to SMEs who do not have access to the significant sources of advice and technical support by the nature of their size as some of the larger companies, and it is a significant challenge for us in the Services Directive.

Q17 Lord Harrison: Do you feel that you are talking sufficiently to the FSB and the FPB and the BCC to try and understand the nature of the problem for small businesses to understand those opportunities, or do you just talk to the CBI which, with the best will in the world, claims to represent small businesses but actually represents larger businesses?

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

Q18 Lord Wade of Chorlton: The Sub-Committee I sit on, Sub-Committee G, we took evidence from the FSB a few months ago and they specifically told us then that they found it virtually impossible for them to give evidence in Brussels on the impact of legislation or the impact of directives on the FSB sector, and that they found that it was impossible for them to get their views listened to or into the system. So are you telling us that you would specifically go out of your way to change that situation?

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

Q19 Lord Wade of Chorlton: If you would, we would be most grateful.

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

Chairman: Baroness Symons and Doha.

Q20 Baroness Symons of Vernham Dean: Minister, paragraph 12 of the Conclusions pledges – and I quote – “... to strive for an ambitious, balanced and comprehensive agreement in the Doha Development Round.” You seem to have been pledging this for rather a long time; indeed, I think I was Minister for Trade at the time of Doha and that is quite a long time ago. What is the current state of negotiations and do you really have a genuine belief that they will come to a successful conclusion?

Mr Murphy: The frustration for me, and I suspect for many of those who follow international development and the interaction between development aid and trade and the markets, is that this is another one of those issues that has now been trapped in a vocabulary which is entirely

impenetrable. For example, on the specific progress that has been made recently your Lordships would find it interesting, I am sure, but many of those who campaign on these issues would find it difficult to follow if I were to share with your Lordships the fact that we do see a significant progress on the negotiations in Geneva of what is described as a new Chairs' text on agriculture and non-agricultural market access, and that is the basis of the ongoing discussions now. It is frustrating that something as important as this is reduced to something that is as relatively impenetrable as the text I have shared with your Lordships. This has been a long process, and it is reasonable to argue that it is far too long, but we do remain absolutely committed to a pro-development outcome as part of the Doha Round and will continue to champion that cause, but the pace of progress has been painfully slow.

Q21 Baroness Symons of Vernham Dean: Is there real progress, though, even if it is slow? Is there really progress?

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

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

Q22 Lord Wade of Chorlton: Thank you, my Lord Chairman. We would like to find out a little bit more about your views on the impact of these new proposals for the continuation of the Social Agenda. When does the Government expect this to be adopted? Does the Government have specific views on what it should include? And what relationship, if any, does the Government expect it to have with next year's budget review? Three questions.

Mr Murphy: And hopefully three answers! First of all, your Lordships, I should say again that my frustration at the slow rate of progress in Doha was in no way because of an assertion, implicitly or otherwise of the work that Baroness Symons did on the building blocks of delivering it! Having been through the weeks or years of the Lisbon Treaty ratification process I am conscious of leaving even a trace of apparent sceptical observation, so I hope that is absolutely clear – it is despite the work that Baroness Symons has done, not because of it! In terms of the specific point on social Europe and the Social Agenda, we are very confident that Europe should have this social Europe, social dynamic. Whether we call it social Europe, social dynamic, flexicurity or anything else is not as important as the content of it, and our starting point and our position throughout this will be the most effective way of delivering a social Europe is to develop flexible markets, complete the Lisbon Agenda, a lighter touch on regulation, greater flexibility for workers and no new heavy-handed centrally imposed legislative solutions. In the context of globalisation that also means that we should avoid, I think at all costs, the temptation to lurch back into economic protectionism. So that leads you to the point of what we are talking about really is a social Europe of maximum employment, including those who are on inactive benefits, as I alluded to earlier, in terms of incapacity benefit in the UK. So what is the EU's contribution without impacting upon Member States' competencies because clearly most of the competencies are for Member States rather than for the EU? The competence for the EU is about ensuring that it is a genuinely competitive, open, flexible market and that the budget process focuses on worker

