

HOUSE OF LORDS
MINUTES OF EVIDENCE
TAKEN BEFORE
THE SELECT COMMITTEE ON THE EUROPEAN UNION

OCTOBER EUROPEAN COUNCIL

TUESDAY 11 NOVEMBER 2008

RT HON CAROLINE FLINT MP and MR ANDREW DALGLEISH

Evidence heard in Public

Questions 1 - 27

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TUESDAY 11 NOVEMBER 2008

Present

Cohen of Pimlico, B
Dykes, L
Grenfell, L (Chairman)
Harrison, L
Howarth of Breckland, B
Jopling, L
Roper, L
Sewel, L
Symons of Vernham Dean, B
Wade of Chorlton, L
Wright of Richmond, L

Witnesses: **Rt Hon Caroline Flint**, a Member of the House of Commons, Minister for Europe, and **Mr Andrew Dagleish**, Head Europe Strategy Group, examined.

Q1 Chairman: Minister, it is a pleasure to see you here and I begin by saying to an old friend really from your Home Office days first of all congratulations on the appointment, we are delighted to see you in this role. You are very welcome to this Committee. We have one hour with you and I know you would like to make an opening statement which suits us very well. One of the key members of our Committee, Baroness Cohen, who chairs the sub-committee dealing with economic and financial affairs and is therefore very interested in the financial crisis is delayed and will not be here maybe for another 20 minutes or so. Would it be all right with you – and I leave it entirely up to you – if we were to begin with energy and climate change and then put the financial crisis after that.

Caroline Flint: That is fine.

Q2 Chairman: That is very kind of you. We will start with your opening statement.

Caroline Flint: Thank you very much and thank you for your warm welcome. I do think we have had a lot of correspondence over the years and what is very interesting in my present job

of course is that I am also visiting some countries – Bulgaria for example just last week – which I happened to visit as a Home Office minister a few years ago and obviously some of the issues around justice and home affairs are still keenly on the agenda, particularly in terms of the enlargement process. I am seeing some new faces but also seeing some older faces as well both in the Foreign and Commonwealth Office and also UKRep and also on my travels around Europe. I am looking forward to the celebration of your tenure on this Committee in the not too distant future and I hope some of your colleagues will be able to attend and support that as well. If people do not know about that I will make sure my colleagues behind me alert you all to that. You have asked me to come along and talk about the October European Council. It took decisions on a number of the most pressing issues facing the Union today. In many respects I feel I have come into my present job at a time when the European Union is really being seen to tackle some of the issues that are of most concern to people. I always believe very strongly that the European Union is at its best when in the discussions it is having and the actions it takes we really can see its added value in terms of what national governments can provide. Nowhere is that clearer in terms of the international financial and economic crisis we are dealing with at the moment. I think we have seen strong leadership from the Presidency resulting in good conclusions with all Member States signing up for a concrete action to ensure a coherent European Union response. Of course I am very proud that our prime minister has played such a leading role. More recently, on top of a UK paper that we provided on strengthening the global financial system EU leaders reaffirmed the value of this coordinated response and that was added to in terms of the informal council that took place last week on 7 November. This will help prepare an EU position ahead of the G20 summit in Washington on 15 November. Climate change was the other dominant issue and it remains vital that the Council maintains its focus on reaching a deal on the 2020 package this year. We believe it is the only way to get others

to negotiate towards the right agreement at Copenhagen next December. It is especially important, we believe, that we are able to show the new US administration that Europe is really serious about its low carbon commitment and that does mean agreeing an ambitious package by the end of the year. Delaying action will only increase the costs of tackling climate change down the road. On Russia it was clear at the October Council that we cannot return to business as usual while Russia continues to fail to meet commitments but at the same time it is not in our interests to isolate Russia. We will continue to engage in a hard-headed and systematic way on important issues like energy. Clearly matters have moved on since the Council. The Presidency statement following yesterday's General Affairs and External Relations Council made clear that resumption of PCA negotiations was not a return to business as usual. It set out a unified EU position. There was deep concern that Russia has not yet withdrawn to its pre-7 August position. There was concern that the OSCE as well as EU monitors have still been prevented from entering South Esetia and continue to support Georgia's territorial integrity. On all these issues we once again saw the importance under sometimes challenging and difficult circumstances for individual Member States the importance of EU collective action and I look forward to discussing many of these in more detail with you.

Chairman: Thank you very much indeed, Minister. That covers that very succinctly. Let us begin with Lord Sewel and energy and climate change.