mobility, skills enhancement, supporting further projects and programmes such as ERASMUS, to ensure that that is the type of social Europe that we deliver. It is not the social Europe of protectionism; it is the social Europe where we believe in full employment. As I have said before – and I got in some trouble on this before in some sections of the media, and again without wishing to draw your Lordships into the party politics of this – the Labour Party and the trade union movement was of course founded on the right to work and has never defended the right not to work – I just do not believe in the right not to work for those who are able to do so. Therefore, a social Europe is about supporting people to fulfil that right to work. Based on the evidence before us in the UK that means flexible labour markets, completing the Single Market rather than the contrary approach, which I think is voiced on occasion in other European capitals which, based on the evidence, is not anywhere near as effective, which of course is protectionism and rigid labour markets. In terms of timescales there is a relationship between this of course and the budget review and it is a debate that, as your Lordships are aware, is not new and will really continue into and beyond the budget review; but how it is captured in the budget review we think is a greater focus for mobility of workers and skills across the EU.

Q23 Lord Wade of Chorlton: To sum it up, you are really saying that it is an economically driven social improvement; that we improve the wealth of Europe and we improve the social benefits as a result?

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

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

Q24 Lord Wade of Chorlton: But you would not expect that it has a big impact on any change in the UK because this is very much, is it not, the policy now?

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

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

Q25 Lord Sewel: Minister, the Council, as I understand, welcomes the report by Commissioner Ferrero-Waldner and High Representative Solana regarding the impact of climate change on international security. It was a pretty frightening report, was it not – almost at the gates of doom really? So the first question is does the United Kingdom Government agree with that analysis? And the second question obviously is, if you do agree with it what are you going to do and do you think that the EU needs to sharpen up its act in integrating its approach to how environment issues can impact on security issues?

Mr Murphy: We strongly welcomed the report because of the quality of it but also because of the message. It is a wake-up call, if it were needed, to some in the EU and beyond because

it is a report read not just with impact in the EU but beyond. The two things in particular that are important are about mainstreaming the climate change debate as a national security issue, as an issue on migration, on energy, and mainstreaming it in that context. So that is one of the particular things that we welcome. Secondly, specifically the High Representative has been tasked to submit specific proposals and recommendations for follow-up action arising from the report, and that is strategically a crucial piece of work. I think importantly within that is a regional analysis – region by region – as to the implications of climate change in different regions, whether it is water shortages, food shortages, movement of people, energy, water levels, so that there is that kind of one size fits all analysis. But it is an important and welcome piece of work which now has to be built upon.

Q26 Lord Sewel: Just to draw out from that, it is not too difficult to see competition for water resources, energy resources and food resources as being the three factors which are most likely to impact on international security in the decades to come.

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

Chairman: Targets for renewables, Lord Kerr.

Q27 Lord Kerr of Kinlochard: Minister, I am trying to work out what is new in the Conclusions of this European Council on the energy/climate change front. I cannot find any new target. I am pleased not to find any carbon tariff and I am pleased not to find any carbon energy taxes. I see a lot of stress, which seems good to me, on competition in network industries, and the sort of commitment to reach political agreement on the gas energy third package, including interconnection by June, which seems to me good. But I see a lot of other things which look to me simply repeating what I have seen before, in particular in the spring 2007 European Council Conclusions. Have I picked out the right new things? Is there something big and new that I have missed? Is there anything that you would like to tell us about what this European Council achieved on climate change and energy?

Mr Murphy: I think what is significant first of all is that there was not, if you like, an unpicking of previous declarations and commitments and that is very important. Governments have had the months to reflect since the previous Council and the genuine realisation of the size of the challenge we have set ourselves could have led to a much more difficult discussion and set of Conclusions, which suggested the need for a pause for thought and reflection. Those debates still continue, of course they do, particularly amongst some of the Central and Eastern European Member States – the fact that the EU remains committed in principle to its previous agreements, the fact that, to be frank, the most significant climate change renewables and measures come out of the Council. In addition to that the point made in the question is absolutely fair, that there is the other significant thing by virtue of the fact that there were not any additional add-ons. The Council can either have unpicked previous agreements or decorated it with hindrances to such an extent that would make it either undeliverable and devoid of purpose or real meaning, and that did not happen either. The final point is, specifically on the proposals for some sort of border tax, that that proposal was