Q3 Lord Sewel: You mentioned the importance of the climate change issue in your statement, Minister, but in fact what comes out from the conclusions (it is one paragraph and it is fairly sparse whereas many of us had been expecting that we would see a pretty clear strategic signal and orientation coming from the meeting on the way forward) is an instruction for the Commission and the Presidency to do some intensive work between now and December. Are there doubts entering the debate? Are there doubts that perhaps in the context

of the financial crisis that some of the costs of the climate change and energy package may be just too high for some Member States and some industries within Member States to support? Is there a little bit of concern coming through? There is this wonderful phrase in the conclusions that the package should be applied “in a cost-effective manner to all sectors of the European economy and all Member States, having regard to each Member State’s specific situation”. Having regard to each Member State’s specific situation could be the biggest get-out clause of all time. What is your interpretation of it?

Caroline Flint: You are correct to allude to the fact that there are some challenging issues here about how we can arrive at a united position at the December Council whilst taking into account the very different energy needs of different countries in the way in which they supply their energy already and certainly in my visits that I have undertaken so far climate change has been on my agenda in terms of bilaterals I have had with a number of countries. So there are some challenging issues and that was highlighted at the Council but I think really regardless of the point you make about the paragraph in the document we are pretty satisfied and content with the outcome. I think we should not take just a paragraph from the document as the only reference point in terms of the discussion that has been continuing since the Spring Council of 2007. The 2020 package represents an ambitious and far reaching set of proposals but I would think to yourselves and to other colleagues in the European Union who at the present time are worried as we all are about the financial situation, the cost of not doing anything now and arriving at a clear position in December is far outweighed by the cost of not doing these things down the road in the future. I think the Stern report has indicated that quite clearly if we do not bite the bullet on this and take some serious decisions we are putting off until tomorrow something we can ill afford to do. When I did a climate change lunch in Prague recently I was struck by one of the facts that I was provided with in my briefing that of something like two and a quarter million if you like climate jobs worldwide 600,000 of them

are already in China. That sort of thing really alerts me to the need that if the EU wants to be in a leadership position in regards to our discussions with our American colleagues but also China, India and other countries as well, then we falter at this point at the expense of families across the European Union. I believe that there is a focus that we do need to meet a package and I think the French are very clear on doing that. Clearly there is no detail to be worked through in terms of individual Member States but that was always going to be the case I feel. I think at this point in a cycle this is where things do become much more intense and of course Member States are discussing with the Commission and the Presidency about how the package will affect them, how different issues around carbon leakage, that people are worried about understand these and also the issues about the auctioning and so forth. The negotiations are firmly on track. The Council did reach the commitment to this agenda and the Council also endorsed the president's call for more intensive work on this which I think was going to happen anyway but obviously we have the financial situation at the moment that maybe some feel that that is a reason not to do anything. I think that the financial situation at the moment gives us all the more reason to look at this agenda because actually it is about jobs in the future, re-skilling people for a place, if you like, in terms of future jobs and industry where the EU can be a world leader.

Q4 Lord Sewel: I think we would all agree with your general view that it is important to move now and it makes sense to move now because delay has to cost. Do you have evidence that that view is shared by, say, the Poles, the Bulgarians and the Rumanians? Ultimately is the test going to be whether there is an effective emissions trading scheme by the end of the year?

Caroline Flint: I do think that countries can be energised and focused in terms of their present situation in terms of their energy sources and the impact of these proposals but at the same time sign up to a principled agreement of the way forward. I think that is where we are

at the moment. I do think that the work was put in train by the Council in spring 2007; this is not a new topic of discussion. We are at that point now where, if you like, the devil is in the detail of working through with counties about how the different targets are going to affect them, but they always knew about these targets and actually from what I understand - of course my colleagues in other departments lead on this in terms of policy – consideration has already been taken into account in the targets of where different Member States are and that is also something that is taken into account in terms of compensation too. Again this is not about assuming that everyone is in the same place. We are not in the same place as our French colleagues and we have very challenging targets to meet in relation to this package. I believe that we will work to an agreement in December and clearly the negotiations between now and then and beyond then will continue. I think, as I said, for us it is an opportunity we just cannot afford to miss.

Q5 Lord Roper: Minister, you have already said something about the discussions which took place both in September and October and yesterday in the General Affairs Council. I wonder whether you would like to say a little more about the way in which those have developed and in particular whether this has been reported in the press. The foreign secretary and the Swedish foreign minister did make a particular position yesterday particularly referring to the hard headed nature of any further negotiations. I also wonder whether, if one goes back to the document which was published last week by the Commission, it appears reading that that the Commission considers that they have authority to review the negotiations on the PCA without there being a further decision in the Council.