put forward and it is a proposal that when I was in Paris a fortnight ago the Europe Minister in the French Government, Jean-Pierre Jouyet lobbied me on, we pushed back on and we continue to push back on. We think tactically, in the short to medium term at the very least and probably on a longer scale than that, that is the wrong-headed way to go about this. We cannot expect international cooperation on climate change, technologies and on renewables in the context of punitive tax proposals which will then lead to international recrimination. It also sends a message to the rest of the world that Europe can only deliver on renewables in a way that hurts our economy and as a consequence we will take these protective tax measures, and I think that other countries and other global trading blocks would then respond in kind, and I think that is a very unhelpful way for us to progress. The important thing is we did not unpick the previous agreement and we did not add to it in a way that was unhelpful.

Q28 Lord Kerr of Kinlochard: I agree. I do not mean to be critical; I think that is very sensible. I did spot what seemed to me to be two slight changes of tone. One was the emphasis on flexibility in how Member States achieve targets, which fits with what the Reform Treaty, as you will be all too aware, Minister, says about Member States being absolutely entitled to set their own energy mix; there seemed to be rather more about flexibility and how do you achieve it here. Secondly, and particularly on biofuels, I thought that also there is no resiling on the ten per cent in transport fuel; there is quite a lot about the need to have greater synergy between climate change and biodiversity policy and to ensure effective sustainability criteria in meeting the ambitious target for use of biofuels. Am I right that that is a change of tone and do you think it is a significant one?

Mr Murphy: On those two points I am glad your Lordship has acknowledged the responsibility for the deployment of an energy mix remains an issue for Member States, but I think it is inevitable – and I think it is a welcome inevitability – that as we look into the detail of how this target will be delivered that there is Member State flexibility – flexibility on how

to encourage uptake of renewables and flexibility as to the different sectors of demand and the most effective ways in each Member State to drive delivery of the renewables targets. That flexibility I think was welcome and probably inevitable as we get closer to working through the detail. In terms of the point about biofuels, I am willing to acknowledge to your Lordships that I am relying on scientific advice available to the FCO – it is not something in which I have a personal detailed background in terms of the interaction between climate change and biofuels – and the evidence provided by the scientific community is that there is a greater climate change benefit, if you wish, from second generation biofuels and on that basis I think it is right that any attempt to go towards a more ambitious biofuels target upon the ten per cent should wait until we know the exact benefit of second generation biofuel deployment, and that is what the statement says there – an acknowledgement of the science of biofuels and the science should drive any advancement on the ten per cent target.

Q29 Lord Sewel: Can I take up the issue of the targets, the 20 per cent overall target for renewables and the ten per cent for biofuels for road transport? Surely in combating global warming and climate change the key, if not the only things that matter are the global aggregates, and therefore it seems absolutely right and sensible to set overall emissions targets, allocate those to Member States and allow the Member States to decide for their context which is the most economic, effective and efficient and sustainable way of achieving them and not go down into particular targets for particular renewables for particular fuels.

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

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

Q30 Chairman: Before going on to carbon leakage, which I find a most regrettable addition to our international lexicon, I must say, could I just slip in a question about VAT concessions on eco-friendly goods. This seems to have dropped on the Council from out of the clouds, the Prime Minister's proposal, and it did not go down well with everybody, particularly not the Chairmen. I notice in the Prime Minister's statement made in your House and read in ours that when the Commission comes to deal with its summer legislative proposals on the VAT that they might be including this as some sort of an addition to their regular examination. Is the Government placing high hopes that something like VAT exemptions for eco-friendly goods might be included?

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

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

Q31 Lord Plumb: It naturally follows, I think, the question that Lord Kerr put and of course runs on from dealing with emission reductions. You are stepping into very much an unknown field I think because there will be a lot of mixture before we are through on this one. But on carbon leakage at least the EU is setting a lead and therefore there will be an exposure to international competition. I think on this one is bound to be concerned that short of allocating free emission permits to businesses in those sectors, what do you consider other policy options might be and can they be used to address the problem? And if some proportion of emissions permits continue to be allocated for free, will this not undermine the proper functioning of the EU Emissions Trading Scheme?