Caroline Flint: Firstly I was with the Foreign Secretary, David Milliband, in Brussels yesterday. I think the joint statement between him and his Swedish colleague was to very much promote the point that whilst we recognise that actually on many different fronts bilateral relations with Russia are important but also EU relationships are important - climate

change and energy for example is key to that I think we have the energy review being published in the next week – but at the same time this could not be business as usual. I think, given the complexities of the situation, the fact that after the meeting yesterday a press statement was issued supported by all 27 members, that really did indicate that the context of resuming PCA negotiations was against wanting to see progress on the agreements made over the summer in relation to the package around Georgia, South Esetia and Russia. That is going to continue and again, in terms of the PCA, my understanding is, looking at the last time this went through, it took some years of negotiations to continue and of course during that time and presently we will continue to look at the progress mainly in terms of Georgia and that will be there. My colleague, the foreign secretary, spoke to the president of Georgia last night. I met with the foreign minister of Georgia last time I was in Brussels as well and I think they understood the position that the EU took and I am glad that we can continue to go forward on this particular issue in a united way. On the comment about the review, I think I would like to have another look more closely at the wording on that because I would hope the Commission would not be too presumptuous on that matter. I think what is interesting, having looked at the review (which I think is available on the website) is that does, if you like, set out the very many different ways in which the EU needs to engage with Russia, but I would say importantly it is a two-way street, the needs of Russia to engage with the EU too.

Q6 Lord Wright of Richmond: Minister, have the events in Georgia had any effect on Russian participation in the Middle East Quartet?

Caroline Flint: I think I would have to ask my colleague.

Mr Dalglish: I think we will have to come back to you on that.

Q7 Lord Roper: As well as preparing for the PCA there will be at the end of this week a meeting at summit level with Russia, how far were the topics which ought to be on the agenda for that meeting discussed?

Caroline Flint: Sorry, I did not hear the last part of the question.

Q8 Lord Roper: The EU-Russia summit which is taking place on Friday, how far was consideration given yesterday in the Council or informally as to the topics which ought to be the high priority for those discussions and would you be able to say anything about that?

Caroline Flint: I think I would have to get back to you on the detail of what they are going to discuss on Friday but the background of this was that we do have to engage and in the same way as we would be looking to the resumption of the Geneva talks following the first meeting, we will also be looking at those talks as to progress on the conditions that were set earlier in the summer. As part of my role I have been looking at some of the issues around energy and security and I want to take a closer look at that in light of the energy review that is coming forward as well which is again will impact on Russia too. I think again whether it is climate change, the economy, energy supplies or a whole number of other issues in terms of security too are outlined in the in the EU-Russia review. There are many, many issues that we need to be talking about with Russia. The key to the issue here is that it is not the UK or the EU that are isolating Russia, it is Russia who isolate themselves if they are not willing to work in a rules based framework with the EU and other organisations too.

Q9 Chairman: It seems to me that what prevents a return to business as usual can in fact turn out to be a very, very long term problem. Who decides when we have got to the point where it can be business as usual again? We may have to live with the fact that Russia is doing things that the European Union does not like but at some stage we have to declare that we can operate with them on a regular basis.

Caroline Flint: I note the point you make. Part of all this engagement is to demonstrate that there is as much in the interests of Russian families in terms of closer cooperation with the EU as for the EU itself and many, many different fronts. That is part and parcel of why we try to get these opportunities for discussion together so we clearly can see how important this is, in other areas as well in terms of, for example, Nato; the Russian Council has been suspended but actually there still needs to be on-going discussions with Russian representatives on some of the issues of concern, for example Afghanistan and other matters too. So all the time this is about how we keep the talking going whilst trying to get some progress and movement. We can only hope that there is enough there for people to realise how important this is to make some changes and to effect some change but I do not think it is easy and I do not think it is easy to have a timetable against it per se.

Q10 Lord Dykes: Referring to previous comments on the Quartet meeting at the weekend, in a way it was the other way round that Russia did seem to be somewhat more engaged than it had been on this particular issue; they tended to be standing back a little bit from it and leaving the lead to be taken by the US and other entities in the Quartet. They sounded more enthusiastic this time about progress being made and a direct part of the negotiation did confirm both the Palestinian president's office and the prime minister designate of Israel that their indirect talks have been going pretty positively and pretty well in recent times. Russia did extend the invitation to them in three months time for the next meeting of the Quartet. Was there not some sense of impatience amongst member governments, including the UK, about the slowness of this process? The original target of President Bush was 2005 for a Palestinian statement. Then we have been talking about the end of this year. Now it is going well into next year and even if the direct parties in the talks are pleased with progress, obviously significant concessions have to be made including by the established government of Israel in terms of settlements and that kind of thing. Surely a much more accelerated sense of

impatience should now be directed towards this process to get the Palestinian state that they deserve.

Caroline Flint: I think we can just support and encourage the Quartet to work. I think as David Milliband was asked earlier today in Foreign Commonwealth Office questions, President Elect Barack Obama's focus in this area again hopefully might give a new impetus. I am certainly happy to write to the Committee on our thoughts arising out of the meeting at the weekend. On so many different levels we try to support progress on these issues but as you know probably better than I this is a task that many have set themselves and has been difficult for many, many years, but there may be an opportunity for fresh impetus as the President Elect Barack Obama comes into office next year.

Q11 Chairman: Clearly we are going to have to wait to see the outcome of the Israeli general election too and the colour of the government.