Mr Murphy: The important point we wish to continue to get across to other governments in the EU – and obviously I mentioned this in passing to Lord Kerr’s question that you have alluded to, Lord Plumb – is that a policy should follow the evidence here. The evidence based on the research that we commissioned was that there are a few sectors that may be affected and it maybe helpful to your Lordships if I place on record what some of those would include: they would include the sectors covering cement, iron and steel and some others, but those are the three. Our alternative approach is to seek international sectoral agreements on

these issues so that these punitive tariffs, border tariffs would not be necessary. I think it is accurate to suggest that those countries that are most enthusiastic about climate change tariffs, border tariffs of this nature, and on occasion are also those countries that are most enthusiastic about a protectionist and economic posture more generally. I think there is a legitimate conversation to be had about to what extent is a climate change tariff a proxy for general concerns about international economic globalisation in any instance. Of course, the major stated public concern about the EU delivering on climate change in this way is that it is not about carbon leakage. Carbon leakage, of course, is another way of describing jobs leakage to those economies that are not as proactive on climate change as the EU would be. We are not interested in seeing a European Union accept that economic architecture that says we should not act because the whole world will not act. So what is the solution? We see the solution as evidence-based, following the signs on specific sectors rather than a complicated set of international, multilateral and bilateral border tariffs. I think in doing that, as I said in response to Lord Kerr earlier, we do not send a message to the rest of the world, the US and elsewhere, and China, that to do the right thing would be expensive and to do the right thing by necessity leads to the need for significant economic adjustments and that degree of tariff retaliation. So I think the best way is to follow the signs of the sectoral agreements across the globe, so that is what we continue to work on. We have said to the French and others who are interested in this that it is not something we wish to follow.

Q32 Lord Plumb: In other words you are hopeful that the European Union would set an example, but to what extent do you think that countries like China are going to follow?

Mr Murphy: Obviously the Foreign Secretary and the Prime Minister have both been there recently and it is our assessment that the Chinese leadership have decisively made the intellectual leap towards the need for action on climate change. Equally frankly, the assessment is perhaps from a different perspective to the UK. Their assessment is on

occasion driven by the remarkable increase in the cost of food in China, driven partially by population growth but largely actually by the impact of climate change on agriculture. So with China potentially the way in there on climate change is about food shortage/food pricing. Equally in Russia the way in there would be on energy efficiency and the capacity of their energy sector to be able to fulfil its international commitments, and with the current degree of energy inefficiency in Russia it is difficult to see them meet their international obligations. So I think there are different ways into the same argument in different capitals and in different populations, and China is an excellent example of it.

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

Q33 Baroness Symons of Vernham Dean: Minister, the Union for the Mediterranean, largely accredited to Mr Sarkozy, all the diplomatic chit-chat is that perhaps there are a number of different views about the merits of the scheme within Paris itself, let alone anywhere else. I wonder what you can tell us about the disagreements and agreements that there are, the matters of contention over this that surfaced at the meeting; and what the UK's position is on the objectives and the financing of the project which I heard recently described as, I think, the "small tombstone" on the whole project itself, and when you look at how much was devoted to it in the Conclusions perhaps that is a reasonable conclusion for us to come to.

Mr Murphy: I cannot add to the diplomatic chit-chat or the undiplomatic chit-chat, certainly not in this gallery but perhaps on another occasion. The sense was that President Sarkozy of course made his statement I believe on the Mediterranean Union and it was important that the detail was then followed up. That detail is now much clearer and where we are now is that the Mediterranean Union is not now the property of France, it is not a French proposal, it is in the ownership of the European Union, and that is important, based on the way that these things are dreadfully described, based on the Barcelona Process. If there was tension at the

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

Q34 Baroness Symons of Vernham Dean: Is it better that it is the property of the whole European Union because that facilitates a decent burial?