Caroline Flint: It was not discussed at the European Council I have to say.

Q12 Baroness Symons of Vernham Dean: Minister, you have been very emphatic that the EU is not going back to business as usual with Russia but at the same time you are also very emphatic that there are still discussions and engagements and in some ways what comes over is actually an even more concentrated focus on Russia which, in more practical senses, could look like almost business as usual plus rather than business as usual minus. What I really wanted to ask you about was the question of the support of Georgia's territorial integrity. Of course we support that but what does it mean in a practical sense other than saying to the Russians, "We really do not like any form of military engagement in Georgia and we believe in territorial integrity of Georgia. How does this have real nature and substance as a policy as opposed to just re-stating a position?"

Caroline Flint: First of all I think what is clear by the statement issued by the General Affairs Council yesterday is that the pace and tone of negotiations are going to be dictated by the review that was undertaken but also by the on-going Russian actions in Georgia as well. I think it is important that that was made very clear in that press statement. I think it is about us engaging with Russia but still being able to express severest concern about how they work with us but also in relation to Georgia as well, whether or not some of the agreements that were made over summer both in August and September led by President Sarkozy are going to be met. As far as I am aware while some aspects of that package of agreements have been met there are others that have not. Again we have monitors out in the field. We are getting reports back from those. There are about 200 EU monitors. We will use that I think to guide our discussions, again all the time pressing the case whether it is with the EU discussions and forums or within the Geneva talks to see some evidence of some progress being made. I agree, this is not easy and we would also, alongside this, have supported an independent investigation into actions taken by both sides in relation to human rights too and deaths and injuries that occurred as a result of the activities in the summer. I think on all these different points we have enough to look at to really test what is happening, whether there is compliance. As far as I understand OSCE and EU monitors have not been allowed into South Esetia so that is one of the issues that is outstanding. We are obviously watching and hopefully encouraging these conditions to be met. That would be our barometer I suppose.

Q13 Lord Wade of Chorlton: You use the word engagement, how does engagement between Europe and Russia take place from a practical point of view? It is one thing for the president to make statements and to meet leaders, but clearly if there is going to be proper engagement there needs to be very regular meetings between parties to discuss things. I agree entirely with the point made by the Lord Chairman that good engagement with Russia for the

future is important from everybody's point of view. How do we actually achieve that within the European context?

Caroline Flint: I think it happens on many different layers. At this point I am not able to detail all of them but clearly the Geneva talks are one forum in which we will be able to clearly see whether progress is being made given that that was in particular established for all parties in the conflict to meet and hopefully resolve the situation. You can see from the audit review how many different subject areas the EU is engaged in and therefore there are many different forums there. I think what will be interesting is how, having done the review and PCA discussions reconvening, we take stock of how the individual subject areas – whether it is the economy or climate change – are moved forward but also the fact that the pace and tone of those discussions and those issues will be influenced by progress on the Georgia-Russia situation. I think what we will be looking for in terms of the UK Government is to not lose sight of that whilst these other important discussions need to take place in many, many, different forums. I think that is something the Council has to come back to.

Q14 Lord Wade of Chorlton: Is the British Government satisfied that those engagements are carried out in the way they describe? Are they carried out in a satisfactory way? Are you satisfied that the right systems are in place to make it happen properly, that is what I am really asking you? Could improvements be made?

Caroline Flint: Coming relatively new to this I suppose to a certain extent for me it will be interesting to see how those discussions on all those other areas of interest with Russia from the EU perspective will sit alongside the situation in Georgia. I might have to come back to you on that at a later date. Clearly this is not a precise science and many, many different officials in the EU will be involved on a – dare I say it – more mundane level of discussion against this sort of international action that was taken over the summer. We are very clear and I think the meeting of the GAERC yesterday was very clear that it is not business as

usual; the pace and tone of discussions in terms of cooperation of Russia will be set against what they agreed over the summer and progress on the Georgian conflict situation. That is something we will continue to make sure that we do not lose sight of. I think at this point that is probably the best I can say.

Q15 Lord Roper: The paragraph in the conclusions of the meeting of October which deals with Russia also deals with the question of relations with Ukraine. I wonder if I could stray to that issue for a moment. I think we were interested in the speech of the foreign secretary in Kiev on 27 August where he stated the British Government position on the long term goal of Ukraine was, “once Ukraine fulfils the criteria, it should be accepted as a full member, and we should help you get there ... the goal is a good one”. On the other hand there was not very much other membership perspective shown in the agreement which was reached between the European Union and Ukraine when they met a couple of weeks later in September. I wonder whether this gap between the collective EU position and the position which the foreign secretary enunciated is one which the British Government hopes they will be able to narrow in the near future.

Caroline Flint: I am hoping to visit the Ukraine in the not too distant future myself so I think that will give me more of an insight of the situation there. Clearly in terms of EU enlargement there is no one set blue print because every country is in a somewhat different situation and the timeline varies enormously. I am heartened, I have to say, from the last few weeks where I have been learning more about how we can support the Eastern Partnership and make that much more of a practical way in which we can support countries like the Ukraine and others in terms of their European Union ambitions. I think if we can get that into such a place that it really can work but also within the area, countries work together and learn from each other I think that would be a very positive step forward. Certainly in terms of my role one of my priorities is to spend some considerable time both in the Caucuses and in the

Western Balkans to see what more we can do practically to move people forward. However, as I say, there is not one set blue print I think on this and it is only when we really get down to some of the challenges that different countries face can we have a better understanding about just how much is necessary in terms of support to arrive at their final destination. Again, I am a practical person; for me the words are one thing but until you actually see things and how they are working on the ground and therefore can input into it, it is a very different matter indeed but I think we should all be pleased actually that countries like Ukraine are wanting to face westwards and see their future for Ukrainian families as being very tied up with potentially a member down the road of prosperous EU.

Q16 Chairman: What is the current state of the original Polish-Swedish proposal for the Eastern Partnership? They came up with this about four months ago and said that they wanted to establish a particular EU relationship with some of the Eastern neighbouring states. I recall that the Ukraine at the time was rather hostile to the idea because they thought that that was, as it were, shoving them to one side and it was a substitute for a roadmap towards EU membership et cetera, et cetera. I was just wondering whether you have picked up anything about where we stand on this. It still seems to be on quite a lot of counties' agendas and does not seem to be crystallised yet.

Caroline Flint: The Council actually agreed that there should be initial examination of the proposals for the future Eastern Partnership of the European Union which I understand the Commission intends to submit in November. I think, if you like, a practical output of this aspiration, I suppose, is to see if that sort of partnership can provided added value to individual discussions with countries. As I said before, it is not a one size fits all. I think we will be looking to see what the Commission come back with. I think actually looking at this both in terms of individual countries but a partnership within an area or region is actually a good thing to do because it gives some focus but also a better look at how the EU aligns some

of its projects and support in a particular area, again not in the Caucuses per se but certainly in the Balkans where I visited a few countries in the last few weeks. There clearly are some issues that overlap between the borders— crime being one of them, I have to say and tackling organised crime and so on – which demonstrate that partnership work looking at that may not be a bad thing at all. At the end of the day if it works individual countries can only be winners and if it helps to enhance their journey and make some accelerated progress that can only help as well. Of course we will continue to have individual arrangements, agreements and road maps for countries as they develop and are able to meet the requirements that we have set, maybe more than we did some years ago, much higher requirements and clearer requirements on those countries who want to be part of the EU.

Q17 Chairman: You mentioned enlargement and the Balkans. There seems to be a bit of a divide – maybe a growing divide now between what Commissioner Rehn is saying and being very positive about Croatia and yet there are some Member States that are still insisting that there can be no enlargement until the Treaty of Lisbon is ratified, if it ever is, and that therefore there seems to be a two speed approach to this between the Commission and some important members of the Council. Has the UK taken a position on this and if so what is it?

Caroline Flint: Our position is that whilst we are absolutely delighted that we have ratified the Lisbon Treaty and obviously want to work to a successful conclusion on that, we do not believe that the Lisbon Treaty in and of itself is necessary in terms of enlargement. We feel that there are other legal arguments for accession treaties in other ways. That is our position and will continue to be our position. I do know that there are other Member States which take a different view, but I think what I am pleased about actually is that progress on enlargement, regardless of particular views of some of our colleagues, has continued and the fact that Olli Rehn produced the reports last week I think is good. I happened to be in Zagreb last week and saw for myself how, by the fact that those reports are published, it had created an

opportunity for more debate about how they can now use the next 12 months particularly given that Croatia was given an indicative, if you like, timeline for 2009 of what more they could do. I think that is helpful. I also know, having met my Czech colleague and knowing from our Swedish colleagues as well that there are plans for an enlargement summit I think in March/April of 2009 under the Czech Presidency. So again I think we are making progress. I do think that we do sometimes have to make sure we reassert why enlargement is important. I think it is important here in the UK but also in the European Union as well because I think on so many different fronts that I hope the Committee would support we have gained so much from enlargement already in so many different ways. We should never rest on our laurels that everyone out there knows that and we need to be better at putting that across. I would feel that to have a situation where we slowed down in terms of our engagement with countries and looking at how better we can support them whether through the Commission or through the sometimes specialist or technical support that individual members can give would be a wasted opportunity and given how long these things take – for many the journey will be many, many years down the road – let us not lose these months we have over the next year whilst we await the outcome of the Lisbon ratification. I think that is something that is widely supported within the membership of the EU whilst I appreciate there are some individual countries which have maybe not as strong a view as the UK on this matter.