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

Q35 Chairman: But is it clear that it is, so to speak, budget neutral; that is to say, that it all has to be accommodated within whatever the Lisbon Process manages to get into its coffers?

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

Q36 Chairman: Was there any consideration given to giving assurances to Turkey that these new arrangements would not in any way threaten their negotiations with the EU?

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

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

Q37 Lord Jopling: Quite rightly the communiqué devotes a lot of space to the current instability in the financial markets and I wonder, Minister, if you could tell us what role you think that the EU can play in dealing with the resolution of problems of this sort? Also, I must say that reading this part of the communiqué there seems to me that there are an awful lot of pious hopes and aspirations. For instance, if I can pick out four: one, the EU stands ready to take regulatory and supervisory action; two, it invites ECOFIN to swiftly and completely implement the programme of work agreed – that is their split infinitive and not

mine – and three, the EU should work in close cooperation with its international partners; and four, the Council should continue to give high priority to these institutes. What type of regulatory and supervisory actions do you think that the EU actually will do rather than just express hopes of this sort in the short and the medium terms?

Mr Murphy: The specific issue here I think is where does the EU have competence, and that is the starting point of this question and this issue. I think the important added value that the European Union as an organisation and as an institution can provide is about a consistency of message across major European capitals, the governments of those nations with major financial centres in their capitals, and to do all that we can as Member States, as the communiqué refers to, whether in pious terms or high level terms, coordinating that political effort about a consistent message of confidence about international global economic stability and macroeconomics in the EU. Then you get to a point about which levers does the EU have to pull to ensure stability. Things that are being considered would be about Member States, what are called cross-border stability groups – another dreadful name but it does exactly as suggested – whereby groups of Member States come together perhaps on specific sectors or on specific pressure points and work their way through the specific political and diplomatic/economic response. So that is a specific. Then there are also the proposals, about which I will happily provide more details to your Lordships, about the banking reform consultation document, which is, as I understand it, set out in Chapter 2 of that consultation document, and the UK is in the process of setting out some detail as to how we think that banking reform consultation document could improve the EU's posture in the context of recent global turmoil. If your Lordships would find it helpful I would happily provide details of the Government's thinking as that process continues. Additionally, these issues will be things that the Chancellor will be discussing in ECOFIN, I think next month, at an ECOFIN gathering. So he will be discussing the issue of regulators, supervisors, the EU Deposit

Guarantee Scheme and much else. There are these specific medium-level interventions that the EU can make, which are important, as part of a wider response.

Q38 Lord Jopling: So there is nothing much else but talk and thinking in positive terms in the short and medium term?

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

Q39 Lord Kerr of Kinlochard: I think we have an insoluble problem here, the one to which Lord Jopling draws attention, because if the European Council were planning a cunning initiative for financial stability and initiative in the markets then the correct thing to put out would be exactly this sort of boiler plate Conclusions text which would not reveal the initiative until it was ready to go, and the Minister is much too cunning to breathe a word

about that, so there is no point in my asking him! But I was puzzled to find not even boiler plate on the euro. If you read the French press or the Italian press the wicked Fed is driving the dollar down and wicked Frankfurt is keeping the euro strong and killing the exports of France and Italy. You do not read that in the German press because the German exports are not being killed and they seem to be succeeding. Was there in fact any discussion of the exchange rates and the euro?

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

Q40 Lord Kerr of Kinlochard: That was more than I expected!

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

Q41 Chairman: I am minded to recall, when the famous five tests first came up and many of them used the phrase “clear and unambiguous” evidence, Anatole Kaletsky saying that in economics there is no such thing as clear and unambiguous evidence! Minister, thank you.

We are letting you go one minute early but you deserve the rest; you have given us a lot of information and answered our questions very fully, as always, and we thank you very much indeed and we look forward to seeing you after another Council. Thank you and all your staff for communicating with us, not just here in this room but on a very regular basis. We really appreciate the way in which you handle our request for information and our comments; it is very helpful and we are most appreciative of it. Thank you very much indeed.

Mr Murphy: Thank you to your Lordships.