Q18 Chairman: I think we should turn now to the financial crisis and investigate a few of your thoughts on this. I do not know whether you have yet had a chance to meet Commissioner Neelie Kroes, she is one tough lady and she is defending competition policy with tooth and nail but obviously, given the circumstances in which we are now, she is making what I regard to be some very sensible noises about how you deal with state aid in a time of financial crisis. I notice that she has made a very clear statement that as far as aid to banks is concerned the rules still apply to the extent that if a government is a shareholder in a

financial institution she wants to ensure that there are no assaults on competitiveness through state channelling. On the broader question of state aid to industries clearly she has quite an open mind on that but again there has to be a very, very good reason for doing it. What, in your view, should be the degree to which one might be able to relax state aid rules in certain centres?

Caroline Flint: I think the banking measures which both the UK and other EU Member States have already put in place have demonstrated that you can take action but you can still be within the boundaries of the state aid and competition policy because I think, as you inferred, state aid rules do allow for exceptional measures particularly when it is trying to remedy a serious disturbance to the entire economy of a Member State. I think we are all pretty clear that is what we have been facing and other countries in the EU have as well. That is very important. The state aid framework does continue to provide other flexibilities in key areas such as small and medium enterprises and rescue and restructuring aid. I think the position of the UK Government is given that there is no fundamental need for a change to the rules. I actually asked about some examples of where aid can be given to domestic businesses and industry which is not in contravention of state aid rules and some of the examples officials provided are, for example, SMEs are covered by the SME framework which allows the government to provide up to 20 per cent of eligible costs for small enterprises and up to ten per cent of eligible costs for medium sized enterprises; larger industries are covered by a different set of rules but with a set of get out clauses which, for example, have allowed the UK to write cash for its bank but also to help the Post Office but also provide emergency funds I understand for MG Rover. Government support was temporary and therefore allowed. As far as I can see there is a certain amount of flexibility within the system but I think as the prime minister reiterated in comments he made yesterday we have to be really cautious and mindful of falling back on some short term protectionist measures which in the

medium and long term will prove to be not as positive down the road. That is why we believe that a pro-active competition framework is important and why at this stage we think the measures under state aid rules in terms of banking are right and in line with the framework. We would have to be very clear about needing other discussions about the proposals from other colleagues in the EU to change that. I think at this present time quite rightly national governments and the EU are asking a lot of questions about how we take action and the right and appropriate point to intervene. As I said, our view is that we think the system works rightly at the moment; any other changes would be subject to debate and you would probably have to get someone from HMT here to talk to you about that.

Q19 Baroness Cohen: We do not seem to have a common financial or economic policy within the EU and we have seen Member States acting unilaterally to protect citizens and domestic banks. Is it your view that we should all try to work together from now on?

Caroline Flint: I actually believe that in the last few weeks, just over a month, the EU has actually done a good job. Coming into this position as Minister for Europe I think out of adversity has come a very practical opportunity to demonstrate that whilst national governments need to take action the role of the EU in terms of added value to, for example, prevent the situation where Member States went off to do their own thing and that created huge problems in the banking systems in other countries - I think at point a few weeks ago there was some concern about that, quite serious concern - has proved that if we had not got the EU we might have had to invent it. That does not take away from what national governments need to do but I think the set of principles that have been arrived at both in terms of how we operate within the EU but I think also in working through what sort of role and what sort of ideas we should take forward in terms of discussions on a more global financial state has been very positive in the last few weeks. Clearly Member States are always working closely together. At the October European Council everyone agreed to a common approach

which is guaranteeing bank funding, re-capitalisation of banks if necessary. They also agreed a series of key actions, national guarantees, bank deposits protecting tax payers' investments as well. I think those principles and actions have shown the EU at its best, coordinated, focussed and clearly delivering for individual businesses and families which is something I hope I will be able to communicate here in the UK over the months ahead. So I think it has been actually pretty good and we will continue to engage with the EU heads of government. The prime minister has taken a huge lead in this role and I think it is good to see this happening. It is sad that it has maybe taken this to have something that so clearly shows the added value of the EU but I think sometimes in a crisis that is when these things emerge and are very clear.

Q20 Chairman: I have one question on this and that is to do with regulation. Many people have, probably justly, blamed what has happened on what they call the 20 year frenzy of deregulation. There is a lot of finger pointing going on about that at the moment. I notice that the EU is going to the November 15 summit with a set of proposals to improve regulations such as supervisory colleges for cross-border financial companies, to strengthen risk control mechanisms, codes of conduct on excessive risk taking, tighter rules for credit rating agencies, harmonised definitions of banks capital, et cetera, et cetera. That is a pretty ambitious set of proposals. At the end of the day the question to pose I suppose is: are we or are we not in favour of the Europe-wide regulator or are we going to set a separate parameters regulation for the whole of Europe and leave it to the national regulators to do the job? At the weekend in Paris I ran into Jacques de Larosière, former head of the IMF, and he told me that President Barroso had just asked him to take on the job of trying to come up with a Europe-wide set of proposals on this and clearly the European Union would appear to be moving towards the idea of a Europe-wide regulator. You could write to us later about this if you do not want to answer it now, but I am very interested to know whether or not our position has

changed. It used to be, if I am right, that we were not in favour of a Europe-wide regulator but under the changed circumstances it seems to me that maybe the argument for one is beginning to gain some credence in the EU. Do you have any views on this?

Caroline Flint: There are people raising this issue but of course again some of the financial challenges we are facing and when you start looking in terms of regulation they are not just European they are global and again part of getting a coherent EU voice on this is also to assist us in some of those discussions that need to happen on that level as well, something that the prime minister for some years has been arguing for discussion on. I would be happy to write to the Committee on this. I think again a lot of questions are being asked at the present time. I do not think necessarily that all the answers have been found, but I think the fact that the right questions are being asked for us to debate these issues is important and I am happy to write to the Committee on that particular issue.

Chairman: That would be very helpful for our colleagues on our sub-committee dealing economic and financial affairs because they are getting into this area right now.

Q21 Lord Harrison: Minister, a very warm welcome to one of the best jobs in government. I want to talk about the Stability and Growth Pact which I always thought should have been the Growth and Stability Pact because the Treaty quite clearly says that once stability has been established then growth can be contemplated and should be contemplated. We now live in very different times because of the financial crisis and suddenly everybody is interested in getting the European economy going again, giving it a kick start, so concentration comes on growth. What is your view and the view of our government about the overall debt criteria and the budget deficit criteria? Should these be ignored and overturned in the need to concentrate and focus on growth or should they be maintained? Or should we turn a blind eye for a period whilst we try to kick start the economy?

Caroline Flint: The Stability and Growth Pact has and continues to have the full support of the UK Government. We continue to believe that it does provide a flexible and strong framework for competition policy. At both the October European Council and the 7 October ECOFIN meeting heads of government and finance ministers indicated that the pact should continue to be fully applied. I understand that the Commission will bring forward an EU economic recovery strategy in advance of the December European Council which will be based on the Lisbon Strategy and the Stability and Growth Pact and will look at what that paper brings forward in terms of any changes at that point. As I say, I think there is a sort of consensual view that the Pact is appropriate today. The fact is that having the Pact has not proved an obstacle to measures that have been taken in terms of recapitalisation or any other forms of proportionate intervention, but obviously we will look at the Commission document with interest when it is produced.

Q22 Lord Harrison: Say the current budget extends beyond three per cent or the overall longer debt ratio extends beyond 60 per cent (these are the targets that have been observed over the years or attempted to be observed) there may be a justification. People may say that for a period you do need to do that if you truly want to begin to develop opportunities.

Caroline Flint: I think that the Council has indicated that there may be exceptional circumstances where a temporary deficit above should be provided for and I think that has been acknowledged in discussions and again I think we are dealing with exceptional times and people are engaging on these issues. However, I think again what might be required on a temporary basis as opposed to changing the fundamentals of the Pact is a different discussion.

Lord Harrison: I think if you have a close reading of the original Treaty they mention those exceptional times so I think there is latitude there. I hope your advisors do point you that way.

Chairman: I think that is absolutely right. It is implicit in the Pact under those circumstances. The test is whether a country is prepared to do anything to try and correct it. If they just say, “Well we’ll float along now we’re above the ceiling, we’ll go along with it because these are unusual times” then the Pact comes down with force but if they show that they are making every effort to get back down under the limit then that appears to be okay.

Q23 Lord Roper: The prime minister’s visit to Paris at the time of the meeting of the Eurogroup was rather useful and helpful in moving towards a common policy. Do you think that could be a precedent for future meetings between British representatives and the meetings with the Eurozone?

Caroline Flint: I think that our prime minister being invited to attend that meeting was a positive one. I think it is also about demonstrating that the issues we are facing are not a Eurozone problem in and of itself. We will of course continue to cooperate totally with Eurogroup representatives but I think it is also very important that we are cooperating and working with all the EU Member States and that the EU as a block group is coordinated and coherent in terms of its approach. I think that is something we would support. As I say, there is nothing to be gained in terms of some sort of division within the group itself. From January again, in another forum, we will be assuming presidency of the G20 and again I have been talking to Czech colleagues about their place on that in terms of the EU Presidency. I think it is about obviously where it is important and where it makes sense. Of course the UK is going to take part in forums but let us not let those forums overshadow or get in the way of the collectivity that we need to continue to be supportive on this. I think there were a few concerns in the last couple of weeks that somehow some of the countries felt left out of some of these forums and we certainly want to make sure that everybody feels they are included in different ways. I think what has been interesting for me on this is that I suppose in some of my visits over the last couple weeks I have become aware of some of our colleagues in the

EU who do not necessarily face the same banking problems as we in other states but who are very concerned about what will happen in terms of the economy where, as a result of a credit crunch, tourism is affected, exports of goods are affected because people are not spending the money. They are very interested in what is happening too and want to feel that they are being fully engaged and actively encouraged to be part of any discussions on anything to do with the financial crisis.

Q24 Lord Roper: I had not realised we were going to get the presidency of the G20 in the New Year. If that is the case will we be attempting to make it a G21 so that Spain will be able to attend?

Caroline Flint: I think there are some arrangements at the moment for Spain to actually attend the next meeting, but I will write to you on that. I am meeting my Spanish counterpart later this afternoon so I might glean something from that.

Q25 Chairman: We had better ask you as a last question whether the government has any plans to revisit the five economic tests for Eurozone membership but we left it to last because you can give a one word reply and I know what it is going to be so I am not going to ask you that question because I think I know what the answer is.

Caroline Flint: We have a schedule for later and I am happy to get HMT to write to the Committee. The five tests still apply and we are still where we are in terms of next year's budget..

Chairman: If I may be so bold as to give government a piece of advice which I am not at all used to doing as you well know, that is that they read the excellent article by Wilhelm Buiter, the former member of the Monetary Policy Committee headed "There is no excuse for Britain not to join the Euro". It is a very, very well articulated piece particularly in light of the current crisis.

Q26 Baroness Howarth of Breckland: During your evidence on several occasions you talked about being a practical person, you talked about the effect of policy on ordinary families and you talked about how the EU can add value to ordinary families. One of the things that certainly vexes me is how we convey to ordinary families exactly what that added value is because as far as they are concerned many of them simply see it as an added cost and added bureaucracy. I just wondered how you see this communication problem that we have which we came across very much in Lisbon and in Ireland where the Irish did not understand the issues because of the way they were portrayed. What else can we do to help ordinary families, as you put it, to really understand these rather complex issues?

Caroline Flint: If I set myself the task of the British public to love the EU I think I might be having a bit of a problem but if I can maybe make some progress in trying to be clearer and communicate better the added value I will try to do that. I think one example is the financial situation at the moment. I think many families in the UK and probably across the whole of the EU have been on a huge learning curve about how these different banking systems work and how it does have an impact on them and why it is important to stabilise it. I think sometimes, whether it is European politics or national politics, we can sometimes end up not seeing the wood for the trees. We also I think sometimes underestimate – or overestimate maybe I should say – how much people know given that they are running busy lives and are not immersed in the detail of policy that many of us are in this place. I think it is looking for those things that really make a difference and if, for example, over the months ahead, through national actions and EU actions and global actions we can show there is a critical line for how that is helping people but also not in terms of the crisis but also as the economy recovers getting out of it. We have some big debates next year in terms of jobs and skills and the role the EU can play. I will do my best to get that across. However I think there are other issues as well. As a former Home Office minister I know only too well that actually our cooperation

across the European Union has been key in terms of thwarting some of the most serious criminals on our continent and again I am looking forward over the months ahead to working with ministers in our domestic departments to have a look at just what has been the output of our engagement. There are thousands of things we can do and, as I said, I do not want to get lost in that, but I think actually there are some things like cheaper mobile phones, access to health treatment when you are in the European Union, justice as well as, let us not forget, ten per cent of the workforce in the UK owe their job to inward or export opportunities as a result of being part of the European Union. I know as a constituency MP when I say to people, “Don’t you know this?” and they say “Of course we know it, we’re bored of you telling us”, it is only when we get that reaction on some of these very positive outputs of being a member of the EU will we feel a little bit more comforted that our communication job is done. I do not claim to have all the answers but I will do my best.

Q27 Chairman: That is a very encouraging reply thank you, and is music to the ears of this Committee. I do hope that government will take on board the fact that somehow we have to revive interest in European Parliament elections. It is a curious paradox and a very sad one that as the European Parliament accumulates more power interest in the elections goes down and participation in the European Parliament elections has been sliding down ever since they began which is very distressing. Maybe the answer is that we have to get national parliamentarians more involved in the campaign for the European Parliament because they are closer to the people. People will ask their member of Parliament about the European Union but they do not seem to ask their member of the European Parliament about the European Union and do not even know who they are. That is a fault that must be corrected. Minister, I think I can speak on behalf of the whole Committee when I say that we are delighted to have spent this hour with you. It has been a steep learning curve for you; you must have the best climbing boots in Parliament because you have gone up it very, very rapidly indeed and we

have been very well informed by you and are very pleased with what you have to say. On behalf of the Committee and on behalf of my successor, John Roper, when he takes over I am sure we will benefit enormously from your future visits to the Committee after European Councils or on any other occasion when we feel we would like your views and your advice. Thank you very much and thank you to Andrew as well. We all wish you very, very well in this extremely challenging time in that job. We hope you enjoy it too.

Caroline Flint: Thank you very much.